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

Consolidated Financial Statements and Consolidated Management's Report for the year ended 31 December 2021

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

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

Audit report on the consolidated annual accounts issued by an independent auditor

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

Report on the consolidated annual accounts

Opinion

We have audited the consolidated annual accounts of Santander Consumer Finance, S.A. (the Parent company) and its subsidiaries (the Group), consisting of the consolidated balance sheet at 31 December 2021, consolidated income statement, consolidated statement of recognised income and expense, consolidated total statement of changes in equity, consolidated cash flow statement and notes to the consolidated accounts for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the Group's consolidated equity and financial position at 31 December 2021 and the consolidated results of its operations and consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for opinion

Our audit has been carried out in accordance with prevailing Spanish auditing regulations. Our responsibilities under said regulations are described below under *Auditors' responsibilities in relation to the audit of the consolidated annual accounts.*

We are independent of the Group in accordance with the ethical requirements, including those relating to independence, applicable to our audit of the consolidated annual accounts in Spain, as required by auditing regulations. In this respect, we have not provided any services other than audit services, nor have any situations or circumstances arisen that, in accordance with those regulations, might have undermined said independence.

We consider that the audit evidence obtained provides a sufficient and appropriate basis for our opinion.

Key audit matters

Key audit matters are those that, based on our professional judgement, have been of the most significance in the audit of the consolidated annual accounts for the current period. These matters have been addressed in the context of our audit of the consolidated annual accounts as a whole and in the preparation of our opinion thereon, and we do not express a separate opinion on these matters.

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Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

Key audit matters	How the matter was addressed in the audit

Estimation of the impairment of financial assets at amortised cost – loans and advances to customers

The expected loss impairment calculation models required by International Financial Reporting Standard 9 (IFRS 9), together with the adaptations of these models made in the context of the Covid-19 crisis, are highly complex as they include estimates such as post-model adjustments to determine the expected loss.

In this context, the main judgements and assumptions made by management in this exercise are as follows:

- The determination of the main estimates employed to calculate the probability of default (PD) and loss given default (LGD) parameters of the recalibrated expected loss models, including forward-looking models.
- Monitoring and assessment of post-model adjustments when estimating the impairment of financial assets at amortised cost.
- Subjective criteria for identifying and staging financial assets at amortised cost.
- The main assumptions used in the determination of provisions for risks estimated on an individual basis.

These estimates involve a high degree of judgement from management and uncertainty. They were therefore one of the most significant and complex estimates when preparing the accompanying consolidated annual accounts as at 31 December 2021 and have been identified as one of the key audit matters.

See Notes 2, 10 and 47 to the accompanying consolidated annual accounts as at 31 December 2021.

With the assistance of our credit risk specialists, we obtained an understanding of management's process for estimating the impairment of financial assets at amortised cost - loans and advances to customers, on both collectively and individually estimated provisions. In addition, as part of our procedures, we made enquiries with management to gain an understanding of the extent of the impact of climate change on credit risk.

With regard to internal control, we gained an understanding of and tested controls for the main phases of the estimation process, paying particular attention to the calculation of the most relevant assumptions used to estimate the parameters and, where appropriate, to the monitoring and assessment of model adjustments.

We also performed the following tests of detail:

- Checks, for the main models, on: (i) calculation and segmentation methods; (ii) expected loss parameter estimation methods; (iii) data used and main estimates employed; (iv) loan staging approach; and (v) scenario information, assumptions and sensitivities.
- Evaluation and recalculation, where appropriate, of management's post-model adjustments.
- Recalculation of collective provisions using the parameters obtained from the expected loss models.

Key audit matters	How the matter was addressed in the audit
	• Obtainment of a sample of individual credit files to assess proper classification and recognition, loss estimation methods and, if applicable, related impairment. No differences outside a reasonable range were identified in the tests described above.
Assessment of goodwill impairment	
At least annually, the Group estimates the recoverable amount of each cash-generating unit (CGU) to which goodwill has been assigned, based primarily on independent expert valuations. In view of the relevance to the Group, management pays particular attention to monitoring the goodwill of the cash-generating units in Germany, Austria and the Nordics (Scandinavia). In 2021, Group management included, in its estimates of the recoverable amount of the above-mentioned cash-generating units, value in use calculated by discounting cash flow projections taking account of the current economic and business environment, market conditions and uncertainty. The most relevant assumptions used in the assessment of goodwill impairment, such as financial projections, the discount rate and the perpetuity growth rate, require complex estimation and involve a high degree of management judgement, so the assumptions made have been treated as a key audit matter.	With the assistance of our valuation experts, we obtained an understanding of management's process for estimating the recoverable amount and, where appropriate, calculating the impairment of goodwill. As regards internal control, we gained an understanding and tested controls of the phases in the goodwill measurement process, paying special attention to the budgeting process on which the projections are based, management's reliable forecasting ability and the assessment of the reasonableness of the discount rate and the perpetuity growth rate, as well as the evaluation of annual valuation reports prepared by management's experts on the impairment of goodwill. We also conducted the following tests of detail: • Assessment of the reasonableness of the methods and main assumptions used by management's experts when analysing goodwill impairment, including financial projections, the discount rate and the growth rate.

Key audit matters	How the matter was addressed in the audit
See Notes 2 and 14 to the accompanying consolidated annual accounts at 31 December 2021.	• Verification of the mathematical accuracy of the calculation of goodwill impairment and of the discounting of cash flow projections. • Specific sensitivity analysis of key parameters, such as: (i) financial projections for the coming years; (ii) the discount rate; and (iii) the perpetuity growth rate. • Verification of the adequacy of the information disclosed in the accompanying consolidated annual accounts in accordance with applicable regulations. As a result of the above-mentioned procedures, we believe that management's assessment is reasonable and that management's main estimates are within a reasonable range in the context in which the accompanying consolidated annual accounts were prepared.
Information systems	
The Group's financial information relies largely on the information technology (IT) systems in the geographies in which it operates, so suitable control over the systems is a key to assuring the correct processing of the information. The technology environment has been developed mainly by the Group, although a part has also been developed by External Partners. In this context, it is critical to assess aspects such as the organisation of the Group's Technology and Operations Area and External Partners, controls over application maintenance and development, physical and logical security and system operations, which was therefore treated as a key audit matter. Management continues to monitor internal control over IT systems, including access control supporting the Group's technology processes.	Assisted by our IT systems specialists, our work consisted of assessing and checking internal controls over the systems, databases and applications that support the Group's financial reporting. We carried out procedures on internal controls and substantive tests, in the environment of both the Group and its External Partners, relating 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.

Key audit matters	How the matter was addressed in the audit
	In addition, considering management's monitoring of internal control over IT systems, our audit approach and plan focused on the following aspects: • Assessment of management's monitoring as part of the Group's internal control environment. • Testing of the design and operating effectiveness of controls implemented by management, including access control. The results of the above-mentioned procedures revealed no relevant exceptions related to this matter.

Other information: Consolidated Management Report

The other information only relates to the consolidated management report for 2021, the preparation of which is the responsibility of the parent company's directors and which does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not cover the consolidated management report. Our responsibility for the consolidated management report, in accordance with auditing legislation, consists of:

a) Only checking that the non-financial information statement has been issued in the form required by applicable legislation and, if not, report it.

b) Assessing and reporting on the consistency of the other information included in the consolidated management report with the consolidated annual accounts, based on our knowledge of the Group obtained during the audit of the accounts, as well as reporting on whether the content and presentation of the consolidated management report are in conformity with applicable legislation. If, based on the work carried out, we conclude that there are material misstatements, we are required to disclose them.

On the basis of the work performed, as described above, we have verified that the information mentioned in paragraph a) above is furnished as envisaged in applicable legislation and that the other information contained in the consolidated management report is consistent with that of the consolidated annual accounts for 2021 and its content and presentation comply with application legalisation.

Responsibility of the directors and the audit committee in relation to the consolidated annual accounts

The directors of the parent company are responsible for the preparation of the accompanying consolidated annual accounts such that they present fairly the Group's consolidated equity, financial situation and results in accordance with IFRS-EU and other provisions of the financial reporting framework applicable to the Group in Spain, and for the internal control which they consider necessary to enable the preparation of annual accounts free from material misstatements due to fraud or error.

In the preparation of the consolidated annual accounts, the parent company's directors are responsible for assessing the Group's capacity to continue as a going concern, disclosing, as appropriate, any going concern-related issues and using the going concern basis of accounting, unless the directors intend to wind up the Group or to cease trading, or have no other realistic alternative but to do so.

The parent company's audit committee is responsible for overseeing the preparation and presentation of the consolidated annual accounts.

Auditors' responsibilities in relation to the audit of the consolidated annual accounts

Our objectives are to obtain reasonable assurance that the consolidated annual accounts as a whole are free from material misstatement due to fraud or error, and to issue an audit report containing our opinion.

Reasonable assurance is a high degree of assurance but does not guarantee that an audit conducted in accordance with current Spanish auditing regulations will always detect a material misstatement when such exists. Misstatements may be due to fraud or error and are regarded as material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated annual accounts.

As part of an audit conducted in accordance with prevailing Spanish audit regulations, we apply our professional judgement and maintain an attitude of professional scepticism throughout the audit. In addition:

- We identify and assess the risks of material misstatement in the consolidated annual accounts due to fraud or error; we design and apply audit procedures to respond to those risks and obtain sufficient and adequate audit evidence to provide a basis for our opinion. The risk of not detecting material misstatement due to fraud is higher than in the case of a material misstatement due to error, as fraud may involve collusion, falsification, deliberate omissions, misrepresentations or the override of internal control.

- We obtain knowledge of internal control mechanisms relevant for the audit in order to design the audit procedures which are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- We assess whether the accounting policies applied are adequate and the reasonableness of the accounting estimates and the relevant information disclosed by the parent company's directors.

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

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

- We obtain sufficient, adequate evidence relating to the financial information of the Group's entities or business activities to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the Group audit. We are 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, as well as any significant internal control weakness that we identify in the course of the audit.

We also provide the parent company's audit committee with a statement to the effect that we have complied with applicable ethical requirements, including independence requirements, and we have communicated with the audit committee to report matters that could reasonably pose a threat to our independence and, where appropriate, related safeguards.

Among the matters that are reported to the parent company's audit committee, we determine those that were of most significance in the audit of the consolidated annual accounts for the current period and which are therefore key audit matters.

We describe these matters in our audit report unless legal or regulatory provisions prohibit the public disclosure of the matter concerned.

Report on other legal and regulatory requirements

European Single Electronic Format

We have examined the European Single Electronic Format (ESEF) digital files of Santander Consumer Finance, S.A. and subsidiaries for 2021, comprising the XHTML file containing the consolidated annual accounts for the year and the XBRL files containing the entity's tags, which will form part of the annual financial report.

The directors of Santander Consumer Finance, S.A. are responsible for presenting the 2021 annual financial report in accordance with the formatting and tagging requirements set out in Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 (hereinafter the ESEF Regulation).

We are responsible for examining the digital files prepared by the parent company's directors in accordance with auditing legislation in force in Spain. This legislation requires that we plan and perform our audit procedures so as to check that the contents of the consolidated annual accounts included in the above-mentioned digital files fully match those of the consolidated annual accounts that we have audited, and that the formatting and tagging of the consolidated annual accounts and the above-mentioned digital files have been performed, in all material respects, in accordance with the requirements of the ESEF Regulation.

In our opinion, the digital files examined fully match the audited consolidated annual accounts, which are presented and have been tagged, in all material respects, in accordance with the requirements of the ESEF Regulation.

Additional report for the parent company's audit committee

The opinion expressed in this report is consistent with that of our additional report for the parent company's audit committee dated 25 February 2022.

Term of engagement

The General Shareholders' Meeting of 18 March 2021 appointed us as the Group's auditors for a one-year period for the financial year ended 31 December 2021.

We were previously appointed by resolution of the Annual General Meeting for a period of three years and we have been auditing the accounts uninterruptedly since the financial year ended 31 December 2016.

Services rendered

The non-audit services provided to the audited Group are disclosed in Note 40 to the consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by

Ignacio Martínez Ortiz (23834)

25 February 2022

SANTANDER CONSUMER FINANCE, S.A. AND SUBSIDIARIES COMPOSING THE SANTANDER CONSUMER FINANCE GROUP
CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2021 AND 2020
(EUR Thousands)

ASSETS	Note	31/12/2021	31/12/2020 (*)
Cash and balances at central banks	2	**18,965,097**	**10,316,799**
Financial assets held for trading	9	**51,476**	**16,786**
Derivatives		51,476	16,786
Non-trading financial assets mandatorily at fair value through profit or loss	8	**2,998**	**391**
Equity instruments		26	70
Debt instruments	7	2,593	—
Loans and advances - Customers	10	379	321
Financial assets at fair value through profit or loss		**—**	**—**
Financial assets at fair value through other comprehensive income		**1,077,351**	**773,492**
Equity instruments	8	22,591	19,105
Debt instruments	7	1,054,760	754,387
Financial assets at amortised cost		**103,663,354**	**102,564,014**
Debt instruments	7	3,472,396	4,241,011
Loans and advances		100,190,958	98,323,003
Central banks		10,452	13,700
Credit institutions	6	621,223	869,043
Customers	10	99,559,283	97,440,260
Derivatives – hedge accounting	29	**121,585**	**46,146**
Changes of the fair value of hedged items in an interest rate risk hedging portfolio	29	**(46,269)**	**16,069**
Investments in associates and joint-ventures	12	**682,414**	**635,248**
Joint-ventures		260,115	211,810
Associates		422,299	423,438
Assets under insurance and reinsurance contracts		**—**	**—**
Tangible assets	13	**2,306,339**	**1,831,196**
Property, plant and equipment		2,306,339	1,831,196
For own use		400,330	400,880
Leased out under operating leases		1,906,009	1,430,316
Investment property		—	—
Memorandum items: acquired through finance lease		289,600	290,976
Intangible assets		**2,063,513**	**2,024,357**
Goodwill	14	1,707,480	1,709,913
Other	15	356,033	314,444
Tax assets:	22	**1,280,479**	**1,040,286**
Current tax assets		692,567	467,494
Deferred tax assets		587,912	572,792
Other assets	16	**712,466**	**715,188**
Inventories		3,777	4,168
Other		708,689	711,020
Assets included in disposal groups classified as held for sale	11	**50,386**	**54,631**
Total assets		**130,931,189**	**120,034,603**

(*) Presented for comparison purposes only
The accompanying notes, 1 to 47, and Appendices I-VI are an integral part of the consolidated balance sheet for the year ended 31 December 2021.

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

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2021 AND 2020

(EUR Thousands)

LIABILITIES	Note	31/12/2021	31/12/2020 (*)
Financial liabilities held for trading	9	**58,169**	**20,955**
Derivatives		58,169	20,955
Financial liabilities at fair value through profit or loss		**—**	**—**
Financial liabilities at amortised cost		**113,270,031**	**102,348,972**
Deposits		70,866,247	64,664,563
Central banks	*17*	*19,997,499*	*14,562,273*
Credit institutions	*17*	*11,780,269*	*12,601,434*
Customers	*18*	*39,088,479*	*37,500,856*
Debt securities in issue	19	40,652,231	36,566,348
Other	20	1,751,553	1,118,061
Memorandum items: subordinated liabilities	17, 18 & 19	*898,750*	*1,596,820*
Derivatives – hedge accounting	29	**128,650**	**184,678**
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	11	**—**	**—**
Liabilities under insurance and reinsurance contracts		**—**	**—**
Provisions	21	**825,910**	**892,228**
Pensions and other retirement benefit obligations		598,456	636,531
Other long term employee benefit obligations		44,442	52,500
Taxes and other legal contingencies		9,576	22,878
Contingent liabilities and commitments		39,403	33,396
Other		134,033	146,923
Tax liabilities		**1,411,213**	**1,141,248**
Current tax liabilities		338,699	194,824
Deferred tax liabilities	22	1,072,514	946,424
Other liabilities	16	**1,842,887**	**1,539,509**
Liabilities included in disposal groups classified as held for sale		—	—
Total liabilities		**117,536,860**	**106,127,590**
Shareholder's equity		**11,702,523**	**12,476,757**
Capital	23	5,638,639	5,638,639
Called-up share capital		*5,638,639*	*5,638,639*
Memorandum items: uncalled capital		—	—
Share premium	24	1,139,990	1,139,990
Other equity instruments	23	1,200,000	1,200,000
Equity component of hybrid securities		—	—
Other		1,200,000	1,200,000
Other equity		—	—
Retained earnings	25	2,985,858	3,919,209
Revaluation reserves		—	—
Other reserves	25	53,909	74,864
Reserves or accumulated losses in investments in joint ventures and associates		*398,835*	*346,193*
Other		*(344,926)*	*(271,329)*
(-) Treasury stock		—	—
Profit or loss after tax attributable to equity holders of the parent		1,174,689	504,055
(-) Dividends paid	3	(490,562)	—
Other comprehensive income/(loss)		**(645,973)**	**(701,640)**
Items not reclassified to profit or loss	26	(155,201)	(185,799)
Items that may be reclassified to profit or loss	26	(490,772)	(515,841)
Non-controlling interests	27	2,337,779	2,131,896
Other comprehensive income		*2,157*	*(4,012)*
Other		*2,335,622*	*2,135,908*
Equity		**13,394,329**	**13,907,013**
Total liabilities and equity		**130,931,189**	**120,034,603**
Memorandum items: off-balance sheet items		25,495,968	23,473,576
Loans commitment granted	28	24,122,179	22,592,463
Financial guarantees granted	28	189,841	331,229
Other	28	1,183,948	549,884

(*) Presented for comparison purposes only

The accompanying notes, 1 to 47, and Appendices I-VI are an integral part of the consolidated balance sheet for the year ended 31 December 2021.

SANTANDER CONSUMER FINANCE, S.A. AND SUBSIDIARIES COMPOSING THE SANTANDER CONSUMER FINANCE GROUP
CONSOLIDATED INCOME STATEMENTS AS AT 31 DECEMBER 2021 AND 2020
(EUR Thousands)

	Note	Income/ (expenses)	
		31/12/2021	**31/12/2020 (*)**
Interest income	30	4,021,364	3,990,096
Financial assets at fair value through other comprehensive income		85	—
Financial assets at amortised cost		3,869,373	3,990,096
Other		151,906	—
Interest expense	31	(463,392)	(510,195)
Net interest income		**3,557,972**	**3,479,901**
Dividend income		275	1,790
Income from companies accounted for using the equity method	32	63,790	72,467
Commission income	33	1,095,656	1,032,892
Commission expense	34	(334,182)	(321,575)
Gains or losses on financial instruments not at fair value through profit or loss, net	35	(6,654)	312
Gains or losses on financial instruments held for trading, net	35	1,413	(1,183)
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net	35	7	—
Gains or losses on financial instruments at fair value through profit or loss, net	35	—	884
Gains or losses from hedge accounting, net	35	10,889	(914)
Currency translation differences, net	36	(4,331)	(7,163)
Other operating income	37	383,075	249,473
Other operating expenses	38	(325,336)	(239,256)
Income from assets under insurance or reinsurance contracts		—	—
Charges from liabilities under insurance or reinsurance contracts		—	—
Operating income		**4,442,574**	**4,267,628**
Administration and general expenses		(1,663,948)	(1,649,275)
Staff costs	*39*	(842,630)	(797,290)
Other	*40*	(821,318)	(851,985)
Depreciation and amortisation cost	13 & 15	(191,320)	(162,083)
Provisions or reversal from provisions, net	21	(50,453)	(60,777)
Impairment charges and reversals from financial assets not at fair value through profit or loss	10	(495,060)	(825,083)
Financial assets at fair value through other comprehensive income		(82)	107
Financial assets at amortised cost		(494,978)	(825,190)
Impairment charges or reversal of investments in joint ventures and associates		—	—
Impairment charges or reversal of non-financial assets	41	(14,872)	(287,342)
Tangible assets		2,701	931
Intangible assets		(11,662)	(289,332)
Other		(5,911)	1,059
Gains or losses on non-financial assets, net	42	236	(2,012)
Negative goodwill recognised in results		—	6,783
Gains or losses on non-current assets held for sale from discontinued operations	43	(3,225)	(829)
Profit or loss before tax in respect of continuing operations		**2,023,932**	**1,287,010**
Operating tax expense or income from continuing operations	22	(533,271)	(523,312)
Profit or loss after tax from continuing operations		**1,490,661**	**763,698**
(Loss)/profit after tax from discontinued operations		—	—
Profit/(loss) after tax		**1,490,661**	**763,698**
Attributable to non-controlling interests	*27*	315,972	259,643
Attributable to equity holders of the parent		1,174,689	504,055
Earnings per share:			
Basic	4	*0.62*	*0.23*
Diluted	4	*0.62*	*0.23*

(*) Presented for comparison purposes only
The accompanying notes, 1 to 47, and Appendices I-VI are an integral part of the consolidated income statement for the year ended 31 December 2021.

SANTANDER CONSUMER FINANCE, S.A. AND SUBSIDIARIES COMPOSING THE SANTANDER CONSUMER FINANCE GROUP
CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE AS AT 31 DECEMBER 2021 AND 2020
(EUR Thousands)

	Note	31/12/2021	31/12/2020 (*)
PROFIT OR LOSS AFTER TAX		**1,490,661**	**763,698**
OTHER COMPREHENSIVE INCOME		**61,836**	**(175,523)**
Items that will not be reclassified to profit or loss		**33,245**	**(21,716)**
Actuarial gains or losses on defined benefit pension plans	26	43,346	(30,901)
Non-current assets held for sale		—	—
Other recognised income and expense from investments in joint ventures and associates		91	81
Changes in the fair value of equity instruments measured at fair value through other comprehensive income		3,278	(1,139)
Income tax in respect of items not reclassified to profit or loss	22	(13,470)	10,243
Items that may be reclassified to profit or loss		**28,591**	**(153,807)**
Hedges of net investments in joint ventures and associates (effective portion)		(112,307)	21,148
Revaluation gains/(losses)	*26*	*(112,307)*	*21,148*
Amounts transferred to the income statement		—	—
Other reclassifications		—	—
Currency translation differences		131,765	(144,023)
Revaluation gains/(losses)	*26*	*131,765*	*(144,023)*
Amounts transferred to the income statement		—	—
Other reclassifications		—	—
Cash flow hedges		19,312	2,823
Revaluation gains/(losses)	*26*	*1,316*	*(11,937)*
Amounts transferred to the income statement		*17,996*	*14,760*
Transferred to initial carrying amount of hedged items		—	—
Other reclassifications		—	—
Debt instruments at fair value through other comprehensive income		(369)	(620)
Revaluation gains/(losses)		*(6,062)*	*(516)*
Amounts transferred to the income statement		*5,693*	*(104)*
Other reclassifications		—	—
Assets included in disposal groups classified as held for sale		—	—
Revaluation gains/(losses)		—	—
Amounts transferred to the income statement		—	—
Other reclassifications		—	—
Share of other recognised income of joint ventures and associates	26	(4,819)	(31,642)
Income tax in respect of items that may be reclassified to profit or loss	22	(4,991)	(1,493)
TOTAL RECOGNISED INCOME AND EXPENSES FOR THE YEAR		**1,552,497**	**588,175**
Attributable to non-controlling interests		*322,141*	*256,560*
Attributable to equity owners of the parent		*1,230,356*	*331,615*

(*) Presented for comparison purposes only

The accompanying notes, 1 to 47, and Appendices I-VI are an integral part of the consolidated statement of recognised income and expense for the year ended 31 December 2021.

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

CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY AS AT 31 DECEMBER 2021 AND 2020

(EUR Thousands)

Sources of changes in shareholders' equity	Capital (Note 23)	Share premium (Note 24)	Equity instruments issued other than capital	Other equity instruments	Retained Earnings (Note 25)	Revaluation reserves	Other reserves	(-) Own shares	Profit or loss attributable to shareholders of the parent	(-) Interim dividends paid	Other comprehensive income	Non-controlling interests (Note 27)		**Total**
												Other comprehensive income	Other	
Balance as of 31/12/20	**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	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Beginning of period balance (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 expenses (Note 4)	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,174,689**		**55,667**	**6,169**	**315,972**	**1,552,497**
Other changes in equity	**—**	**—**	**—**	**—**	**(933,351)**	**—**	**(20,955)**	**—**	**(504,055)**	**(490,562)**	**—**	**—**	**(116,258)**	**(2,065,181)**
Common stock issued	—	—	—	—	—	—	—	—	—	—	—	—	118,720	118,720
Preferred stock issued	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Other equity instruments issued (Note 23)	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Redemption or maturity of other equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Debt conversion to equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Reduction of capital	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Dividends (Note 4)	—	—	—	—	(1,385,226)	—	—	—	—	(490,562)	—	—	(233,406)	(2,109,194)
Stock buybacks	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Sale or cancellation of shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Transfers from equity to liabilities	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Transfers from liabilities to equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Transfers between equity items	—	—	—	—	451,875	—	52,180	—	(504,055)	—	—	—	—	—
Increases/(decreases) due to business combinations	—	—	—	—		—		—	—	—	—	—	—	—
Vesting of shares under employee share schemes	—	—	—	—		—		—	—	—	—	—	—	—
Other increase/(decreases) of equity	—	—	—	—	—	—	(73,135)	—	—	—	—	—	(1,572)	(74,707)
End of period balance 31/12/21	**5,638,639**	**1,139,990**	**1,200,000**	**—**	**2,985,858**	**—**	**53,909**	**—**	**1,174,689**	**(490,562)**	**(645,973)**	**2,157**	**2,335,622**	**13,394,329**

(*) Presented for comparison purposes only.

Notes 1-47 and Appendices I-VI are an integral part of the consolidated statement of changes in total equity for the year ended 31 December 2021.

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

CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY AS AT 31 DECEMBER 2021 AND 2020

(EUR Thousands)

Sources of changes in shareholders' equity	Capital (Note 23)	Share premium (Note 24)	Equity instruments issued other than capital	Other equity instruments	Retained Earnings (Note 25)	Revaluation reserves	Other reserves	(-) Own shares	Profit or loss attributable to shareholders of the parent	(-) Interim dividends paid	Other comprehensive income	Non-controlling interests (Note 27)		Total
												Other comprehensive income	Other	
Balance as of 31/12/19 (*)	**5,638,639**	**1,139,990**	**1,050,000**	**—**	**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	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Beginning of period balance (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 expenses (Note 4)	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**504,055**	**—**	**(172,440)**	**(3,083)**	**259,643**	**588,175**
Other changes in equity	**—**	**—**	**150,000**	**—**	**671,530**	**—**	**(49,972)**	**—**	**(1,133,367)**	**445,452**	**—**	**—**	**(7,744)**	**75,899**
Common stock issued	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Preferred stock issued	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Other equity instruments issued (Note 23)	—	—	150,000	—	—	—	—	—	—	—	—	—	—	150,000
Redemption or maturity of other equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Debt conversion to equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Reduction of capital	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Dividends (Note 4)	—	—	—	—	—	—	—	—	—	—	—	—	(201,008)	(201,008)
Stock buybacks	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Sale or cancellation of shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Transfers from equity to liabilities	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Transfers from liabilities to equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Transfers between equity items	—	—	—	—	671,530	—	16,385	—	(1,133,367)	445,452	—	—	—	—
Increases/(decreases) due to business combinations	—	—	—	—	—	—	—	—	—	—	—	—	(53,129)	(53,129)
Vesting of shares under employee share schemes	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Other increase/(decreases) of equity	—	—	—	—	—	—	(66,357)	—	—	—	—	—	246,393	180,036
End of period balance 31/12/20 (*)	**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**

(*) Presented for comparison purposes only.

Notes 1-47 and Appendices I-VI are an integral part of the consolidated statement of changes in total equity for the year ended 31 December 2021.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS AS AT 31 DECEMBER 2021 AND 2020

(EUR Thousands)

	Note	12/31/2021	31/12/2020 (*)
CASH FLOW FROM OPERATING ACTIVITIES		**11,617,981**	**3,260,458**
Profit or loss after tax		**1,490,661**	**763,698**
Adjustments made to obtain the cash flows from operating activities:		**1,728,148**	**2,024,307**
Amortisation		191,320	162,083
Other		1,536,828	1,862,224
Net increase/(decrease) in operating assets		**1,812,150**	**(2,359,486)**
Financial assets held for trading		(27,686)	3,344
Non-trading financial assets mandatorily at fair value through profit or loss		(2,607)	(288)
Financial assets at fair value through profit or loss		—	—
Financial assets at fair value through other comprehensive income	7,8	(300,886)	176,315
Financial assets at amortised cost	6, 7, 10	2,327,470	(2,921,248)
Other operating assets		(184,141)	382,391
Net increase/(decrease) in operating liabilities		**7,042,718**	**3,302,112**
Financial liabilities held for trading		29,348	(282)
Financial liabilities at fair value through profit or loss		—	—
Financial liabilities at amortised cost		6,944,753	3,496,450
Other operating liabilities		68,617	(194,056)
Corporate income tax paid		**(455,696)**	**(470,173)**
CASH FLOW FROM INVESTING ACTIVITIES		**(740,742)**	**(410,278)**
Payments		**(1,517,770)**	**(674,381)**
Tangible assets	13	(1,019,856)	(116,029)
Intangible assets	14 & 15	(137,848)	(119,013)
Investments in joint ventures and associates	12	—	(857)
Subsidiaries and other business units	3	(360,066)	(438,482)
Assets and liabilities included in disposal groups classified as held for sale		—	—
Other cash flows associated with investing activities		—	—
Proceeds		**777,028**	**264,103**
Tangible assets	13	307,226	66,253
Intangible assets	14 & 15	—	—
Investments in joint ventures and associates	12	1,639	22
Subsidiaries and other business units	3	449,946	196,853
Non-current assets held for sale and associated liabilities	11	18,217	975
Other cash flows associated with investing activities		—	—
CASH FLOW FROM FINANCING ACTIVITIES		**(2,219,096)**	**(380,749)**
Payments		**(2,532,646)**	**(999,841)**
Dividends paid		(1,268,694)	(633,407)
Subordinated debt	19	(815,445)	(35,054)
Redemption of own equity instruments	17	—	—
Repurchase of own equity instruments		—	—
Other cash flows associated with financing activities	27	(448,507)	(331,380)
Proceeds		**313,550**	**619,092**
Subordinated debt	19	100,000	220,000
Issuance of equity instruments	23	—	150,000
Disposal of own equity instruments		—	—
Other cash flows associated with financing activities		213,550	249,092
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS		**(9,845)**	**18,385**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**8,648,298**	**2,487,816**
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**10,316,799**	**7,828,983**
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**18,965,097**	**10,316,799**
MEMORANDUM ITEMS:			
CASH AND CASH EQUIVALENTS COMPROMISE:	2		
Of which: held by group entities but not available for the group			
Cash		94,086	96,464
Cash equivalent balances at central banks		16,570,595	7,701,261
Other financial assets		2,300,416	2,519,074
(Less)- Bank overdrafts repayable on demand			

(*) Presented for comparison purposes only

The accompanying notes, 1 to 47, and Appendices I-VI are an integral part of the consolidated cash flow statement for the year ended 31 December 2021.

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

Santander Consumer Finance, S.A. and subsidiaries composing the Grupo Santander Consumer Finance

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

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

   a) Introduction

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

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

The Bank is part of the Santander Group, the parent entity of which (Banco Santander, S.A.) owns, directly or indirectly, all the share capital of the Bank at 31 December 2021 and 2020 (see Note 23). Banco Santander, S.A. has its registered office at Paseo de Pereda 9-12, Santander. In this regard, the Bank's activity should be considered to be carried on in the framework of its belonging to and the strategy of the Santander Group, with which it performs transactions that are relevant to its activity (see Note 46). The consolidated financial statements for 2020 of the Santander Group were authorised for issue by the Directors of Banco Santander, S.A. at its Board of Directors Meeting on 22 February 2020, were approved by the shareholders at the Annual General Meeting on 26 March 2021 and were filed at the Santander Mercantile Registry. The consolidated financial statements of the Santander Group for 2021 are expected to be authorised for issue by its Directors on 24 February 2022.

The Bank has one bank office located in Madrid, is not listed and, in 2021, it carried on most of its direct business activities in Spain.

Additionally, since December 2002 the Bank has been the head of a European corporate group, consisting mainly of financial institutions, which engages in commercial banking, consumer finance, operating and finance leasing, full-service leasing and other activities. As of 31 December 2021, the Group had 250 offices distributed throughout Europe, 49 of which were located in Spain (256 branches, 51 of which were located in Spain as of 31 December 2020).

During 2020, after obtaining authorization, a branch has been established in Greece for the purpose of carrying out activities related to the financing of purchases of any type of consumer goods made by third parties, leasing, renting and other activities.

During 2021 and after the merger of the Bank with its subsidiaries Santander Consumer Bank, S.A., Banco Santander Consumer Portugal, S.A. and Santander Consumer Finance Benelux, B.V. (see Note 3); Branches have been established in Belgium, Portugal and the Netherlands in order to give continuity to the activities that have been provided until this date.

During the month of August 2021, a corporate reorganization was carried out in the Group by which PSA Financial Services Spain, E.F.C., S.A. has acquired 100% of the participation of PSA Finance Belux, S.A and PSA Financial Services Nederland, B.V. Prior to the acquisition, both were already controlled entities, 50% owned by Santander Consumer Finance, S.A. (Belgium Branch) and Banque PSA Finance, and Santander Consumer Finance Benelux, B.V. and Banque PSA Finance, S.A., respectively. Both purchase operations were carried out at consolidated accounting values after obtaining the corresponding authorizations from the European and local authorities.

As required by Article 21 of Royal Decree 84/2015, of 13 February, implementing Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions, the accompanying Appendix IV lists the agents of the Group as of 31 December 2021.

b) Basis of presentation of the consolidated financial statements

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

In order to adapt the accounting regime of Spanish credit institutions with the principles and criteria established by the IFRS adopted by the European Union (IFRS-EU), the Bank of Spain issued Circular 4/2017, dated 27 November 2017, on Public and Reserved Financial Information Standards and Financial Statements Formats.

During 2021 and 2020, the Bank of Spain has published Circulars 2/2020 and 3/2020, dated June 11, amending Circular 4/2017, dated November 27 to credit institutions on Public and Reserved Financial Information Standards and Financial Statements Formats.

The Group's consolidated financial statements for 2021 were formally prepared by the Directors of the Bank, as Parent (at the Board Meeting of 24 February 2022), in accordance with the International Financial Reporting Standards as adopted by the European Union, taking into account Bank of Spain Circular 4/2017 and its subsequent amendments, as well as the regulatory financial reporting framework applicable to the Group using the basis of consolidation, accounting policies and measurement basis set forth in Note 2 to these consolidated financial statements and, accordingly, they presented fairly the Group's consolidated equity and consolidated financial position on 31 December 2021, and the consolidated results of its operations, income and expense recognised, the changes in consolidated equity and its consolidated cash flows in the year then ended 2021. These consolidated financial statements have been prepared from the accounting entries registered by the Bank and the rest of the entities that conform the Group, and includes all adjustments and reclassifications needed to standardise all accounting policies and valuation criteria applied by the Group.

These notes to the consolidated financial statements contain information in addition to that presented in the accompanying consolidated balance sheet, consolidated income statement, consolidated statement of recognised income and expense, consolidated statement of changes in total equity and consolidated statement of cash flows for 2021. The notes provide, in a clear, relevant, reliable and comparable manner, narrative descriptions and disaggregation of items presented in those statements.

The Group's consolidated financial statements for 2020 were approved by the Shareholders at the Annual General Meeting of the Bank on 18 March 2021 and filed at the Madrid Mercantile Registry. The 2021 consolidated financial statements of the Group and the 2021 financial statements of the Bank and as well as substantially all the Group entities have not yet been approved by their Shareholders at the respective Annual General Meetings. However, the Bank's Board of Directors considers that the aforementioned financial statements will be approved without any changes.

The following modifications came into force and were adopted by the European Union in 2021:

Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases, on Reference Interest Rates - Phase 2: The amendments allow for the temporary application of certain exceptions to the requirements of (i) assessment of derecognition of financial assets, financial liabilities and lease liabilities in the event of changes in the financial assets, financial liabilities and lease liabilities, and (ii) exemptions from hedge accounting requirements directly affected by the IBOR reform, requiring additional disclosures, (iii) exemptions for lease modifications that allow the liability to be measured using the reformed interest rate curves against the right-of-use. These new exemptions require additional disclosures. The amendments became effective as of 1 January 2021, with the possibility of early application and will cease to be applicable when the uncertainties about the hedged risks, cash flows of the financial instruments affected or the hedging relationship is terminated. In this regard, the Group chose to apply the amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 in the preparation of the financial statements for the year ending 31 December 2020.

The additional breakdowns required by the amendments to IFRS 7 relating to hedging relationships are included in note 29. A description of the Grupo Santander's management of the transition to alternative reference rates, as well as the changes in risk management strategy is included in note 47.

Following is a detail of the carrying amount at 31 December 2021 of financial assets, financial liabilities, derivatives and loan commitments that continue to be referenced to the indices subject to the IBOR Reform:

EUR thousands	Loans and advances	Debt securities acquired (Assets)	Deposits	Debt securities issued (Liabilities)	Derivatives (Assets)	Derivatives (Liabilities)	Loan commitments
Referenced to EONIA	**4,140**	**—**	**76,643**	**—**	**—**	**—**	**—**
Referenced to LIBOR	**45,570**	**—**	**—**	**1,184,676**	**31,770**	**20,477**	**—**
of which: USD	45,570	—	—	—	—	—	—
of which: GDP	—	—	—	1,184,676	31,770	20,477	—

- Amendments to IFRS 16 Leases: As a result of the covid-19 pandemic, IFRS 16 is amended to allow the lessee to apply a practical alternative and not to consider rental concessions as a modification of the lease agreement when the following requirements are met: the revised consideration is the same or less than the consideration before the change, the affected payments are prior to 30 June 2021, and there are no substantial changes to the remaining lease terms. On 31 March 2021, the IASB published an additional amendment to extend the scope of the practical expedient to 30 June 2022. It is applicable from 1 April 2021.

- Amendment to 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 will apply from 1 January 2021.

The application of the aforementioned amendments to accounting standards and interpretations did not have any material effects on Santander Consumer consolidated financial statements.

Likewise, at the date of approval of these consolidated annual accounts, the following standards which effectively came into force have effective dates after 31 December 2021:

- Amendment to IFRS 3, Business Combinations: to update the references to the conceptual framework for financial reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37, Provisions, Contingent Liabilities and Contingent Assets and IFRIC 21, Levies. The amendments also confirm that an acquirer should not recognize contingent assets acquired in a business combination. It will apply from 1 January 2022.

- Amendment to IAS 16, Property, Plant and Equipment: prevents an entity from deducting from the cost of an item of property, plant and equipment any revenue from the sale of finished goods while the entity is preparing the item for its intended use. It is also clear that an entity is "testing whether the asset is functioning properly" when evaluating the technical and physical performance of the asset. The financial performance of the asset should not be taken into account for this evaluation.

- Additionally, entities should disclose separately the amounts of income and expenses related to finished goods that are not the product of the entity's ordinary activities. It will apply from 1 January 2022.

- Amendment to IAS 37, Provisions, Contingent Liabilities and Contingent Assets: clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract. It will apply from 1 January 2022.

- Amendment to IFRS Cycle (2018-2020): introduces minor amendments, to be applied from 1 January 2022, with early application permitted, to the following standards:

  - IFRS 9, Financial Instruments: clarifies which rates must be included in the 10% test for derecognition of financial liabilities.

  - IFRS 16, Leases: amendment to remove possible confusion regarding the treatment of leasing incentives in the application of IFRS 16 Leases, as illustrated in example 13.

  - IFRS 1, in relation to the first-time adoption of International Financial Reporting Standards, allows entities that have measured their assets and liabilities at the carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment also applies to associates and joint ventures that have adopted the same exemption from IFRS 1.

- IFRS 17, Insurance Contracts: new general accounting standard for insurance contracts, which includes the recognition, measurement, presentation and disclosure of information. Insurance contracts combine financial and service provision features that, in many cases, generate variable long-term cash flows. To properly reflect these characteristics, IFRS 17 combines the measurement of future cash flows with the recording of the result of the contract during the period in which the service is provided, presents separately the financial results from the results for the provision of the service and allows entities, through the choice of an accounting policy option, to recognize the financial results in the income statement or in other comprehensive income. It will apply from 1 January 2023.

  In addition, during 2021, although it is still pending adoption by the European Union a transitional option relating to comparative information presented on financial assets in the initial application of IFRS 17, which is intended to help entities avoid temporary accounting mismatches between the financial assets and liabilities of insurance contracts, has been included during 2021 but is still pending adoption by the European Union. It will apply from 1 January 2023.

  Grupo Santander is still analysing the possible effects of this new standard, however, it should be noted that no material impacts on the consolidated financial statements of Grupo Santander Consumer have been identified as a result of its application, except for certain balance sheet reclassifications arising from the different treatment that this new standard establishes for the components of an insurance contract.

  Finally, at the date of approval of these consolidated annual accounts, the following standards which effectively come into force after 31 December 2021 had not yet been adopted by the European Union:

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

  They must be applied retrospectively in accordance with the normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. It will apply from 1 January 2023.

- The amendments to IAS 1 Presentation of Financial Statements require companies to disclose material information about their accounting policies rather than their significant accounting policies. It will be applicable from 1 January 2023.

- The amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors clarifies how to distinguish changes in accounting policies, which are generally applied retrospectively, from changes in accounting estimates, which are generally applied prospectively. It will be applicable from 1 January 2023.

- The amendments to IAS 12 Income Taxes require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. In addition, entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with:

    - Right-of-use assets and lease liabilities, and

    - Decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets.

  The cumulative effect of recognising these adjustments is recognised in retained earnings, or another component of equity, as appropriate. It will be applicable from 1 January 2023.

Grupo Santander is currently analysing the possible effects of these new standards and interpretations.

All accounting policies and measurement bases with a material effect on the consolidated financial statements for 2021 were applied in the preparation of these consolidated annual accounts.

Applied estimates

The consolidated results and the determination of consolidated equity are sensitive to the accounting policies, measurement bases and estimates used by the Board of Directors of the Bank in preparing the consolidated financial statements. The information included in these statements is the responsibility of the Bank's Board of Directors (parent company).

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

In the Group's consolidated financial statements of 2020, estimates were occasionally made by the senior management of the Bank and of the consolidated entities in order to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates, which were made on the basis of the best information available, relate basically to the following:

1. The impairment losses on certain financial assets at fair value through other comprehensive income, non-current assets held for sale, financial assets at amortised cost, investments in joint ventures and associates, tangible assets and intangible assets (see Notes 6, 7, 8, 10, 11, 12, 13, 14, 15 and 47);

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

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

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

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

6. The fair value of certain unquoted assets and liabilities (see Notes 6, 7, 8, 9, 10, 11, 12, 17, 18 and 19);

7. The recoverability of deferred tax assets and the income tax expense (see Notes 2-t and 22);

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

To update the estimates described above, the Group's Management has taken into account the current situation as a result of covid-19, classified as a pandemic by the World Health Organization, which significantly affects the economic activity worldwide and, as a result, the Group's operations and financial results, and which generates uncertainty in the Group's estimates. Therefore, the Group's Management has made an assessment of the current situation according to the best information available to date, developing in the Notes of the main estimates made the potential impacts of covid-19 on the same during the year ended 31 December 2020 (see Notes 14, 22 and 47).

Although these estimates were made on the basis of the best information available at the end of 2021 and 2020 on the events analysed and considering information updated at the date of preparation of these consolidated annual accounts, future events might make it necessary to change these estimates (upper or lower) in coming years, which, if necessary, would be done in accordance with current legislation (prospectively, recognising any changes in estimates in the related consolidated income statements for the future years affected).

c) Comparability of information presented

The information contained in this report referring to the 2020 financial year is presented solely and exclusively for comparative purposes with the information referring to the 2021 financial year and, therefore, does not constitute the Group's annual accounts for the 2020 financial year.

d) Basis of consolidation

i. Subsidiaries

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

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

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

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

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

On 31 December 2021 and 2020, no entities were identified in which the Group did not hold at least 50% of the voting power and were considered subsidiaries. With respect to those entities in which the Bank does not reach this level of ownership and are still considered subsidiaries, and thus, consolidated in this financial statements, agreements or other circumstances exist that give the Bank control over the investees.

Similarly, on 31 December 2021 and 2020, no entities were identified in which the Group held over half of the voting power and were not considered subsidiaries.

Appendix I to these consolidated financial statements contains relevant information on the Group’s subsidiaries as of 31 December 2021.

ii. Interests in joint ventures

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

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

Certain relevant information on joint ventures as of December 31, 2021 is provided in Appendix II to these consolidated financial statements.

iii. Associates

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

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

Appendix II to these consolidated financial statements contains relevant information on associates as of 31 December 2021.

ii. Structured entities

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

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

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

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

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

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

These structured entities also include the asset securitization funds which are consolidated in those cases where, being exposed to variable returns, it is considered that the Group continues to exercise control.

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

Appendix I contains, amongst other information, the structured entities (Securitization Funds) that are subject to consolidation in these consolidated financial statements as of 31 December 2021.

v. Business combinations

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

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

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

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

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

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

vi. Changes in the levels of ownership interests in subsidiaries

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

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

vii. Acquisitions and disposals

Note 3 to these consolidated financial statements provides information on the most significant acquisitions and disposals in 2021 and 2020.

e) Capital and capital adequacy management

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

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

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

Additionally, within the framework of the capital self-assessment process (to comply with Basel Pillar II requirement), the Santander Group uses an economic capital measurement model with the objective of ensuring that there is sufficient capital available to support all the risks of its activity in various economic scenarios, with the solvency levels agreed upon by the Santander Group; at the same time the Group assesses, also in the various scenarios, whether it meets the regulatory capital ratio requirements in the different scenarios.

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

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

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

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

The CRD IV was transposed into Spanish legislation through Law 10/2014, on the regulation, supervision and capital adequacy of credit institutions, and its subsequent implementing regulations contained in Royal Decree-Law 84/2015 and Bank of Spain Circular 2/2016, which complete its adaptation to Spanish regulation.

The CRR, of immediate application in each European country, contemplates a gradual implementation calendar that allows a progressive adaptation to the new requirements in the European Union regarding AT1 and T2 capital instruments. These calendars have been incorporated into Spanish regulation through Bank of Spain Circular 2/2014, affecting both new deductions and those issues and equity elements that with this new regulation are no longer eligible as such.

In 2014, the Basel III came into force, which established new global capital, liquidity and leverage standards for financial institutions.

From a capital standpoint, Basel III redefined what is considered as available capital in financial institutions (including new deductions and raising the requirements for eligible equity instruments), raised the minimum capital requirements, demanded that financial institutions provide excess capital (capital buffers) and added new requirements for the risks considered.

In Europe, Basel III was implemented through Directive 2013/36/EU (CRD IV) and Regulation 575/2013 (CRR). CRD IV was transposed into Spanish regulations through Law 10/2014 on the regulation, supervision and solvency of credit institutions and its subsequent regulatory development contained in Royal Decree 84/2015. The CRR is directly applicable in the EU Member States and therefore repeals the national regulations regarding minimum capital requirements existing prior to its entry into force.

On 27 December 2017, Regulation 2017/2395 was published, amending the CRR with regard to transitional provisions to mitigate the impact of the introduction of IFRS 9, which took place on 1 January 2018. However, as a consequence of the Covid-19 health crisis, on June 24, 2020, the European Commission published Regulation (EU) 2020/873, which amends the previous one regarding the transitional adjustments arising from the application of IFRS 9 accounting standards.

The regulatory changes introduced in the new regulation are focused mainly on the dynamic approach and the extension of the phase-in until 2024 in order to mitigate the impact of the increase in the volume of provisions. In terms of how to determine their impact, the static and dynamic approach must be taken into account.

Regarding the static approach, it would correspond to apply the factor of 0.7 expected for the year 2020 while the dynamic approaches should be distinguished between:

- Dynamic approach 1: it measures the evolution of non-default provisions from the date of first application of IFRS 9 (January 1, 2018) to the reporting date (January 1, 2020), maintaining the phase-in factors for 5 years (2018-2022) provided in the previous Regulation.

- Dynamic approach 2: it measures the evolution of non-default provisions from January 1, 2020 until the reporting date, applying new phase-in factors updated until 2024.

The main objective of this modification was to isolate the effect of the increase in non-default provisions caused by the COVID-19 health crisis and thus not to harm the top-quality capital of credit institutions.

In addition, on 28 December 2017 Regulations 2017/2401 and 2017/2402 were published, incorporating the new securitization framework. The first regulation established a new methodology for calculating capital requirements for securitizations and a transitional period ending on 31 December 2019, while the second regulation defines a type of STS securitization which, due to characteristics ('simple, transparent and standardised'), receives preferential treatment in terms of lower capital requirements.

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

– The ECB's supervisory expectation to address the stock of NPEs through provisioning,

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

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

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

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

Accordingly, the Group continued in 2021 with the project for the progressive implementation of the technology platforms and methodological improvements required for the roll-out of the AIRB approaches for regulatory capital calculation purposes at the various Group units.

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

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

f) *Deposit Guarantee Fund and Single Resolution Fund*

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

i. Deposit Guarantee Fund

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

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

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

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

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

The notes to the Bank's individual financial statements for 2021 include additional information on the contributions of this nature made by the Bank in 2021 and 2020.

ii. Single Resolution Fund

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

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

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

The amount accrued for contributions to both funds stood at EUR 82,156 thousand as of 31 December 2021 (EUR 63,927 thousand as of 31 December 2020), recognised under “Other operating expenses” on the accompanying income statement (see Note 38).

iii. National Resolution Fund

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

The expense incurred for the contribution made by the Bank to the National Resolution Fund in 2021, which amounted to EUR 535 thousand (EUR 299 thousand in 2020), is recognised under "Other Operating Expenses" in the accompanying income statement (see Note 38).

g) Environmental impact

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

h) Events after the reporting period

Subsequent to the close of the fiscal year ended December 31, 2021 and up to the date of preparation of these Consolidated Financial Statements for said fiscal year, no event has occurred that significantly affects or modifies the information contained therein.

2. Accounting policies and valuation criteria

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

a) ***Foreign currency transactions***

i. Presentation currency

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

ii. Translation of foreign currency balances

Foreign currency balances are translated into Euro in two stages:

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

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

iii. Translation of foreign currency to the presentation currency

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

Furthermore:

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

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

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

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

iv. Translation of functional currencies to Euro

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

- Assets and liabilities, at the closing rates.

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

- Equity items, at the historical exchange rates.

v. Recognition of exchange differences

The exchange differences arising from the translation of foreign currency balances to the presentation currency are generally recognised at their net amount under Currency translation differences in the consolidated income statement, except for exchange differences arising from financial instruments at fair value through profit or loss, which are recognised in the consolidated income statement without distinguishing them from other changes in fair value, and for exchange differences arising from nonmonetary items measured at fair value through equity, which are recognised under Other comprehensive income – Items that may be reclassified to profit or loss – Currency translation differences, except for the exchange differences of equity instruments, in which the option of irrevocably has been chosen, to be valued at fair value with changes in other accumulated comprehensive income, which are recognized under Other accumulated comprehensive income - Items that will not be reclassified into results - Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income (see Note 26).

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

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

vi. Entities located in hyperinflationary economies

As at 31 December 2021 and 2020 none of the functional currencies of the consolidated entities and associates located abroad related to hyperinflationary economies as defined by International Financial Reporting Standards as adopted by the European Union. Accordingly, at the end of the last three reporting periods it was not necessary to adjust the financial statements of any of the consolidated entities or associates to correct for the effect of inflation.

vii. Exposure to foreign currency risk

The equivalent Euro value of the total assets and liabilities in foreign currency held by the Group as of 31 December 2021 and 2020 amounted to EUR 20,136 million and EUR 13,183 million, respectively (EUR 16,093 million and EUR 12,018 million, respectively in 2020) –see Note 44.b.–. 98,90% (98,93% on 31 December 2020) of these assets and 100% of these liabilities (100% in 2020), approximately, 99,2% correspond to, Norwegian kroner and sterling pounds. Virtually all the remainder relates to other currencies traded in the Spanish market. The effect on the consolidated income statement and consolidated equity of variations of 1% in the various foreign currencies in which the Group holds significant balances, taking into account the exchange rate hedges arranged by the Group in this connection, would not be significant.

b) *Definitions and classification of financial instruments*

i. Definitions

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

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

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

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

Compound financial instruments are contracts that simultaneously create a financial liability and an equity instrument for their issuer (such as convertible bonds that give the holder the right to convert them into equity instruments of the issuing entity).

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

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

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

- Investments in joint ventures and associates (see Note 12).
- Rights and obligations under employee benefit plans (see Note 21).
- The rights and obligations arising from insurance contracts.
- Contracts and obligations related to remuneration for employees based on own equity instruments. (see Note 8).

ii. Classification of financial assets for measurement purposes

Financial assets are initially classified into the various categories used for management and measurement purposes, unless they have to be presented as “Assets included in disposal groups classified as held for sale” or they relate to “Cash and balances at central banks”, “Derivatives – hedge accounting” and “Investments in joint ventures and associates”, which are reported separately.

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

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

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

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

- The return on the financial asset, specifically in cases of periodic interest rate adjustments where the term of the reference interest rate does not coincide with the frequency of the adjustment. In these cases, an assessment is made in order to determine whether the contractual cash flows differ significantly from the flows without this change in the time value of money, establishing a tolerance level of 2%.
- The contractual clauses that may modify the cash flows of the financial asset, for which purpose the structure of the cash flows before and after the activation of such clauses is analysed.
- Financial assets whose cash flows have different priority for payment due to a contractual link to underlying assets (e.g. securitizations) require a look-through analysis by the Group so as to review that both the financial asset and the underlying assets are only principal and interest payments and that the exposure to credit risk of the set of underlying assets belonging to the tranche analysed is less than or equal to the exposure to credit risk of the set of underlying assets of the instrument.

On this basis, the asset can be measured at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss. IFRS 9 also provides the option to designate an instrument as at fair value through profit or loss if doing so would eliminate or significantly reduce a measurement or recognition inconsistency (sometimes referred to as 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising gains and losses on them on different bases. The Group uses the following criteria for the classification of debt instruments:

- Amortised cost: financial instruments under a business model whose objective is to collect principal and interest flows, over which there is no significant unjustified sales and fair value is not a key element in the management of these assets and contractual conditions they give rise to cash flows on specific dates, which are only payments of principal and interest on the outstanding principal amount. In this sense, unjustified sales are those other than those related to an increase in the credit risk of the asset, unanticipated funding needs (stress case scenarios). Additionally, the characteristics of its contractual flows represent substantially a "basic financing agreement".

- Fair value with changes in other comprehensive income: financial instruments held in a business model whose objective is to collect principal and interest cash flows and the sale of these assets, where fair value is a key factor in their management. Additionally, the contractual cash flow characteristics substantially represent a “basic financing agreement”.

- Fair value with changes in profit or loss: financial instruments included in a business model whose objective is not obtained through the models mentioned above, where fair value is a key factor in managing of these assets, and financial instruments whose contractual cash flow characteristics do not substantially represent a “basic financing agreement”. In this section it can be enclosed the portfolios classified under “Financial assets held for trading”, “Non-trading financial assets mandatorily at fair value through profit or loss” and “Financial assets at fair value through profit or loss”.

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

iii. *Classification of financial assets for presentation purposes*

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

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

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

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

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

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

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

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

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

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

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

iv. *Classification of financial liabilities for measurement purposes*

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

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

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

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

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

v. *Classification of financial liabilities for presentation purposes*

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

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

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

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

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

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

The accounting standards indicate that for the recording of the amortized cost the entity "shall use a shorter period when the fees, basis points paid or received, transaction costs, premiums or discounts refer to it, this being the case when the variable to which the fees, basis points paid or received, transaction costs, and discounts or premiums are related is adjusted to market rates before the expected maturity of the financial instrument. In this case, the appropriate amortization period is the period to the next adjustment date".

In this case, the applicable interest rate of 1% from June 2020 to June 2021 (derived from the amendment of the March 2020 program) and from June 2021 to June 2022 (derived from the amendment of the December 2020 program) corresponds to a specific period after which the financing is adjusted to market rates (specifically, the average rate applied in the Eurosystem's main refinancing operations) and must therefore be accrued until the next adjustment date. The early repayment windows of this funding program are substantive terms, given that at that time of adjustment of the cost of funding to market, the entity may opt for renewal or cancellation and obtain new funding at more favorable terms.

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

Compliance with computable loan thresholds is assessed at each reporting date and is based on financial budgets approved by the Group's administrators, as well as in the evolution of macroeconomic variables (GDP, unemployment rate, inflation...). If after the initial recording of the financial liability, there is a change in the expectations of compliance with said threshold of computable loans, the Group would adjust the book value of the financial liability to the amount resulting from the updating of the new flows estimated at the original Effective Interest Rate (TIE), recognizing the difference in results, without modify the original TIE.

At the end of the first period, the Group has met the financing objective established in the program:

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

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

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

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

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

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

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

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

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

The fair value of instruments not measured at fair value with changes in profit or loss is adjusted for transaction costs. Subsequently, at each accounting close, they are valued in accordance with the following criteria:

i. Measurement of financial assets

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

The fair value of a financial instrument on a given date is taken to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The most objective and common reference for the fair value of a financial instrument is the price that would be paid for it on an active, transparent and deep market (quoted price or market price). At 31 December 2021 there were no significant investments in quoted financial instruments that had ceased to be recognised at their quoted price because their market could not be deemed to be assets.

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

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

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

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

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

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

ii. *Measurement of financial liabilities*

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

iii. *Valuation techniques*

The following table shows a summary of the fair values, at the end of 2021 and 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:

	EUR Thousands					
	31/12/2021			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	—	51,476	51,476	—	16,786	16,786
Non-trading assets mandatorily at fair value through profit or loss	26	2,972	2,998	—	391	391
Financial assets at fair value through other comprehensive income	1,062,405	14,946	1,077,351	763,272	10,220	773,492
Derivatives – hedge accounting (assets)	—	121,585	121,585	—	46,146	46,146
Financial liabilities held for trading	—	58,169	58,169	—	20,955	20,955
Financial liabilities at fair value through profit or loss	—	—	—	—	—	—
Derivatives – hedge accounting (liabilities)	—	128,650	128,650	—	184,678	184,678

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

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

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

The Group did not make any material transfers of financial instruments between one measurement method and another in 2021 or 2020. Also, there were no changes in the valuation techniques used to measure financial instruments.

General measurement bases

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

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

The following subsections set forth the most important products and families of financial instruments, and the related valuation techniques and inputs, by asset class. In the case of the Group, the main positions are derived from simple (simple) instruments, mainly interest rate swaps and cross currency swaps.

Interest rate and fixed income

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

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

Fixed-income instruments include products such as bonds, bills or notes whose valuation, as described above, can be made through the observation of their price in quoted markets, models constructed from observable data or other techniques in cases where neither of the above two alternatives is possible.

Equity and exchange rate

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

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

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

Credit

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

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

<u>Valuation adjustment for counterparty risk or default risk</u>

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

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

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

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

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

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

- Discount factor curve.

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

At the end of December 2021 and 2020, no CVA and DVA adjustments were recorded for significant amounts.

In addition, Santander Group amounts the funding fair value adjustment (FFVA) is calculated by applying future market funding spreads to the expected future funding exposure of any uncollateralized component of the OTC derivative portfolio. This includes the uncollateralized component of uncollateralized derivatives in addition to derivatives that are fully uncollateralized. The expected future funding exposure is calculated by a simulation methodology, where available. The FFVA impact in the group is not material for the consolidated financial statements as of 31 December 2021 and 2020.

Valuation adjustments for model risk

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

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

Risk sources include uncertain model parameters, illiquid underlying issuers, poor quality market data or missing risk factors (at times, the best option available is to use limited models with controllable risk). In these situations, the Group calculates and applies valuation adjustments in accordance with common industry practice. At the end of December 2021, these adjustments are not material at the Group level. The main sources of model risk are as follows:

– In the fixed income markets, the sources of model risk include bond index correlations, basis spread modelling, the risk of calibrating model parameters and the treatment of near-zero or negative interest rates. Other sources of risk arise from the estimation of market data, such as volatilities or yield curves, whether used for estimation or cash flow discounting purposes. The disparity of price depending on the different market contributors, or the concentration of the asset, could also be potential sources of risk to consider in the fixed income market.

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

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

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

	EUR Thousands			
	Fair Values calculated using internal models 31-12-21 (Level 2)	Fair Values calculated using internal models 31-12-21 (Level 3)	Valuation techniques	Main assumptions
ASSETS:				
Financial assets held for trading	**51,476**	**—**		
Derivatives	51,476	—		
Swaps	*45,978*	—	Present Value Method	Yield curves, FX market rates, Basis
Interest rate options	*5,450*	—	Black Sholes SLN	Yield curves, volatility surface
Other	*48*	—	Present Value Method	Yield curves, volatility surface
Non-trading assets mandatorily at fair value through profit or loss	**—**	**2,972**		
Equity instruments	—	—		
Debt securities	—	2,593	Present Value Method	Yield curves, FX market rates, Basis
Loans and advances	—	379	Present Value Method	Yield curves, FX market rates, Basis
Derivatives – hedge accounting	**121,585**	—		
Swaps	*107,759*	—	Present Value Method	Yield curves, FX market rates, Basis
Other	*13,826*	—	Present Value Method	Yield curves, FX market rates, Basis
Financial assets at fair value through other comprehensive income (*)	**—**	**14,946**		
Equity instruments	—	*14,946*	Present Value Method	Yield curves, FX market rates, Basis
TOTAL ASSETS	**173,061**	**17,918**		
LIABILITIES:				
Financial liabilities held for trading	**58,169**	**—**		
Derivatives	58,169	—		
Swaps	*46,982*	—	Present Value Method	Yield curves, FX market rates, Basis
Interest rate options	*5,460*	—	Present Value Method	Yield curves, FX market rates, Basis
Other	*5,727*	—	Present Value Method	Yield curves, FX market rates, Basis
Derivatives – hedge accounting	**128,650**			
Swaps	*80,677*	—	Present Value Method	Yield curves, FX market rates, Basis
Other	*47,973*	—	Present Value Method	Yield curves, volatility surface
TOTAL LIABILITIES	**186,819**	**—**		

	EUR Thousands			
	Fair Values calculated using internal models 31/12/2020 (Level 2)	Fair Values calculated using internal models 31/12/2020 (Level 3)	Valuation techniques	Main assumptions
ASSETS				
Financial assets held for trading	**16,786**	**—**		
Derivatives	16,786	—		
Swaps	*13,971*	—	Present Value Method	Yield curves, FX market rates, Basis
Interest rate options	*2,781*	—	Present Value Method	Yield curves, FX market rates, Basis
Other	*34*	—		
Non-trading assets mandatorily at fair value through profit or loss	**70**	**321**		
Equity instruments	*70*	—	Present Value Method	Yield curves, market prices, dividends, correlation, liquidity, other
Loans and advances	—	*321*		
Derivatives – hedge accounting	**46,146**	**—**		
Swaps	*39,340*	—	Present Value Method	Yield curves, FX market rates, Basis
Other	*6,806*	—	Present Value Method	Yield curves, FX market rates, volatility surface
Financial assets at fair value through other comprehensive income	**—**	**10,220**	Present Value Method	Yield curves, market prices, dividends, correlation, liquidity, other
Equity instruments	—	*10,220*		
TOTAL ASSETS	**63,002**	**10,541**		
LIABILITIES				
Financial liabilities held for trading	**20,955**	**—**		
Derivatives	20,955	—		
Swaps	*14,744*	—	Present Value Method	Yield curves, FX market rates, Basis
Interest rate options	*3,503*	—		
Other	*2,708*	—		
Derivatives – hedge accounting	**184,678**	—		
Swaps	*95,456*	—	Present Value Method	Yield curves, FX market rates, Basis
Other	*89,222*	—	Present Value Method	Yield curves, volatility surface
TOTAL LIABILITIES	**205,633**	—		

iv. *Recognition of fair value changes*

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

Adjustments due to changes in fair value arising from:

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

- Items charged or credited to Items that may be reclassified to profit or loss – Financial assets at fair value through other comprehensive income and Other comprehensive income – Items that may be reclassified to profit or loss – Exchange differences in equity remain in the Group's consolidated equity until the asset giving rise to them is impaired or derecognised, at which time they are recognised in the consolidated income statement.

- Unrealised gains on Financial assets classified as Non-current assets held for sale because they form part of a disposal group or a discontinued operation are recognised in Other comprehensive income under Items that may be reclassified to profit or loss – Non-current assets held for sale.

v. *Hedging transactions*

The consolidated entities use financial derivatives to manage the risks of the Group entities' own positions and assets and liabilities ("hedging derivatives") or for the purpose of obtaining gains from changes in the prices of these derivatives.

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

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

1. The derivative hedges one of the following three types of exposure (and therefore can be classified in one of the following categories):

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

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

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

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

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

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

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

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

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

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

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

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

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

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

When fair value hedge accounting is discontinued, the adjustments previously recognised as an adjustment to the carrying amount of the hedged asset or liability are amortised to profit or loss at the effective interest rate recalculated at the date of hedge discontinuation. The adjustments must be fully amortised at maturity.

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

vi. *Derivatives embedded in hybrid financial instruments*

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

d) ***Derecognition of financial assets and liabilities***

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

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

- If the Group retains substantially all the risks and rewards associated with the transferred financial asset - sale of financial assets under an agreement to repurchase them at a fixed price or at the sale price plus interest, a securities lending agreement in which the borrower undertakes to return the same or similar assets, securitization of assets in which the transferor retains a subordinated debt or grants a credit enhancement to the new holders that entails assuming substantially all the credit risk of the transferred assets, and other similar cases-, the transferred financial asset is not derecognised and continues to be measured by the same criteria as those used before the transfer. However, the following items are recognised:

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

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

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

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

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

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

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

- Contractual modifications for commercial or market reasons, which are generally carried out at the request of the debtor to apply current market conditions to the debt. The new contract is considered a new transaction and, consequently, it is necessary to derecognize the original financial asset and recognize a new financial asset subject to the classification and measurement requirements established by IFRS 9. Also, the new financial asset will be recorded at fair value and, if applicable, the difference between the carrying amount of the asset derecognized and the fair value of the new asset will be recognized in profit or loss.

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

The Group habitually performs financial asset securitization transactions in which it retains substantially all the risks and rewards of ownership of the assets. The detail, by consolidated entity, of the securitised assets retained on the consolidated balance sheets as at 31 December 2021 and 2020 is included in Note 10 to the accompanying consolidated financial statements.

e) *Offsetting of financial instruments*

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

No material financial assets and liabilities were offset in the consolidated balance sheets as at 31 December 2021 and 2021.

f) *Impairment of financial assets*

i. Definition

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

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

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

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

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

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

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

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

The following constitute effective guarantees:

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

   i) Buildings and building elements, distinguishing among:

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

   ii) Urban and developable ordered land.

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

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

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

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

ii. Financial instruments presentation

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

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

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

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

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

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

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

    - Doubtful risk for non-performing loans: financial instruments, irrespective of the client and guarantee, with balances more than 90 days past due for principal, interest or expenses contractually agreed. This category also includes all loan balances for a client which overdue amount more than 90 days past due is greater than 20% of the loan receivable balance.

      These instruments may be reclassified to other categories if, as a result of the collection of part of the past due balances, the reasons for their classification in Stage 3 do not remain and the client does not have balances more than 90 days past due in other loans.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

iii. Impairment valuation assessment

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

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

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

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

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

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

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

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

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

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

The estimation of expected losses requires expert judgment and the support of historical, current and future information. The probability of loss is measured considering past events, the present situation and future trends of macroeconomic factors. Grupo Santander uses prospective information in internal management and regulatory processes, incorporating various scenarios, taking advantage of the experience with such information to ensure the consistency of the processes. The challenge of the year focused on the uncertain economic outlook caused by the Covid-19 crisis, coupled with a complex environment for value creation.

Santander Consumer Finance Group has internally ensured the criteria to be followed regarding the guarantees received from the State Administrations, both through credit lines and other public guarantees, so that when they are adequately reflected in each of the contracts, they are accounted for as mitigating factors of the potential expected losses, and therefore of the provisions to be recorded, based on the provisions of the applicable standard. Likewise, when appropriate, these guarantees are adequately reflected in the mitigation of the significant increase in risk, considering their nature as personal guarantees.

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

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

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

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

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

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

Grupo Consumer will partially and voluntarily align during the 2022 financial year the accounting definition of Phase 3, as well as for the calculation of impairment provision models, to the New Definition of Default, incorporating the criteria defined by the EBA in its implementation guide of the definition of default, capturing the economic deterioration of the operations (days in non-payment on a daily basis and thresholds of materiality minimum amount in arrears). The alignment of criteria will be done taking into account the criteria of IFRS 9 as well as the accounting principles of unbiased presentation of financial information. The expected increase in the default rate is estimated at around 23 basis points, with no material impact on provision figures for credit risk.

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

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

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

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

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

a. Evaluation of the effectiveness of guarantees

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

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

Under no circumstances does the Group consider that a guarantee is effective if its effectiveness depends substantially on the solvency of the debtor or its economic group, as could be the case:

- Promises of shares or other securities of the debtor himself when their valuation may be significantly affected by a debtor's default.

- Personal cross-collateralisation: when the guarantor of a transaction is, at the same time, guaranteed by the holder of that transaction.

On the basis of the foregoing, the Group considers the following types of guarantees to be effective:

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

  - Buildings and finished building elements, distinguishing between: Dwellings; Offices and commercial premises and multipurpose buildings; Other buildings such as non-multipurpose buildings and hotels.

  - Urban land and land for development.

  - Rest of real estate where buildings and elements of buildings under construction would be classified, among others, such as developments in progress and stopped developments, and the rest of land, such as rustic properties.

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

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

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

b. Valuation of guarantees

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

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

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

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

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

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

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

- Individual expert adjustments based on additional management information (e.g. if there is a binding offer to acquire the asset or the asset is severely impaired).

In addition, the Group will take into account the time value of money when adjusting the value of the guarantees. Basically, for this purpose and based on the historical experience of each of the units, it is estimated:

- Period of adjudication.

- Estimated time of sale of the asset.

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

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

- Estimated foreclosure costs.

- Asset maintenance costs, taxes and community costs.

- Estimated marketing or sales costs.

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

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

Santander Consumer Finance Group determines the perimeter over which it makes an estimate of the assessment for impairment on an individual basis based on a relevance threshold set by each of the geographical areas and the stage in which the operations are located. In general, the Group applies the individualised calculation of expected losses to the significant exposures classified in stage 3.

It should be noted that, in any case and irrespective of the stage in which their transactions are carried out, for customers who do not receive standardised treatment, a relational risk management model is applied, with individualised treatment and monitoring by the assigned risk analyst. In addition to large companies, this relational management model also includes other segments of smaller companies for which there is information and capacity for more personalised and expert analysis and monitoring. As indicated in the Group's credit model, the individual treatment of the client facilitates the continuous updating of information. The risk assumed must be followed and monitored throughout its life cycle, enabling anticipation and action to be taken in the event of possible impairments. In this way, the customer's credit quality is analysed individually, taking into account specific aspects such as his competitive position, financial performance, management, etc. In the wholesale risk management model, every customer with a credit risk position is assigned a rating, which has an associated probability of customer default. Thus, individual analysis of the debtor triggers a specific rating for each customer, which determines the appropriate parameters for calculating the expected loss, so that it is the rating itself that initially modulates the necessary coverage, adjusting the severity of the possible loss to the guarantees and other mitigating factors that the customer may have available. In addition, if as a result of this individualised monitoring of the customer, the analyst finally considers that his coverage is not sufficient, he has the necessary mechanisms to adjust it under his expert judgement, always under the appropriate governance.

h) Repurchase agreements and reverse repurchase agreements

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

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

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

"Assets included in disposal groups classified as held for sale" includes the carrying amount of any individual items or integrated into a group (disposal group) or items that are part of a business unit earmarked for disposal ("discontinued operations") whose sale in their present condition is highly likely to be completed within one year from the reporting date. Therefore, the carrying amount of these items which can be of a financial nature or otherwise- will foreseeably be recovered through the proceeds from their disposal rather than through their continuing use.

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

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

The Group has in place a corporate policy that ensures the professional competence and the independence and objectivity of the external appraisal agencies, in accordance with the regulations, which require appraisal agencies to meet neutrality and credibility requirements, so that the use of their estimates does not reduce the reliability of its valuations. This policy establishes that all the appraisal companies and agencies with which the Group works in Spain should be registered in the Official Register of the Bank of Spain and that the appraisals performed by them should follow the methodology established in Ministry of Economy Order ECO/805/2003, of 27 March. The main appraisal companies and agencies with which the Group worked in Spain in 2021 are as follows: Arco Valoraciones, S.A., CBRE Valuation Advisory, S.A., Eurovaloraciones, S.A., Gesvalt Sociedad de Tasación, S.A., Valtecnic, S.A., Instituto de Valoraciones, S.A., Krata, S.A., Savills Aguirre Newman Valoraciones y Tasaciones S.A.U., Tasibérica, S.A., Grupo Tasvalor, S.A., Técnicos en Tasación, S.A., Tinsa, Tasaciones Inmobiliarias, S.A. (Tinsa), UVE Valoraciones, S.A., Valoraciones Mediterráneo, S.A., Grupo Tasvalor, S.A.

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

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

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

j) Tangible assets

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

i. Property, plant and equipment for own use

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

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

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

	Annual Average Rate
Buildings for own use	1.5%-2%
Furniture	10%
Vehicles	28.6%
Computer hardware	25%
Other	12%
Right of use of lease	13%

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

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

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

Upkeep and maintenance expenses of tangible assets for own use are charged to the consolidated income statement for the year in which they are incurred.

ii. Investment property

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

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

iii. Assets leased out under an operating lease

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

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

k) *Leases*

The main aspects contained in the standard (IFRS 16) adopted by the Group are included below: When the Group acts as lessee, a right-of-use asset is recognized, representing its right to use the leased asset and the corresponding lease liability on the date on which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and the financial expense. The finance expense is expensed over the term of the lease so as to produce a constant periodic interest rate on the remaining balance of the liability for each year. The right-of-use asset is amortized over the shorter of the useful life of the asset or the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is amortized over the useful life of the underlying asset. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments. lease:

- Fixed payments (including inflation-linked payments), less any lease incentives receivable.

- Variable lease payments that depend on an index or rate.

- Amounts expected to be paid by the lessee for residual value guarantees.

- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option.

Lease termination penalty payments if the lease term reflects the lessee's exercise of that option. Lease payments are discounted using the interest rate implicit in the lease. Since in certain situations this interest rate cannot be obtained, the discount rate used in such cases is the lessee's incremental borrowing rate at the date. For these purposes, the entity has calculated this incremental interest rate by taking as a reference the quoted debt instruments issued by the Group; in this regard, the Group has estimated different rate curves depending on the currency and economic environment in which the contracts are located.

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

- Economic and political situation (country risk).

- Entity's credit risk.

- Monetary policy.

- Volume and seniority of the entity's debt instrument issuances.

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

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

Payments associated with short-term leases and leases of low value assets are recognized on a straight-line basis as an expense in income. Short-term leases are leases with a lease term less than or equal to 12 months (a lease with a purchase option does not constitute a short-term lease).

l) Intangible assets

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

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

i. Goodwill

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

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

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

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

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

ii. Other intangible assets

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

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

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

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

iii. Internally developed computer software

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

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

m) Other assets and Other liabilities

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

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

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

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

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

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

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

n) Provisions and contingent assets and liabilities

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

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

Contingent assets are possible assets that arise from past events and whose existence is conditional on, and will be confirmed only by, the occurrence or non-occurrence of events beyond the control of the Group. Any contingent assets that arise are not recognised in the consolidated balance sheet or in the consolidated income statement, but rather are disclosed in the notes, provided that it is probable that these assets will give rise to an increase in resources embodying economic benefits.

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

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

Provisions are classified according to the obligations covered as follows (see Note 21):

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

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

- Provisions for taxes and other legal contingencies includes the amount of the provisions made to cover tax and legal contingencies and litigation (see Note 21). Among other items, it includes provisions for restructuring and environmental actions, if any.

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

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

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

o) **Court proceedings and/or claims in process**

At the end of 2021 and 2020 certain court proceedings and claims were in process against the consolidated entities arising from the ordinary course of their operations. The Group's legal advisers and the Bank's Directors consider that any economic loss that might ultimately result from these court proceedings and claims has been adequately provided for (see Note 21) and, therefore, will not have a material effect on these consolidated financial statements.

p) Recognition of income and expenses

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

i. Interest income, interest expenses and similar items

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

ii. Commissions, fees and similar items

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

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

- Those which meet the conditions to form part of the initial acquisition cost of the financial instruments (other than those measured at fair value through profit or loss) are recognised in the income statement using the effective interest method or at the time the instruments are sold, based on their nature.

- Those arising from transactions or services that are performed over a period of time are recognised over the life of these transactions or services.

- Those relating to services provided in a single act are recognised when the single act is carried out.

iii. Non-financial income and expenses

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

iv. Deferred collections and payments

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

v. Loan arrangement fees

Loan arrangement fees, mainly loan origination, information and application fees, are credited to the consolidated income statement, on a time-proportion basis, over the term of the loan.

q) Financial guarantees

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

The Group initially recognises financial guarantees provided on the liability side of the consolidated balance sheet at fair value, which is generally the present value of the fees, commissions and interest receivable from these contracts over the term thereof, and simultaneously the Group recognises, as a balancing entry on the asset side of the consolidated balance sheet, the amount of the fees, commissions and similar interest received at the inception of the transactions and an account receivable for the present value of the fees, commissions and interest outstanding.
Financial guarantees, regardless of the guarantor, instrumentation or other circumstances, are reviewed periodically so as to determine the credit risk to which they are exposed and, if appropriate, to consider whether a provision is required. The credit risk is determined by application of criteria similar to those established for quantifying impairment losses on debt instruments carried at amortised cost (described in Note 2-f above).

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

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

r) Post-employment benefits

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

The Group's post-employment obligations to its employees are deemed to be "defined contribution plans" when the Group makes pre-determined contributions to a separate entity and will have no legal or effective obligation to make further contributions if the separate entity cannot pay the employee benefits relating to the service rendered in the current and prior periods. Post-employment obligations that do not meet the aforementioned conditions are classified as "defined benefit plans" (see Note 21).

i. Defined contribution plans

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

ii. Defined benefit plans

The Group recognises under "Provisions - Provisions for other long term employee benefits" on the liability side of the consolidated balance sheet (or under "Other Assets" on the asset side, as appropriate) the present value of its defined benefit post-employment obligations, net of the fair value of the plan assets (see Note 21).
"Plan assets" are defined as those that will be used directly to settle the obligations and that meet the following conditions:

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

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

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

Post-employment benefits are recognised as follows:

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

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

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

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

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

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

- Actuarial gains and losses generated in the year, arising from the effects of differences between the previous actuarial assumptions and what has actually occurred and from the effects of changes in actuarial assumptions.

- The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset).

- Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

s) Other long-term benefits and other obligations

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

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

t) Termination benefits

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

u) Income tax

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

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

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

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

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

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

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

The differences generated by the different accounting and tax qualification of some of the Income and expenses recognised directly in equity to be paid or recovered in the future, are accounted for as temporary differences.

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

v) Residual maturity periods and average interest rates

The analysis of the maturities of the balances of certain items in the consolidated balance sheets as at 31 December 2021 and 2020 and of the average annual interest rates in 2021 and 2020 is provided in Note 44.

w) Consolidated statement of recognised income and expense

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

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

Accordingly, this statement presents:

a. Consolidated profit for the year.

b. The net amount of the income and expenses recognised as "Other accumulated overall result" in equity which won´t be reclassified as profit or loss.

c. The net amount of the income and expenses recognised in consolidated equity which can be reclassified as profit or loss.

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

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

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

x) Consolidated statement of changes in total equity

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

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

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

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

y) Consolidated statements of cash flows

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

- Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.

- Operating activities: the principal revenue-producing activities of credit institutions and other activities that are not investing or financing activities.

- Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.

- Financing activities: activities that result in changes in the size and composition of the consolidated equity and liabilities that are not operating activities.

In addition, dividends received and paid by the Group are detailed in Notes 4 and 27, including dividends paid to minority interests (non-controlling interests).

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

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

– Net cash balances and net balances with central banks, which are recognised under "Cash and Balances with Central Banks and other deposits on demand" in the consolidated balance sheet at 31 December 2021 and 2020, details by type and currency as follows:

	EUR Thousands	
	2021	2020
Type:		
Cash	94,086	96,464
Current accounts	16,570,596	7,701,261
Reciprocal accounts	1,612,286	1,740,612
Other accounts at credit institutions and central banks	688,129	778,462
	18,965,097	**10,316,799**
Currency:		
Euro	18,198,959	9,765,446
Foreign currency	766,138	551,353
	18,965,097	**10,316,799**

z) Own equity instruments

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

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

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

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

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

3. Santander Consumer Finance Group

a) *Santander Consumer Finance, S.A.*

The Bank is the parent of the Santander Consumer Finance Group (see Note 1). For information purposes, following are the condensed balance sheets, income statements, statements of changes in equity and statements of cash flows of the Bank for 2021 and 2020:

SANTANDER CONSUMER FINANCE, S.A.

CONDENSED BALANCE SHEETS AS OF 31 DECEMBER 2021 AND 2020
(EUR Thousands)

ASSETS	2021	2020	LIABILITIES AND EQUITY	2021	2020
Cash and balances at central banks	4,036,549	1,115,068	LIABILITIES		
Financial assets held for trading	5,873	3,929	Financial liabilities held for trading	11,573	6,497
Non-trading financial assets mandatorily at fair value through profit or loss	379	—	Financial liabilities at amortised cost	34,843,929	30,517,685
Financial assets through other comprehensive income	2,012,055	2,038,525	Derivatives – hedge accounting	114,770	154,011
Financial assets at amortised cost	27,017,876	25,769,106	Provisions	103,131	87,726
Derivatives – hedge accounting	76,568	25,327	Tax liabilities	348,264	304,285
Changes of the fair value of hedged items in an interest rate risk hedging portfolio	(5,561)	1,274	Other liabilities	140,487	111,751
Investments in subsidiaries, joint ventures and associates	10,944,440	12,130,945			
Tangible assets	20,040	2,216	**TOTAL LIABILITIES**	35,562,154	31,181,955
Intangible assets	80,133	44,474			
Tax assets	239,303	211,269	Equity	8,907,406	10,204,994
Other assets	49,077	23,735	Other comprehensive income	9,952	(18,364)
Assets included in disposal groups classified as held for sale	2,780	2,717			
			TOTAL EQUITY	8,917,358	10,186,630
TOTAL ASSETS	44,479,512	41,368,585	**TOTAL LIABILITIES AND EQUITY**	44,479,512	41,368,585
Memorandum items: off balance sheet items					
Loans commitment granted	660,587	803,025			
Financial guarantees granted	5,348,250	4,682,762			

SANTANDER CONSUMER FINANCE, S.A.

CONDENSED INCOME STATEMENTS AS AT 31 DECEMBER 2021 AND 2020
(EUR Thousands)

	Income / (expenses)	
	2021	2020
Interest income	606,701	537,278
Interest expenses	(143,554)	(157,734)
NET INTEREST INCOME	463,147	379,544
Dividend income	600,528	277,940
Income from companies accounted for using the equity method	—	—
Commissions income	79,094	55,374
Commissions expense	(64,255)	(54,763)
Gains or losses on financial instruments not at fair value through profit or loss, net	19	454
Gains or losses on financial instruments held for trading, net	(172)	—
Gains or losses from hedge accounting, net	(80)	—
Currency translation differences, net	(4,967)	(3,178)
Gains or losses on derecognition of investments in subsidiaries, joint ventures or associates, net	(7,319)	—
Other operating income	5,255	2,862
Other operating expenses	(24,787)	(18,252)
OPERATING INCOME	1,046,463	639,981
Administration and general expenses	(241,647)	(214,389)
Depreciation and amortisation cost	(28,286)	(12,091)
Provisions or reversal from provisions, net	(17,306)	(18,402)
Impairment charges and reversals from financial assets not at fair value through profit or loss	(142,443)	(191,138)
NET OPERATING PROFIT	616,781	203,961
Impairment charges or reversals on investments in joint ventures and associates	—	—
Impairment charges or reversals on non-financial assets	(806)	(1,431)
Gains or losses on assets and liabilities included in disposal groups classified as held for sale from discontinued operations	(4,553)	(2,405)
PROFIT OR LOSS BEFORE TAX IN RESPECT OF CONTINUING OPERATIONS	611,422	200,125
Taxation	(10,567)	(72,217)
Gains or losses after tax in respect of continuing operations	600,855	127,908
PROFIT/(LOSS) AFTER TAX	600,855	127,908

SANTANDER CONSUMER FINANCE, S.A.

CONDENSED STATEMENTS OF RECOGNISED INCOME AND EXPENSE AS AT 2021 AND 2020
(EUR Thousands)

	2021	2020
PROFIT OR LOSS AFTER TAX	600,855	127,908
OTHER COMPREHENSIVE INCOME	28,322	(6,316)
Items not reclassified to profit or loss	1,519	(1,132)
Actuarial gains or losses on defined benefit pension plan	1,555	(1,275)
Assets included in disposal groups classified as held for sale	—	—
Changes in the fair value of equity instruments at fair value through other comprehensive income	553	(342)
Income tax in respect of items not reclassified to profit or loss	(589)	485
Items that may be reclassified to profit or loss	26,803	(5,184)
Currency translation differences	—	—
Hedging of net investments in joint ventures and associates (effective portion)	—	—
Cash flow hedges (effective portion)	13,071	461
Financial assets available-for-sale	25,218	(7,866)
Assets included in disposal groups classified as held for sale	—	—
Share of other recognised income	—	—
Income tax in respect of items that may be reclassified to profit or loss	(11,486)	2,221
TOTAL RECOGNISED INCOME AND EXPENSE	657,499	121,592

SANTANDER CONSUMER FINANCE, S.A.

CONDENSED STATEMENTS OF TOTAL CHANGES IN EQUITY AS AT 31 DECEMBER 2021 AND 2020
(EUR Thousands)

	Capital	Share premium	Equity instruments issued other than capital	Other equity instruments	Retained earnings	Profit/(loss) after tax	Dividends paid	Other comprehensive income	TOTAL
Balance as of 31/12/20	5,638,639	1,139,990	1,200,000	—	2,098,457	127,908	—	(18,364)	10,186,630
Adjustments due to errors	—	—	—	—	—	—	—	—	—
Adjustments due to changes in accounting policies	—	—	—	—	—	—	—	—	—
Acquisition effect	—	—	—	—	50,217	—	—	(6)	50,211
Beginning adjusted balance	5,638,639	1,139,990	1,200,000	—	2,148,674	127,908	—	(18,370)	10,236,841
Total recognised income and expense	—	—	—	—	—	600,855	—	28,322	629,177
Other changes in equity	—	—	—	—	(1,330,190)	(127,908)	(490,562)	—	(1,948,660)
Common stock issued (Note 23)	—	—	—	—	—	—	—	—	—
Preferred stock issued (Note 23)	—	—	—	—	—	—	—	—	—
Other equity instruments issued (Note 24)	—	—	—	—	—	—	—	—	—
Dividends (Note 4)	—	—	—	—	(1,385,225)	—	(490,562)	—	(1,875,787)
Transfers between components of equity	—	—	—	—	127,908	(127,908)	—	—	—
Other increases/(decreases) of equity (Note 25)	—	—	—	—	(72,873)	—	—	—	(72,873)
End of period balance 31/12/21	5,638,639	1,139,990	1,200,000	—	818,484	600,855	(490,562)	9,952	8,917,358

	Capital	Share premium	Equity instruments issued other than capital	Other equity instruments	Retained earnings	Profit/(loss) after tax	Dividends paid	Other comprehensive income	TOTAL
Balance as of 31/12/19 (*)	5,638,639	1,139,990	1,050,000	—	2,045,963	508,212	(445,452)	(5,456)	9,931,896
Acquisition effect (**)	—	—	—	—	55,111	—	—	(6,592)	48,519
Beginning of period balance (01/01/20)	5,638,639	1,139,990	1,050,000	—	2,101,074	508,212	(445,452)	(12,048)	9,980,415
Adjustments due to errors	—	—	—	—	—	—	—	—	—
Adjustments due to changes in accounting policies	—	—	—	—	—	—	—	—	—
Beginning adjusted balance	5,638,639	1,139,990	1,050,000	—	2,101,074	508,212	(445,452)	(12,048)	9,980,415
Total recognised income and expense	—	—	—	—	—	127,908	—	(6,316)	121,592
Other changes in equity	—	—	150,000	—	(2,617)	(508,212)	445,452	—	84,623
Common stock issued (Note 23)	—	—	—	—	—	—	—	—	—
Preferred stock issued (Note 23)	—	—	—	—	—	—	—	—	—
Other equity instruments issued (Note 24)	—	—	150,000	—	—	—	—	—	150,000
Dividends (Note 4)	—	—	—	—	—	—	—	—	—
Transfers between components of equity	—	—	—	—	62,760	(508,212)	445,452	—	—
Other increases/(decreases) of equity (Note 25)	—	—	—	—	(65,377)	—	—	—	(65,377)
End of period balance 31/12/20	5,638,639	1,139,990	1,200,000	—	2,098,457	127,908	—	(18,364)	10,186,630

SANTANDER CONSUMER FINANCE, S.A.

CONDENSED STATEMENTS OF CASH FLOWS AS AT 31 DECEMBER 2021 AND 2020
(EUR Thousands)

	2021	2020
A. CASH FLOWS FROM OPERATING ACTIVITIES:	4,273,290	1,271,986
Profit or loss after tax	600,855	127,908
Adjustments made to obtain the cash flows from operating activities	1,262,603	170,725
Net change in operating assets	(1,243,130)	1,712,323
Net change in operating liabilities	3,652,962	(738,970)
B. CASH FLOWS FROM INVESTING ACTIVITIES:	(110,242)	(468,647)
Payments	(228,216)	(501,678)
Proceeds	117,974	33,031
C. CASH FLOWS FROM FINANCING ACTIVITIES	(1,241,567)	(283,408)
Payments	(1,341,567)	(633,408)
Proceeds	100,000	350,000
E. NET INCREASE/(DECREASE) OF CASH AND CASH EQUIVALENTS (A+B+C+D):	2,921,481	519,931
F. Cash and equivalents at beginning of period	1,115,068	595,137
G. Cash and equivalents at end of period	4,036,549	1,115,068

b) Acquisitions and sales

The most significant acquisitions and sales of equity interests in Group companies and other significant corporate transactions affecting the Group's consolidation scope in 2021 and 2020 were as follows:

b.1) Financial Year 2021

PSA Finance UK Limited

On 30 July 2021, the Group, through its Spanish subsidiary PSA Financial Services Spain E.F.C., S.A. (see Appendix I), entered into a sale and purchase agreement with Santander Consumer (UK) PLC and Banque PSA Finance, S.A. for the acquisition of 100% of the shares in PSA Finance UK Limited. This company is engaged mainly in auto financing for Peugeot-Citroën and providing other related services in the United Kingdom.

The above-mentioned purchase transaction was carried out after obtaining the corresponding authorisations from the European and local authorities.

At the time of the transaction, PSA Finance UK Limited's share capital was fully paid up in the amount of GBP 437,280, consisting of 437,280 shares with a par value of GBP 1 each. The acquisition was completed as follows:

- Acquisition from Santander Consumer UK PLC of its entire equity interest (50%), comprising 218,640 shares, for the amount of GBP 153,753,627.79.

- Acquisition from Banque PSA Finance, S.A. of its entire equity interest (50%), consisting of 218,640 shares, for the amount of GBP 153,753,627.79.

Under the sale and purchase agreement, in September 2021 PSA Financial Services Spain E.F.C., S.A. made payment of the final price adjustment, paying an additional GBP 67,765.66 to each shareholder.

The details of the acquired business are as follows:

Company acquired	Core business	Acquisition date	% shareholding (voting rights) acquired	Purchase consideration (EUR millions)
PSA Finance UK Limited	Auto financing and other related services.	30/07/2021	100%	360.1

Set out below is an analysis of the net assets of the acquired business:

	Carrying amount (EUR millions)
Loans and advances	2,986.0
Non-current assets	7.4
Current assets	984.9
Financial liabilities at amortised cost	(3,485.6)
Non-current and current liabilities	(129.6)
Provisions	(3.1)
Net assets	**360.1**
Purchase consideration:	360.1

At the issuance date of these annual accounts, the business combination has been recognised after studying the allocation of the price to the net assets acquired.

The fair value of the acquired receivables, mainly of a financial nature, amounts to EUR 2,986 million and matches the gross contractual amounts. At the acquisition date, the parent company's directors identified no indication that they would not be collected in full.

Net cash flow on the acquisition:

	EUR Millions
Cash paid	360.1
Less: cash and cash equivalents.	(450.0)
Total	**(89.9)**

At 31 December 2021, this company contributed a profit of EUR 10 million to the consolidated Group’s results. Had the business combination taken place on 1 January 2021, a profit of approximately EUR 33 million would have been contributed at 31 December 2021.

TIM-SCB JV S.p.A.

On 17 February 2020, the Group, through its Italian subsidiary Santander Consumer Bank, S.p.A., entered into a joint venture agreement with the Italian mobile, telecommunications and Internet company TIM, S.p.A., with stakes of 51% and 49%, respectively. The main purpose of this joint venture is to finance telecommunication devices and to sell other financial products. The company was set up on 19 February 2020 subject to European and local authority approval, which was received on 4 November 2020.

The company had an initial share capital of EUR 2 million, consisting of 2 million shares with a par value of EUR 1 each. Each partner contributed capital in accordance with its percentage shareholding.

On 29 October 2020, a capital increase of EUR 4 million was agreed to reach a share capital figure of EUR 6 million. This capital increase was subscribed and paid up by the shareholders according to their percentage shareholdings. The capital increase was carried out by issuing 4 million shares with a par value of EUR 1 each.

On 4 January 2021, the pending capital increase of EUR 34 million was carried out to reach share capital of EUR 40 million and start up the business. This capital increase was subscribed by the shareholders in line with their percentage shareholdings. The capital increase was carried out by issuing 34 million new shares with a par value of EUR 1 each.

The company's business began in February 2021.

In October 2021, the company carried out a new capital increase of EUR 15 million in reserves without issuing new shares.

Hyundai Capital Bank Europe, GmbH.

On 4 November 2020, Santander Consumer Bank AG, Hyundai Capital Services Inc. and Hyundai Capital Bank Europe, GmbH entered into an addendum to the original shareholders' agreement in order to open a branch of Hyundai Capital Bank Europe, GmbH in Italy to engage in auto financing for Hyundai and Kia (end customers and dealers), as well as other related services, by raising funds from the public via deposits and loans in the Italian market.

After obtaining regulatory approvals, the branch began to operate in October 2021.

Vinturas Group

On 4 February 2020, Santander Consumer Finance, S.A. took part in a capital increase in the Dutch company Vinturas Holding, B.V. by subscribing 25 shares with a par value of EUR 10 each (share capital of EUR 250) and a total share premium of EUR 249,750, thus entailing the disbursement of EUR 250,000.

On 20 October 2020, Santander Consumer Finance, S.A. took part in another capital increase in the above-mentioned company by subscribing 13 shares with a par value of EUR 10 each (share capital of EUR 130) and a share premium of EUR 129,870, for a total disbursement of EUR 130,000.

On 20 October 2020, Santander Consumer Finance, S.A. participated in another capital increase in that company by subscribing 12 shares with a par value of EUR 10 each (share capital of EUR 120) and a share premium of E119,880, entailing the disbursement of EUR 120,000.

Santander Consumer Finance, S.A. has a 14.75% stake in this company at 31 December 2021. Vinturas Holding, B.V.'s corporate purpose includes holding shares in companies engaged in creating a logistics platform using blockchain technology in order to digitalise the supply chain.

In the first quarter of 2022, a new shareholder will join the company by fully subscribing a new capital increase. Due to the dilution effect, Santander Consumer Finance, S.A.'s ownership interest will fall to 12.53%.

Merger of Santander Consumer Finance, S.A. and Santander Consumer Bank, S.A., Santander Consumer Mediación OBSV, S.L., Banco Santander Consumer Portugal, S.A. and Santander Consumer Finance Benelux, B.V.

<u>Belgium</u>

On 11 December 2020, the sole shareholder of Santander Consumer Bank, S.A. (Santander Consumer Finance, S.A.) approved the merger of Santander Consumer Bank, S.A. and Santander Consumer Finance, S.A.

On registration of this merger and with effect as from 3 March 2021, Santander Consumer Bank, S.A. was wound up without liquidation and all its assets and liabilities were transferred *en bloc* to Santander Consumer Finance, S.A., which acquired them by way of universal succession and without interruption. On the same date, the assets and liabilities of Santander Consumer Bank, S.A. were automatically assigned to the branch that Santander Consumer Finance, S.A. had set up in Belgium in the framework of the merger.

In accordance with applicable accounting regulations, 1 January 2021 was set for the merger as the date as from which the target company's operations are deemed to have been carried out by the acquiring company for accounting purposes.

OBSV

On 18 March 2021, Santander Consumer Finance, S.A. approved the merger of Santander Consumer Mediación Operador de Banca-Seguros Vinculado, S.L.U. (target company) into Santander Consumer Finance, S.A. (acquiring company).

Under applicable accounting regulations, 1 January 2021 was set for the merger as the date as from which the target company's operations are deemed to have been carried out by the acquiring company for accounting purposes.

Portugal

On 18 March 2021, the members of the Boards of Directors of Santander Consumer Finance, S.A. and Banco Santander Consumer Portugal, S.A. approved the merger of Banco Santander Consumer Portugal, S.A. (target company) into Santander Consumer Finance, S.A. (acquiring company).

On registration of this merger and with effect as from 28 September 2021, Banco Santander Consumer Portugal, S.A. was wound up without liquidation and all its assets and liabilities were transferred *en bloc* to Santander Consumer Finance, S.A., which acquired them by way of universal succession and without interruption. On the same date, the assets and liabilities of Banco Santander Consumer Portugal, S.A. were automatically assigned to the branch that Santander Consumer Finance, S.A. had set up in Portugal in the framework of the merger.

In accordance with applicable accounting regulations, 1 January 2021 was set for the merger as the date as from which the target company's operations are deemed to have been carried out by the acquiring company for accounting purposes.

Netherlands

On 20 September 2021, the Board of Directors of Santander Consumer Finance Benelux B.V. approved the merger of Santander Consumer Finance Benelux B.V. (target company) into Santander Consumer Finance, S.A. (acquiring company).

The merger took place in the context of the corporate reorganisation of the Santander Consumer Finance, S.A. Group’s business in the Netherlands, which was conducted through its wholly-owned subsidiary, the Dutch financial institution Santander Consumer Finance Benelux B.V., until 25 November 2021. Since the merger, business has been carried on through a branch of Santander Consumer Finance, S.A. in the Netherlands, which was opened in parallel to the merger. In addition, Santander Consumer Finance Benelux B.V. had a branch in Belgium through which it conducted business in that country. Since the merger, the business has been carried on through the Belgian branch of Santander Consumer Finance, S.A., which was already operational.

In accordance with applicable legislation, 1 January 2021 was set for the merger as the date as from which the target company's operations are deemed to have been carried out by the acquiring company for accounting purposes.

b.2) Financial Year 2020

Forso Nordic Group

On 1 November 2019, the Group, through its Norwegian subsidiary Santander Consumer Bank AS, entered into an agreement to acquire the entire share capital of Forso Nordic AB from FCSH, GmbH (Swiss company) and from Saracen HoldCo AB (Swedish company). Forso Nordic AB, located in Sweden, in turn had two branches in Denmark and Norway and a subsidiary in Finland, Forso Finance OY. This Group is engaged mainly in auto financing for Ford and providing other related services in the Nordic countries.

The above-mentioned purchase transaction, following authorisation by the European and local authorities, was executed on 28 February 2020, the date on which control was acquired. Other documents were also signed on the same date, including the execution of a white label agreement for exclusive financing in each of the four Nordic countries.

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

- Acquisition from FCSH, GmbH of its entire shareholding of 4,202,788 shares for the sum of EUR 49.2 million.

- Acquisition from Saracen HoldCo AB of its entire shareholding of 4,202,787 shares for the sum of EUR 49.2 million.

As part of the sale and purchase agreement, Santander Consumer Bank AS sent the final price adjustment letter to the sellers in July 2020, entailing the recovery of EUR 1.6 million of the price initially paid by the buyer, which was received in August 2020.

The details of the acquired business are as follows:

Company acquired	**Core business**	**Acquisition date**	**% shareholding (voting rights) acquired**	**Purchase consideration (EUR millions)**
Forso Nordic AB Group	Auto financing and other related services.	28/02/2020	100%	97.9

Set out below is an analysis of the net assets of the acquired business:

	Carrying amount (EUR millions)
Loans and advances	1,075.1
Non-current assets	2.5
Current assets	166.7
Financial liabilities at amortised cost	(1,107.7)
Non-current and current liabilities	(25.2)
Provisions	(6.8)
Net assets	**104.6**
Purchase consideration:	97.9
Badwill	**6.7**

The Forso Nordic AB Group was engaged in auto financing for Ford (end customers and dealers), as well as other related services, by raising funds in the form of loans. This business combination was completed in order to expand the Santander Consumer Finance Group's presence in the consumer auto lending market in the Nordics.

The business combination has been definitively recognised at the date of these annual accounts. Under the sale and purchase agreement, during the first year there was a true-up process of the wholesale portfolio provisions, which could result in the payment by Santander Consumer Bank AS of a maximum additional EUR 1.2 million to the seller. This payment was made in April 2021.

The fair value of the acquired receivables, mainly of a financial nature, amounts to EUR 1,075.1 million and matches the gross contractual amounts. At the acquisition date, the parent company's directors identified no indication that the receivables would not be collected in full.

Net cash flow on the acquisition:

	EUR Millions
Cash paid	97.9
Less: cash and cash equivalents.	(196.5)
Total	**(98.6)**

In February 2020, and prior to the above-mentioned acquisition, a capital increase of NOK 2,000 million (equivalent to EUR 192.5 million) in Santander Consumer Bank AS was agreed and paid up by its shareholder Santander Consumer Finance, S.A., the purpose being to cover increased capital requirements and to complete the acquisition of the Forso Group.

In addition, on 20 April 2020 the respective Boards of Directors of Santander Consumer Bank AS and Forso Nordic AB approved the vertical merger plan. On 8 May 2020, the Norwegian Financial Supervisory Authority approved the merger. The merger was registered on 9 September 2020 and recognised retrospectively for accounting purposes as from 1 July 2020.

On 29 May 2020, the respective Boards of Directors of Santander Consumer Finance OY (wholly-owned Finnish subsidiary of Santander Consumer Bank AS) and Forso Finance OY (wholly-owned Finnish subsidiary of Forso Nordic AB) approved the vertical merger plan. The merger was registered on 1 November 2020 and recognised for accounting purposes as from 1 November 2020.

PSA Finance Suisse, S.A.

On 30 June 2020, Santander Consumer EFC, S.A. (a company previously wholly-owned by Santander Consumer Finance, S.A. and, at the issuance date of these annual accounts, merged into its parent Santander Consumer Finance, S.A.) acquired 100% of the shares in PSA Finance Suisse, S.A., a company hitherto wholly owned by PSA Financial Services Spain EFC, S.A. Through this acquisition, the Consumer Group's ownership interest in PSA Finance Suisse, S.A. increased from 50% to 100%.

This entailed the purchase of 17,000 shares with a par value of CHF 1,000. The acquisition price was defined as the company's carrying amount under IFRS at the date of acquisition, which was estimated at CHF 62,325,449.15 (equivalent to EUR 58,516,054.03) at the purchase date. The sale and purchase agreement included a price adjustment mechanism once the actual IFRS carrying amount of the company was known. As a result of this adjustment mechanism, on 17 September 2020 Santander Consumer EFC, S.A. paid the seller an additional amount of CHF 2,128,626.63 (equivalent to €1,981,592.47).

The details of the acquired business are as follows:

Company acquired	Core business	Acquisition date	% shareholding (voting rights) acquired	Purchase consideration (EUR millions)
PSA Finance Suisse, S.A.	Auto financing and other related services.	30/06/2020	100%	60.5

Set out below is an analysis of the net assets of the acquired business:

	Carrying amount (EUR millions)
Loans and advances	461.6
Non-current assets	0.5
Current assets	45.1
Financial liabilities at amortised cost	(394.2)
Non-current and current liabilities	(52.5)
Net assets	**60.5**
Purchase consideration:	60.5

PSA Finance Suisse, S.A. is engaged in audit financing for Peugeot and Citröen (end customers and dealers), as well as other related services, by raising funds in the form of loans. This business combination aims to expand the Santander Consumer Finance Group's presence in the consumer auto lending market in Switzerland.

Allane SE Group (formerly Sixt Leasing SE Group)

On 15 and 16 July 2020, Hyundai Capital Bank Europe, GmbH (51%-owned by Santander Consumer Bank AG) acquired 92.07% of the Allane SE Group (formerly Sixt Leasing SE Group), represented by 18,976,123 shares with a par value of EUR 1 each. The investment totaled EUR 341.8 million. The acquisition was completed as follows:

- Acquisition of 8,644,638 shares representing 41.94% of Allane SE (formerly Sixt Leasing SE) from Sixt SE for EUR 155.6 million.

- Acquisition of 10,331,485 shares representing 50.13% of Allane SE through a takeover bid totaling EUR 186.2 million.

The Allane SE Group consists of the parent company Allane SE and 13 subsidiaries (one of which is a securitization company). It was listed on the Frankfurt Stock Exchange in the past and the minority shareholding is still listed. The Group's activity consists of providing integrated mobility services through three main lines of business:

- *Fleet leasing*: full-service leasing and fleet management for companies with a fleet of 20 vehicles or more. Companies can outsource their entire fleet management to the specialised service provider Sixt Leasing and thus fully focus on their core competencies.

- *Fleet management (through subsidiaries)*: in general, fleets of more than 300 vehicles, combined with consultancy services for optimisation.

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

The details of the acquired business are as follows:

Company acquired	Core business	Acquisition date	% shareholding (voting rights) acquired	Purchase consideration (EUR millions)
Allane SE Group (formerly Sixt Leasing SE Group)	Auto leasing and other related services	15/07/2020	92.07%	342.8

Set out below is an analysis of the net assets of the acquired business:

	Fair value (EUR millions)
Vehicles (under leases)	1,103.6
Vehicles for sale	47.3
Non-current assets (*)	57.2
Current assets	244.4
Financial liabilities at amortised cost	(1,134.0)
Non-current and current liabilities	(84.7)
Net assets	**233.8**
Non-controlling interests	(18.6)
Purchase consideration:	342.8
Goodwill	**127.6**
Goodwill contributed by the company and other adjustments	5.9
Total goodwill (100%)	**133.5**
Initial goodwill allocated to Santander Consumer (51%)	**68.1**

(*) The main fair value adjustment identified relates to customer portfolios recognised as intangible assets in the amount of EUR 26 million (Note 15).

The business combination has been definitively recognised at the date of these annual accounts.

The fair value of the acquired receivables, recognised under current assets, amounts to EUR 56 million and matches the gross contractual amounts. At the acquisition date, the parent company's directors identified no indication that they would not be collected in full.

Net cash flow on the acquisition:

	EUR millions
Cash paid	342.8
Less: cash and cash equivalents.	(0.3)
Total	342.5

At 31 December 2020, this company contributed a profit of EUR 1.4 million to the consolidated Group's results. Had the business combination taken place on 1 January 2020, a profit of approximately EUR 2 million would have been contributed at 31 December 2020.

To complete this acquisition, the shareholders of Hyundai Capital Bank Europe GmbH agreed to increase capital by EUR 342,670,214 and paid up in full prior to the acquisition in July 2020, in line with their percentage shareholdings in the company:

- Santander Consumer Bank AG (51%): EUR 174,761,809
- Hyundai Capital Services Inc. (49%): EUR 167,908,405

By resolution of the General Shareholders' Meeting of 29 June 2021, subsequently registered, the Sixt Leasing SE Group changed its business name to the Allane SE Group.

For impairment testing purposes, the goodwill acquired in this business combination was allocated on the acquisition date to the Germany cash-generating unit, as it represents the lowest level within the Group at which the goodwill is controlled for internal management purposes and is the unit expected to benefit from the business combination synergies (Note 14).

Hyundai Capital Bank Europe, GmbH.

In February 2020, the shareholders of Hyundai Capital Bank Europe GmbH agreed and fully paid up a capital increase of €160,000,000 in order to maintain the regulatory capital ratios for the increased portfolio, subscribed in accordance with their percentage shareholdings in the company:

- Santander Consumer Bank AG (51%): EUR 81,600,000
- Hyundai Capital Services Inc. (49%): EUR 78,400,000

Capital increases

In 2021 and 2020, in addition to the transactions described above in this Note, certain investees carried out capital increases, fully subscribed and paid in. The most significant ones are indicated below:

	EUR millions (*)	
	2021	2020
Hyundai Capital Bank GmbH (**)	—	256.4
Santander Consumer Holding, GmbH	—	250.0
Santander Consumer Bank, A.S.	—	192.5
Santander Consumer Bank AG	—	250.0
TIMFin S.p.A.	25.0	—
PSA Financial Services E.F.C., S.A.	189.5	—
	214.5	948.9

(*) Includes, exclusively, the disbursements made by the Group on these capital increases.

(**) The amounts indicated for the year 2020 of these entities correspond to the subscription of a 51% stake in the capital stock of these entities.

Notifications of acquisitions of shareholdings

The notifications on the acquisition of shareholdings that must be reported, if applicable, in the notes to the financial statements in accordance with Articles 155 of the Capital Companies Act and Article 125 of Royal Legislative Decree 4/2015, of October 23, which approved the Consolidated Text of the Securities Market Act; if applicable. They are included in Annex III.

4. The Bank's profit distribution and earnings per share

a) The Bank's profit distribution

The distribution of the Bank's net profit for 2021 that the Board of Directors will propose for approval by the shareholders at the Annual General Meeting and the proposal approved for 2020 by the Bank's Shareholders at the Annual General Meeting held on 18 March 2021 is as follows:

	EUR Thousands	
	2021	2020
Distributable profit:		
Balance per the income statement	600,855	127,908
Appropriation:		
To dividends paid	490,562	—
To legal reserve	60,086	12,791
To voluntary reserve	50,207	115,117
Total	600,855	127,908

On 18 February 2021, in view of the Company's liquidity statement, the Board of Directors resolved, after preparing the accounts, to pay an interim dividend of EUR 114,652 thousand out of 2020 profits. In addition, the Extraordinary General Shareholders' Meeting held on 18 February 2021 resolved, at the proposal of the Board of Directors, to pay a dividend of EUR 452,971 thousand out of unrestricted reserves. Both dividends were paid on 1 March 2021.

The Extraordinary General Shareholders' Meeting of 27 July 2021 resolved, at the proposal of the Board of Directors, to pay a dividend of EUR 701,071 thousand out of unrestricted reserves. The dividend was settled on 29 July 2021.

On 16 December 2021, in view of the Company's liquidity statement, the Board of Directors resolved to pay an interim dividend of EUR 490,562 thousand out of 2021 profits. In addition, the Extraordinary General Shareholders' Meeting held on 16 December 2021 resolved, at the proposal of the Board of Directors, to pay a dividend of EUR 116,532 thousand out of unrestricted reserves.

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

	EUR Thousands
	30/11/2021
Estimated profit before tax	563,791
Less:	
Estimated income tax	(18,100)
Appropriation to legal reserve	(54,569)
Distributable profit	**491,122**
Interim dividend to be distributed	**490,562**
Gross dividend per share (euros) (*)	**0.26**

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

b) Basic and diluted earnings per share

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

Accordingly:

	EUR Thousands	
	2021	2020
Consolidated profit attributable to the parent	1,174,689	504,055
Remuneration of contingently convertible preferred equity (Note 23)	(72,873)	(65,377)
	1,101,816	438,678
Dilutive effect of changes in profit for the year arising from potential conversion of ordinary shares		
Of which	—	—
Profit or loss from continuing operations (net of		
	—	—
Weighted average number of shares outstanding		
	1,101,816	*438,678*
Adjusted number of shares	1,879,546,172	1,879,546,172
Basic and diluted EPS (Euro)	1,879,546,172	1,879,546,172
Of which:	0.6249	0.2334
	0.6249	*0.2334*

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

a) Bylaw-stipulated emoluments and other fees

Certain criteria are established for setting directors' remuneration at the proposal of the Remuneration Committee. Those who perform executive functions in any of the Santander Group companies do not receive any remuneration for their Board and committee duties. Independent directors unrelated to the Santander Group receive remuneration for the performance of their director duties and for each of their committee positions.

In 2021 the Board of Directors received remuneration amounting to EUR 516 thousand in the form of bylaw-stipulated emoluments and attendance fees (EUR 523 thousand in 2020), related in full to six external Board members on 31 December 2021 and 2020, detailed as follows:

	EUR thousands	
	2021	2020
Antonio Escámez Torres	128	173
Jean Pierre Landau	95	112
Benita Ferrero-Waldner	69	29
Luis Alberto Salazar-Simpson Bos	95	112
José Manuel Robles	82	97
Andreu Plaza López	47	—

b) Post-employment and other long-term benefits

The Santander Group's supplementary pension obligations to all active and retired personnel include those relating to current and former directors of the Bank who perform (or have performed) executive functions in the Santander Group. Directors who perform such duties in any of the Santander Group companies do not receive any post-employment or other benefits as remuneration for holding office at Santander Consumer Finance, S.A.

In 2021, the pension payments made to former members of the Bank's Board of Directors amounted to 914 thousand EUR in 2021 (5,648 thousand in 2020) and were made mainly by other Santander Group entities that do not belong to the Santander Consumer Finance Group.

c) Loans and deposits

The balances corresponding to direct exposures of the Bank and other Group entities at 31 December 2021 and 2020 are presented in Note 46.

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

d) Senior managers

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

The remuneration received by the Bank's non-director senior managers (13 and 17 persons in 2021 and 2020, respectively) amounted to EUR 7,169 thousand in 2021 and EUR 6,751 thousand in 2020 and was paid in full by other Santander Group entities that do not belong to the Group. Additionally, in 2021 no senior managers have perceived compensation for non-compete agreements (one of the senior managers has received compensation for a non-compete amounting to EUR 3,756 thousand in 2020).

The remuneration in kind paid to the Bank's non-director senior managers totaled approximately EUR 88 thousand in 2021 (2020: EUR 144 thousand), which were paid by other Santander Group entities that do not belong to the Group.

In 2021 contributions amounting to EUR 685 thousand (EUR 505 thousand at 31 December 2020) were made to defined contribution pension plans for the Bank's non-director senior managers. These contributions were made by other Santander Group entities that do not belong to the Group. In 2021 and 2020 no payments were made in this connection.

The principles governing the share options granted to the Bank's senior managers, excluding Directors, are the same as those explained in Note 5-c. The Bank's and other Group entities' direct risk exposure to senior managers who, as of 31 December 2021 and 2020, are not Bank Directors are detailed in Note 46.

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

e) Termination benefits

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

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

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

None of the members of the Board of Directors has stated that he is involved in a situation of conflict of interest of those established in article 229 of the Capital Company Law, direct or indirect, that they or persons related to them may have with the interest of Santander Consumer Finance, S.A.

6. Loans and advances to credit institutions

The detail, by type and currency, of "Loans and Advances to Credit Institutions" in the accompanying consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

	EUR Thousands	
	2021	2020
Type:		
Time deposits	203,131	332,758
Reverse repurchase agreements	268,117	330,928
Other accounts	149,975	205,357
	621,223	869,043
Currency:		
Euro	436,565	537,466
Foreign currency	184,658	331,577
	621,223	869,043

At December 31, 2021, the balances held under this heading relate mainly to the parent company in the amount of EUR 190,735 thousand (EUR 358,688 thousand at December 31, 2020) and Santander Consumer A.S. (Nordics) in the amount of EUR 177,989 thousand (EUR 334,208 thousand at December 31, 2020).

Note 44 contains a detail of the terms to maturity and estimated fair value of these assets at 31 December 2021 and 2020 and fair values in the years then ended.

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

At 31 December 2021, the breakdown of the exposure by impairment phase of the assets recognised under IFRS9 was EUR 633,805 thousand, all of which are registered in phase 1(EUR 871,671 thousand in phase 1 ,EUR 4 thousand in phase 2 and EUR 28 thousand in phase 3 in 2020) and of the impairment loss provision was EUR 2,130 thousand, all of which are registered in phase 1 (EUR 2,642 thousand in phase 1, EUR 4 thousand in phase 2 and EUR 14 thousand in phase 3 in 2020).

7. Debt instruments

The detail, by classification, type and currency, of Debt Instruments in the accompanying consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

	EUR Thousands	
	2021	2020
Classification:		
Financial assets at fair value through other comprehensive income	1,054,760	754,387
Non-trading financial assets mandatorily measured at fair value through profit or loss	2,593	—
Financial assets at amortised cost	3,472,396	4,241,011
	4,529,749	4,995,398
Type:		
Spanish sovereign debt	1,135,286	1,535,832
Foreign sovereign debt	2,665,246	3,008,014
Issued by financial institutions	244,149	196,944
Other fixed income securities	485,467	254,769
Impairment losses	(399)	(161)
	4,529,749	4,995,398
Currency:		
Euro	3,962,246	4,550,105
Foreign currency	567,902	445,454
Gross total	4,530,148	4,995,559
Less - Impairment losses	(399)	(161)
	4,529,749	4,995,398

At 31 December 2021 and 2020, the amount regarding the exposure by impairment staging relating to "Debt securities" as well as the allowance for impairment was classified in its entirety in stage1.

The balance at 31 December 2021 and 2020 of the "Spanish Government Debt Securities" account in the foregoing table relates mainly to Treasury bills acquired by Santander Consumer Finance, S.A.

The balance at December 31, 2021 of the "Foreign Government Debt" account in the above table corresponds mainly to Danish, Finnish and Norwegian Treasury Bonds acquired by the subsidiary Santander Consumer Bank AS (Norway) for EUR 242,235 thousand, EUR 140,246 thousand and EUR 132,665 thousand, respectively, Italian Treasury Bonds purchased by the Italian subsidiaries Santander Consumer Bank S.p.A. and Banca PSA Italia S.p.A. for EUR 674,085 thousand, German and French Treasury Bonds purchased by the German subsidiary Santander Consumer Bank AG for EUR 502,383 thousand and EUR 512,722 thousand respectively.

The balance at 31 December 2020 of the "Foreign Government Debt" account in the foregoing table relates mainly to Danish and Swedish Treasury bills acquired by the subsidiary Santander Consumer Bank AS (Norway) for EUR 211,891 thousand and EUR 134,128 thousand, respectively, Italian Treasury bills acquired by the Italian subsidiaries Santander Consumer Bank S.p.A. and Banca PSA Italia S.p.A. for EUR 441,589 thousand and Finnish Treasury bills acquired by the subsidiary Santander Consumer Finance Oy (Finland) for EUR 106,131 thousand.

The balance at December 31, 2021 of the "Debt securities - Issued by financial entities" account in the above table includes mainly bonds issued by the financial institutions Nykredit Realkredit A/S, Nordea Eiendomskreditt AS, DNB Boligkredit AS purchased by the subsidiary Santander Consumer Bank A. S. (Norway) for an amount of EUR 63,667 thousand; and bonds issued by European Investment Bank acquired by the subsidiary Santander Consumer Bank AG (Germany) for an amount of EUR 155,274 thousand.

The balance at December 31, 2020 of the account "Debt securities - Issued by financial entities" in the table above includes mainly bonds issued by the financial entities Nykredit Realkredit A/S, Nordea Eiendomskreditt AS, Nordea Hypotek AB, DNB Boligkredit AS, Swedbank Hypotek AB, Skandinaviska Enskilda Banken AB, Stadshypotek AB, purchased by the subsidiary Santander Consumer Bank A. S. (Norway) in the amount of EUR 95,228 thousand; and bonds issued by the financial institution SC Germany Consumer Synthethic 2019 Designated Activity Company (Ireland) acquired by the subsidiary Santander Consumer Bank AG (Germany) for EUR 349,507 thousand.

Note 44 to these consolidated financial statements details the maturity of these financial assets at the end of 2021 and 2020.

8. Equity instruments

The detail of Equity instruments in the accompanying consolidated balance sheets for the year ended in 31 December 2021 and 2020, based on their classification and type is as follows:

	EUR Thousands	
	2021	2020
Classification:		
Financial assets at fair value through other comprehensive income	13,806	13,598
Mandatory to VR with results changes	26	70
	13,832	13,668
Type:		
Foreign companies	13,832	13,668
	13,832	13,668
Add - Valuation adjustments	8,785	5,507
	22,617	19,175

The changes in "Financial assets at fair value through other comprehensive income - Equity instruments" as of December 31, 2021 and 2020 in the accompanying consolidated balance sheet is as follows:

	EUR Thousands	
	2021	2020
Balance at beginning of period	19,105	21,709
Net additions (disposals)	208	(1,465)
Valuation adjustments	3,278	(1,139)
Currency translation and other differences	—	—
Balance at end of period	22,591	19,105

9. Financial assets and liabilities held for trading

a) *Derivatives held for trading*

In the following table, the detail of the fair value of the trading derivatives held by the Group as of 31 December 2021 and 2020 is presented, classified according to their inherent risk:

	EUR Thousands			
	2021		2020	
	Assets	Liabilities	Assets	Liabilities
Inherent rate risk	51,428	52,440	16,752	18,247
Foreign exchange rate	48	5,729	34	2,708
	51,476(*)	58,169(*)	16,786(*)	20,955(*)

(*) Of which, on 31 December 2021, EUR 29,519 thousand and EUR 35,449 thousand of asset and liability balances, respectively, correspond to balances with Santander Group entities (EUR 9,578 thousand and EUR 12,970 thousand of asset and liability balances, respectively, corresponded to balances with Santander Group entities on 31 December 20120) -see Note 46.

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

b) *Notional and market value of trading derivatives*

Below is a detail of the notional and market value of trading derivatives arranged by the Group, as of December 31, 2021 and 2020, classified according to inherent risks:

	EUR Thousands			
	2021		2020	
	Notional Amount	Market Value	Notional Amount	Market Value
Trading derivatives:				
Inherent rate risk-				
Forward rate agreements	—	—	—	—
Interest rate swaps	18,878,901	(997)	13,789,553	(773)
Options and futures and other	4,050,244	(10)	3,109,394	(722)
Credit Risk	—	—	—	—
Credit Default Swap	—	—	—	—
Foreign exchange risk-	—	—	—	—
Foreign exchange trading	852,841	(5,680)	157,049	(2,674)
Currency options	—	—	—	—
Foreign exchange swaps	31,006	(6)	24,750	—
Derivatives on securities and commodities (*)	—	—	—	—
	23,812,992	(6,693)	17,080,746	(4,169)

10. Loans and receivables - Customers

a) Balance composition

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

	EUR Thousands	
	2021	2020
Financial assets at amortised cost	99,559,283	97,440,260
Non-trading financial assets mandatorily measured at fair value through profit or loss	379	321
Of which:		
Impairment losses	*(2,115,180)*	*(2,197,400)*
Loans and advances to customers regardless of impairment	101,674,842	99,637,981

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

Note 47 shows the Group's total exposure, based on the geographical origin of the issuer. There are no unspecified term loans to customers for significant amounts.

b) *Detail*

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

	EUR Thousands	
	2021	2020
Loan type and status:		
Commercial credit	2,756,540	3,310,628
Secured loans	19,385,018	19,334,700
Other terms loans	49,938,270	51,915,961
Finance leases	24,330,411	19,775,398
Receivables on demand and other	993,854	832,302
Credit card receivables	2,237,697	2,442,076
Impaired assets	2,033,052	2,026,916
	101,674,842	99,637,981
Geographical area:		
Spain and Portugal	14,602,431	15,749,336
Italy	9,079,017	9,122,609
France	14,733,804	14,647,435
Germany and Austria	38,774,496	38,921,027
Scandinavia	17,583,374	17,310,989
United Kingdom	2,973,796	—
Other	3,927,924	3,886,585
	101,674,842	99,637,981
Interest rate formula:		
Fixed rate	75,697,315	75,140,923
Floating rate	25,977,527	24,497,058
	101,674,842	99,637,981
Currency:		
Euros	84,127,603	85,664,247
Foreign currency	17,547,239	13,973,734
	101,674,842	99,637,981
Less:		
Impairment changes	*(2,115,180)*	*(2,197,400)*
TOTAL	99,559,662	97,440,581

As of December 31, 2021 and 2020, the Group had EUR 179 and 163 thousand, respectively, of loans and advances granted to Spanish Public Administrations with a rating of A and with EUR 192,369 and 168,622 thousand, respectively, granted to the Public Sector of other countries (as of December 31, 2021, this amount was composed of, based on the issuer's rating, as follows: 63% AAA, 27% AA, 0% A and 10% BBB).

Excluding Public Administrations, the amount of loans and advances at December 31, 2021 and 2020 amounts to EUR 101,482,294 and 99,469,194 thousand.

On 22 May 2014, the Bank subscribed 4,152 mortgage participation certificates issued by Banco Santander, S.A. for EUR 424,397 thousand, which were recognised under “Loans and Receivables - Loans and Advances to Customers” in the consolidated balance sheet and are included in the heading “Secured loans” in the table above. These mortgage participation certificates relate to loans maturing at between 3 and 39 years and earn annual interest of between 0.60% and 4.70%.

On 26 April 2012, the Bank subscribed 3,425 mortgage participation certificates issued by Banco Santander, S.A. for EUR 416,625 thousand, which were recognised under “Loans and Receivables - Loans and Advances to Customers” in the consolidated balance sheet and are included in the heading “Secured loans” in the table above. These mortgage participation certificates relate to loans maturing at between 1 and 38 years and earn annual interest of between 0.44 % and 4.22%.

The outstanding balance of these mortgage participation certificates amounted to EUR 358,003 thousand on 31 December 2021 (EUR 405,996 thousand as of 31 December 2020).

On December 2021, loans to customers assigned to own or third-party commitments amounted to EUR 600,000 thousand (31 December 2020: EUR 600,000 thousand) (see Notes 18 and 19), without taking into consideration for these purposes the consolidated loan portfolio held through various securitization special-purpose vehicles included in the Group's scope of consolidation (see Appendix I).

Note 47 contains certain information relating to the restructured/refinanced portfolio, as well as the detail of loans to customers by activity, net of impairment charges, as of 31 December 2021 and 2020.

The gross exposure broken down by impairment stage of loans and advances to customers recognised under "Financial assets at amortised cost and “Financial assets at fair value through other comprehensive income” in 2021 and 2020 is detailed below:

2021	EUR Thousands			
	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	93,457,480	4,153,264	2,026,916	99,637,660
Movements				
Transfers:				
Transfer to Stage 2 from Stage 1	(3,005,374)	3,005,374	—	—
Transfer to Stage 3 from Stage 1	(524,834)	—	524,834	—
Transfer to Stage 3 from Stage 2	—	(723,395)	723,395	—
Transfer to Stage 1 from Stage 2	2,218,259	(2,218,259)	—	—
Transfer to Stage 2 from Stage 3	—	212,840	(212,840)	—
Transfer to Stage 1 from Stage 3	31,241	—	(31,241)	—
Net changes in financial assets	227,363	(1,103,925)	(221,303)	(1,097,865)
Write-offs		—	(803,588)	(803,588)
Exchange differences and other	3,825,219	86,158	26,879	3,938,256
Balance at end of period	96,229,354	3,412,057	2,033,052	101,674,463

In addition, the Group has EUR 25,495,968 thousand under loans commitments and financial guarantees granted, subject to impairment, of which EUR 25,192,422 thousand are under stage 1, EUR 1,237,580 thousand under stage 2 and EUR 65,966 thousand under stage 3.

2020	EUR Thousands			
	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	94,886,295	3,380,907	1,969,799	100,237,001
Movements				
Transfers:				
Transfer to Stage 2 from Stage 1	(5,955,658)	5,955,658	—	—
Transfer to Stage 3 from Stage 1	(662,471)	—	662,471	—
Transfer to Stage 3 from Stage 2	—	(897,756)	897,756	—
Transfer to Stage 1 from Stage 2	3,411,323	(3,411,323)	—	—
Transfer to Stage 2 from Stage 3	—	304,884	(304,884)	—
Transfer to Stage 1 from Stage 3	36,453	—	(36,453)	—
Net changes in financial assets	2,426,766	(1,150,990)	(432,739)	843,037
Write-offs	—	—	(720,107)	(720,107)
Exchange differences and other	(685,228)	(28,116)	(8,927)	(722,271)
Balance at end of period	93,457,480	4,153,264	2,026,916	99,637,660

As of December 31, 2020, the Group has EUR 23,473,576 thousand under loans commitments and financial guarantees granted, subject to impairment, of which EUR 23,322,335 thousand were under phase 1, EUR 108,700 thousand under phase 2 and EUR 42,541 thousand under phase 3.

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

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

	EUR Thousands	
	2021	2020
Balance at beginning of period	2,197,400	1,938,389
Impairment losses through profit or loss	677,629	968,641
Of which:		
Impairment charges to profit or loss	*2,071,425*	*2,164,754*
Reversal of impairment charges to profit or loss	*(1,393,796)*	*(1,196,113)*
Write-off impaired balances against recorded impairment allowance	*(803,588)*	*(720,107)*
Currency translation differences and other changes	43,739	10,477
Balance at end of period	2,115,180	2,197,400
Of which:		
By asset class:		
Impaired Assets	*1,292,581*	*1,367,967*
Other	*822,599*	*829,433*
By calculation method:		
Calculated individually	*114,572*	*128,918*
Calculated collectively	*2,000,608*	*2,068,482*

Following is the change in the loan loss provision in 2021 and 2020, broken down by impairment stage of loans and advances to customers, recognised under "Financial assets at amortised cost" under IFRS 9:

2021				
	EUR Thousands			
	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	540,238	289,195	1,367,967	2,197,400
Transfers:				
Transfer to Stage 2 from Stage 1	(85,952)	454,982	—	369,030
Transfer to Stage 3 from Stage 1	(15,809)	—	186,375	170,566
Transfer to Stage 3 from Stage 2	—	(195,825)	528,043	332,218
Transfer to Stage 1 from Stage 2	52,505	(250,356)	—	(197,851)
Transfer to Stage 2 from Stage 3	—	30,638	(155,726)	(125,088)
Transfer to Stage 1 from Stage 3	414	—	(12,683)	(12,269)
Net changes in financial assets and changes in credit risk	15,556	(50,469)	175,936	141,023
Write-offs	—	—	(803,588)	(803,588)
Exchange differences and other	21,546	15,936	6,257	43,739
Balance at end of period	528,498	294,101	1,292,581	2,115,180

2020				
	EUR Thousands			
	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	411,864	222,440	1,304,085	1,938,389
Transfers:				—
Transfer to Stage 2 from Stage 1	(70,100)	459,030	—	388,930
Transfer to Stage 3 from Stage 1	(13,990)	—	319,241	305,251
Transfer to Stage 3 from Stage 2	—	(202,631)	439,999	237,368
Transfer to Stage 1 from Stage 2	32,130	(224,366)	—	(192,236)
Transfer to Stage 2 from Stage 3	—	26,266	(137,070)	(110,804)
Transfer to Stage 1 from Stage 3	1,273	—	(10,343)	(9,070)
Net changes in financial assets and changes in credit risk	175,079	8,589	165,534	349,202
Write-offs	—	—	(720,107)	(720,107)
Exchange differences and other	3,982	(133)	6,628	10,477
Balance at end of period	540,238	289,195	1,367,967	2,197,400

As of 31 December 2021 and 2020, the Group had no significant amounts in purchased impaired assets.

In 2021, EUR 75 thousand was recognised under Fixed Income (EUR 172 thousand in 2020). Written-off assets recovered, including sales of portfolios of written-off and non-performing assets, amounted to EUR 183,219 thousand in 2021(EUR 149,410 thousand in 2020) and are presented as a deduction from “Impairment charges and reversals from financial assets at amortised cost” in the consolidated income statements for the years then ended. In addition, losses from renegotiation or modification of contracts amount to EUR 575 thousand (EUR 6,024 thousand in 2020). The amount under impairment of financial assets at fair value through profit or loss is EUR 495,060 thousand and EUR 825,083 thousand in 2021 and 2020, respectively.

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

Company	EUR Thousands	
	31/12/2021	31/12/2020
	Nominal Value	Nominal Value
Santander Consumer Bank AG (Germany)	204,400	263,800
Santander Consumer Bank S.p.A. (Italy)	39,500	46,400
Santander Consumer Bank AS (Norway)	81,600	153,600
Santander Consumer Finance Oy (Finland)	19,700	—
Santander Consumer Bank GmbH (Austria)	34,700	51,100
Financiera El Corte Inglés, E.F.C., S.A. (Spain)	88,500	—
Santander Consumer Finance, S.A. (Spain)	28,800	52,600
Of which		
Spanish subsidiary in Portugal (*)	*10,700*	*9,500*
Spanish subsidiary in Netherlands (*)	*18,100*	*23,900*
	497,200	567,500

(*) See note 1.a

The selling price of the portfolios of written-off loans in 2021 was EUR 140,800 thousand (EUR 154,100 thousand in 2020). The profit from these sales profit was registered in “Impairment charges and reversals from financial assets not at fair value through profit or loss – Financial assets at amortised cost” of the accompanying consolidated income statement.

Home purchase loans granted to those households by the main business in Spain

The quantitative information on the home purchase loans granted to households by the Group's main businesses in Spain at 31 December 2021 and 2020 is as follows:

	31-12-2021		31-12-2020	
	EUR Thousands		EUR Thousands	
	Gross amount	Of which: nonperforming	Gross amount	Of which: nonperforming
Loans for home purchases				
Without mortgage guarantee	—	—	—	—
With mortgage guarantee	1,375,816	62,394	1,526,419	65,775
	1,375,816	62,394	1,526,419	65,775

The detail, by loan-to-value ratio, of the home purchase mortgage loans granted by the Group to households in Spain at 31 December 2021 and 2020 is as follows:

	2021					
	Loan to value ratio					
EUR millions	0-40%	40-60%	60-80%	60-100%	Over 100%	TOTAL
Gross amount	328	372	243	190	243	1,376
Of which :non-performing	5	10	10	10	28	63

	2020					
	Loan to value ratio					
EUR millions	0-40%	40-60%	60-80%	60-100%	Over 100%	TOTAL
Gross amount	335	402	289	201	299	1,526
Of which :non-performing	4	7	13	8	34	66

Securisation

The balance of Financial assets at amortised cost – Customers in the accompanying consolidated balance sheets for the years ended 31 December 2021 and 2020 includes the securitised loans transferred to third parties on which the Group has retained risks, albeit partially, and which therefore, in accordance with current regulations, cannot be derecognised. The breakdown of the securitised amounts as of 31 December 2021 and 2020, classified by the subsidiaries which originated the securitised portfolio, and on the basis of whether the requirements for derecognition had been met (see Note 2-d), is as follows:

	EUR Thousands	
	2021	2020
Derecognised	—	—
Maintained in balance sheet	34,481,057	29,254,281
Of which		
Santander Consumer Bank AG	*13,596,370*	*12,276,317*
Compagnie Generale de Credit Aux Particuliers - Credipar S.A.	*6,254,964*	*5,701,841*
Santander Consumer Bank S.p.A.	*2,761,232*	*2,924,482*
SANTANDER CONSUMER FINANCE, S.A.	*2,309,085*	*2,348,150*
Banca PSA Italia S.p.a.	*1,536,125*	*1,457,316*
PSA FINANCE UK LIMITED	*1,458,763*	—
Santander Consumer Finance Oy	*1,218,947*	*1,340,768*
Financiera El Corte Inglés, E.F.C., S.A.	*1,186,556*	*1,018,803*
PSA Financial Services, Spain, EFC, SA	*807,022*	*1,129,169*
Allane SE	*508,241*	—
Santander Consumer Bank GmbH	*432,548*	*434,507*
Hyundai Capital Bank Europe GmbH	*380,585*	—
Santander Consumer Bank A.S.	*87,131*	*203,150*
PSA Bank Deutschland GmbH	*1,943,488*	*419,778*
Total	34,481,057	29,254,281

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

In 2021 and 2020 the subsidiaries mentioned in the foregoing table securitised receivables amounting to EUR 7,569,000 and 10,137,000 thousand respectively. Since substantially all the risks and rewards associated with these receivables had not been transferred, they were not derecognised.

Note 19 details the liabilities associated with these securitization transactions.

Impaired assets

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

	EUR Thousands	
	2021	2020
Balance at beginning of year	2,026,916	1,969,799
Additions net of recoveries	799,684	786,151
Written-off assets	(803,588)	(720,107)
Exchanges differences and other(net)	10,040	(8,927)
Balance at end of year	2,033,052	2,026,916

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

The non-performing loans ratio is calculated by dividing the financial assets at amortized cost (customers) in Stage 3 and contingent risks recorded in the consolidated balance sheets at December 31, 2021 of this year by the total balance of financial assets at amortized cost (customers and contingent risks). The ratio stood at 2.06% at 31 December 2021 (2.07% at 31 December 2020).

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

The balance of "Non-Current Assets Held for Sale" in the accompanying consolidated balance sheets as at 31 December 2021 and 2020 includes the amount of foreclosed assets (recovered by the consolidated entities on non-performing loans), net of impairment losses, and the assets of subsidiaries classified as discontinued operations, the detail being as follows:

	EUR Thousands	
	31/12/2021	31/12/2020
Enclosed tangible assets	11,692	6,137
Of which Foreclosed tangible assets in Spain	*2,772*	*2,788*
Other tangible assets held for sale	38,694	48,494
	50,386	54,631

As of 31 December 2021, hedges constituted for real estate assets in Spain represent 59% (75% as of 31 December 2020). The net provisions made during the years 2021 and 2020 amounted to EUR 2,455 thousand and EUR 5,120 thousand, respectively, and the recoveries made during those years amounted to EUR 1,910 thousand and EUR y 4,843 thousand, respectively (see Note 43).

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

The detail of the foreclosed assets of the Group's businesses in Spain, based on the purpose of the initially granted loans or credit facilities giving rise to them, at 31 December 2021 and 2020 is as follows:

EUR Thousand	31/12/2021				31/12/2020			
	Gross book value	Impairment losses	Of which: impaired since acquisition	Carrying value	Gross book value	Impairment losses	Of which: impaired since acquisition	Carrying value
Property assets arising from financing granted for construction and property development	—	—	—	—	—	—	—	—
Of which:	—	—	—	—	—	—	—	—
Completed buildings	—	—	—	—	—	—	—	—
Residential	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—	—
Land	—	—	—	—	—	—	—	—
Developed land	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—	—
Property assets arising from home purchase mortgage financing granted to households	15,335	(12,813)	(9,393)	2,522	15,332	(12,892)	(9,426)	2,440
Other property assets received in payment of debts	1,809	(1,559)	(1,346)	250	2,058	(1,710)	(1,705)	348
Total property assets	17,144	(14,372)	(10,739)	2,772	17,390	(14,602)	(11,131)	2,788

12. Investments in joint ventures and associates

The detail, by company, of investments in joint ventures and associates in the accompanying consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

	EUR Thousands	
	2021	2020
Associates		
Santander Consumer Bank S.A. (Poland)	394,026	396,161
Santander Consumer Multirent, Sp, z.o.o	11,723	10,099
Santander Consumer Finanse Sp. z.o.o. (Poland)	6,152	6,269
Payever Gmbh	1,462	1,405
PSA Finance Polska Sp. z.o.o.	7,473	8,087
Santander Consumer Financial Solutions SP. Z.O.O.	803	857
PSA Consumer Finance Polska SP. Z.O.O.	628	527
Other	32	33
	422,299	423,438
Of which, Goodwill:		
Payever Gmbh	1,238	1,238
Santander Consumer Bank S.A. (Poland)	98,891	99,713
	100,129	100,951
Joint ventures:		
Fortune Auto Finance Co. Ltd. (China)	222,290	172,147
PSA Insurance Europe Ltd (Malta)	29,939	33,810
PSA Life Insurance Europe, Ltd (Malta)	7,655	5,677
Other	231	176
	260,115	211,810
	682,414	635,248

The changes in 2021 and 2020 in investments in joint ventures and associates is as follows:

	EUR Thousands	
	2021	2020
Balance at beginning of period	635,248	617,663
Purchases and capital increases	—	857
Sales	—	—
Dividends paid	(1,639)	(22)
Effect of equity method accounting (Note 32)	63,790	72,467
Changes in the consolidation perimeter	—	—
Value impairment adjustments (Note 3.b)	—	—
Currency translation differences and other	(14,985)	(55,717)
Balance at end of period	682,414	635,248

Impairment losses

In 2021 and 2020 there is no evidence of significant impairment of the Group's investments.

The financial information on the associates and joint ventures is summarised below:

	EUR millions	
	2021	2020 (*)
Data on 31 December		
Total assets	9,951	8,594
Total liabilities	(8,396)	(7,171)
Equity	(1,555)	(1,423)
Group's share of the net assets of associates	582	534
Goodwill	100	101
Total Group share	682	635
Data for the year		
Total income	1,442	1,435
Total profit	141	163
Group's share of the profit of associates	64	72

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

Other information

A summary of the financial information as of the end of December 2021 on the main associates and joint ventures (obtained from the information available at the date of preparation of the consolidated financial statements is detailed below:

	Joint ventures	Associates
	SANTANDER CONSUMER BANK SPÓLKA AKCYJNA	FORTUNE AUTO FINANCE CO., LTD
Current assets	248,525	671,800
Non-current assets	3,691,592	2,511,241
Total assets	3,940,117	3,183,041
Current liabilities	133,919	33,853
Non-current liabilities	3,028,427	2,704,609
Total liabilities	3,162,346	2,738,462
Net attributable profit for the period	35,073	57,381
Other comprehensive income	(97,281)	24,895
Other	839,979	362,303
Total equity	777,771	444,579
Total liabilities and equity	3,940,117	3,183,041
Income from ordinary activities	322,175	277,526
Profit for the period from continuing operations	35,072	57,382
Income after taxes from discontinued operations	—	—

* Information prepared using the grouping criteria described in note 45, and therefore may not coincide with those published in the consolidated financial statements by each entity.

13. Tangible assets

The changes in 2021 and 2020 in the balance of "Tangible Assets" in the accompanying consolidated balance sheets as at 31 December 2021 and 2020 were as follows:

	Tangible assets				Of which: right of use operating lease			
EUR Thousands	For own use	Other assets assigned under operating lease	Investment Property	Total	For own use	Other assets assigned under operating lease	Investment Property	Total
Cost:								
Balances as of 31 December 2019	693,492	438,171	—	1,131,663	304,093	—	—	304,093
Additions/Disposals(net)	24,095	8,312	—	32,407	10,880	—	—	10,880
Additions	52,470	89,766	—	142,236	26,207	—	—	26,207
Disposals	(28,375)	(81,454)	—	(109,829)	(15,327)	—	—	(15,327)
Net Additions/disposals due to changes in the consolidation perimeter	17,968	1,081,536	—	1,099,504	13,971	—	—	13,971
Currency Transaction differences	(982)	185	—	(797)	(795)	—	—	(795)
Transfers and other	(19,647)	65	—	(19,582)	681	—	—	681
				—		—	—	
Balances as of 31 December 2020	714,926	1,528,269	—	2,243,195	328,830	—	—	328,830
Additions/Disposals (net)	33,962	503,616	—	537,578	15,567	—	—	15,567
Additions	*54,362*	*985,399*	—	*1,039,761*	*19,905*	—	—	19,905
Disposals	*(20,400)*	*(481,783)*	—	*(502,183)*	*(4,338)*	—	—	(4,338)
Net Additions/disposals due to changes in the consolidation perimeter	*4,962*	—	—	4,962	4,962	—	—	4,962
Currency Transaction differences	*962*	*2,415*	—	3,377	*777*	—	—	777
Transfers and other	*10,194*	*56,773*	—	66,967	*79,009*	—	—	79,009
Balance as of 31 December 2021	765,006	2,091,073	—	2,856,079	429,145	—	—	429,145
Accumulated Amortization:								
Balances as of 31 December 2020	(269,198)	(78,986)	—	(348,184)	(41,658)	—	—	(41,658)
Net Additions/disposals due to changes in the consolidation perimeter	(4,755)	—	—	(4,755)	(2,718)	—	—	(2,718)
Charges	(72,904)	—	—	(72,904)	(42,215)	—	—	(42,215)
Disposals and retirements	12,382	17,373	—	29,755	2,549	—	—	2,549
Currency translation differences	(74)	(299)	—	(373)	(35)	—	—	(35)
Transfers and others	21,030	(28,917)	—	(7,887)	1,084	—	—	1,084
Balances as of 31 December 2021	(313,519)	(90,829)	—	(404,348)	(82,993)	—	—	(82,993)
Net Additions/disposals due to changes in the consolidation perimeter	—	—	—	—	—	—	—	—
Charges	(74,847)	—	—	(74,847)	(45,314)	—	—	(45,314)
Disposals and retirements	8,547	184,635	—	193,182	2,560	—	—	2,560
Currency translation differences	(434)	(281)	—	(715)	(325)	—	—	(325)
Transfers and others	16,612	(274,166)	—	(257,554)	(12,439)	—	—	(12,439)
Balances as of 31 December 2021	(363,641)	(180,641)	—	(544,282)	(138,511)			(138,511)
Impairment losses:								
Balances as of 31 December 2019	—	(13,681)	—	(13,681)	—	—	—	—
Net Additions/disposals due to changes in the consolidation perimeter	—	—	—	—	—	—	—	—
Charges	(293)	(438)	—	(731)	—	—	—	—
Releases	2	1,300	360	1,662	—	—	—	—
Disposals and retirements	—	243	—	243	—	—	—	—
Transfers and other	(236)	5,452	(360)	4,856	(527)	—	—	(527)
Balances as of 31 December 2020	(527)	(7,124)	—	(7,651)	(527)	—	—	(527)
Net Additions/disposals due to changes in the consolidation perimeter	—	—	—	—	—	—	—	—
Charges	(1,041)	(89)	—	(1,130)	(684)	—	—	(684)
Releases	202	3,629	—	3,831	25	—	—	25
Disposals and retirements	795	234	—	1,029	576	—	—	576
Transfers and other	(464)	(1,073)	—	(1,537)	(424)	—	—	(424)
Balances as of 31 December 2021	(1,035)	(4,423)	—	(5,458)	(1,034)	—	—	(1,034)
Net Tangible asset:								
Balances as of 31 December 2020	400,880	1,430,316	—	1,831,196	245,310	—	—	245,310
Balances as of 31 December 2021	400,330	1,906,009	—	2,306,339	289,600	—	—	289,600

(1) The period depreciation charges are recognised under "Amortization" in the consolidated income statement.

The balance of tangible assets acquired under finance leases amounted to EUR 289,600 thousand as of 31 December 2021 (EUR 245,310 thousand in 2020). It is part of the Group's policies to arrange for insurance contracts to cover all possible risks deriving from all elements in its tangible assets.

The Group has incurred EUR 236 thousand in net gains in 2021 (EUR 2,012 thousand net losses in 2020) from the sale of tangible assets (Note 42).

The detail, by class of asset, of "Property, Plant and Equipment - For Own Use" in the consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

	EUR Thousands				
	Cost	Accumulated depreciation	Fund	Carrying amount	Of which: Right-of-use for operating lease
Buildings	388,567	(95,377)	—	293,190	244,931
Furniture	197,318	(115,433)	—	81,885	270
IT equipment	104,755	(93,545)	—	11,210	631
Other	24,286	(9,164)	(527)	14,595	(522)
Balances as of December 2020	714,926	(313,519)	(527)	400,880	245,310
Buildings	433,532	(135,611)	—	297,921	287,235
Furniture	201,704	(123,092)	—	78,612	3,158
IT equipment	105,408	(87,945)	—	17,463	240
Other	24,362	(16,993)	(1,035)	6,334	(1,033)
Balances as of 31 December 2021	765,006	(363,641)	(1,035)	400,330	289,600

The net balance of "Property, Plant and Equipment for Own Use" on 31 December 2021 includes approximately EUR 372,090 thousand (EUR 393,827 thousand on 31 December 2020) relating to property, plant and equipment owned by Group subsidiaries located abroad.

14. Goodwill

The detail of "Goodwill" in the accompanying consolidated balance sheets as of 31 December 2021 and 2020, based on the cash-generating units which originate it, is as follows:

	EUR Thousands	
	2021	2020
Germany	1,297,469	1,307,288
Austria	98,074	98,074
Nordics (Scandinavia)	223,974	216,168
Netherlands (*)	—	35,550
Spain/Portugal	87,963	52,833
Total	1,707,480	1,709,913

(*) Due to the reorganization carried out by the group indicated in note 3, the Goodwill of the Netherlands is integrated as of December 31, 2021 in Santander Consumer Finance, S.A.

At least once per year (or whenever there is any indication of impairment), the Group reviews goodwill for impairment (i.e. a potential reduction in its recoverable amount to below its carrying amount). The first step that must be taken in order to perform this analysis is the identification of the cash-generating units, i.e. the Group's smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

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

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

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

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

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

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

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

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

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

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

During the second quarter of fiscal year 2020, considering the worsening macroeconomic environment caused by COVID-19, an impairment test was conducted for the Nordics CGU (Scandinavia). This test took into account the negative developments forecast by the various national and international organizations in terms of GDP (which could take 2 to 3 years to recover in most countries), the unemployment rate, the growth of loan portfolios, etc. As a result, the Group recognized an impairment of goodwill of EUR 276,681 thousand associated with this CGU. The impairment was the result of a combination of factors, including those related to COVID-19, mainly due to the new macroeconomic outlook which caused the Group to project lower earnings on the CGU, in addition to reducing the assumptions on perpetual growth rates and increasing the discount rates used to estimate the value in use of such CGU. This impairment has been recorded under "Impairment or reversal of impairment of nonfinancial assets - Intangible assets" in the income statement. The recoverable amount of the CGU is sensitive to changes in cash flow projections, discount rates and nominal perpetual growth rates; therefore, changes in these rates could result in additional impairments.

Following is a detail of the main assumptions used in determining the recoverable amount, at 2021 and 2020 year-end, of the most significant cash-generating units valued using the discounted cash flow method:

	2021		
	Projected Period	Discount rate (*)	Nominal perpetuity growth rate
Austria	3 years	8.3%	1.8%
Germany	5 years	8.3%	1.8%
Nordics (Scandinavia)	5 years	9.9%	2.0%

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

	2020		
	Projected Period	Discount rate (*)	Nominal perpetuity growth rate
Austria	3 years	9.1%	1.8%
Germany	5 years	8.2 %	1.8%
Nordics (Scandinavia)	5 years	10.1%	2.0%

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

Given the degree of uncertainty of the main hypotheses mentioned above on which the recoverable amount of the cash-generating units is based, the Group performs a sensitivity analysis that has consisted of adjusting the discount rate by +/- 50 basis points, adjusting +/-50 basis points the growth rate in perpetuity and reduce cash flow projections by 5%. These changes in the key assumptions in isolation mean that the recoverable amount of all the cash-generating units continues to exceed their book value and have been considered by the Group as reasonably possible in a stable economic environment and in which no They contemplate non-recurring events that are unrelated to the business operations of the cash-generating units.

The movement that has occurred in the balance of this heading of the accompanying consolidated balance sheets as of December 31, 2021 and 2020, during the years 2021 and 2020, has been as follows:

	EUR Thousands	
	2021	2020
Balance at beginning of period	1,709,913	1,912,858
Acquisitions	—	77,580
Additions	—	—
Impairment value (Note 41)	—	-276,681
Currency translation differences and other	(2,433)	(3,844)
Balance at end of period	1,707,480	1,709,913

As of December 31, 2021 and 2020, the Group has goodwill associated with cash-generating units located in countries with currencies other than the euro (mainly in Nordics) so, consequently, exchange differences arise when converting to euros, at the closing exchange rate, the amount of said goodwill expressed in foreign currency. In accordance with current regulations, these exchange differences are recorded with a charge to the heading "Items that can be reclassified in results - Currency translation" of the accompanying consolidated equity. The change in the balance of this heading is shown in the attached consolidated statement of recognized income and expense.

In accordance with the valuation period included in the accounting standard, the provisional amounts of goodwill recorded as of December 31, 2020 for the purchase of Allane SE for an amount of EUR 77,000 thousand have been adjusted to reflect the information on facts and circumstances which, had they been known, would have affected the valuation of the recognized amounts. As of December 31, 2021, said goodwill is valued at EUR 68,100 thousand (see note 3). The movement of this goodwill is recorded in the item "exchange difference and others" of the previous table.

Regarding as of December 31, 2020, they mainly correspond to the goodwill amounting to EUR 76,962 thousand generated in the acquisition of Allane SE detailed in Note 3 and which has been assigned to the German CGU.

15. Other intangible assets

The detail of "Other Intangible Assets" in the accompanying consolidated balance sheets as of 31 December 2021 and 2020 is as follows:

	Estimated useful life	EUR Thousands	
		2021	2020
With finite useful lives			
Client portfolio	2 years	26,828	122
IT developments	3 years	327,055	312,600
Other		2,150	1,722
		356,033	314,322

The changes in 2021 and 2020 in "Other Intangible Assets" in the accompanying consolidated balance sheets were as follows:

	EUR Thousands	
	2021	2020
Balance at beginning of period	314,444	315,054
Net additions	169,304	100,800
Amortization charges (1)	(116,053)	(88,759)
Impairment losses (Note 41)	(11,662)	(12,651)
Balance at year-end	356,033	314,444

(1) The amortisation charges for the period are recognised under "Amortisation" in the accompanying consolidated income statement.

Most of the additions in 2021 and 2020 relate to the implementation of management and accounting software at certain Group companies, mainly in Germany, Spain, Norway and Portugal. Additionally, there are additions amounting to EUR 26,724 thousand corresponding to the customer portfolio of Allane SE (entity acquired during 2021, see Note 3).

In 2021 the Group has derecognised intangible asset elements that have generated losses due to obsolescence for EUR 11,662 thousand (EUR 12,651 thousand in 2020) recognised under "Impairment charges and reversals from financial assets not at fair value through profit or loss" in the consolidated financial statements (see Note 41).

16. Other assets and liabilities

The detail of "Other Assets" and "Other Liabilities" in the accompanying consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

	EUR Thousands			
	Assets		Liabilities	
	2021	2020	2021	2020
Inventories	3,777	4,168	—	—
Prepaid expenses	178,822	178,835	—	—
Accrued expenses	—	—	867,763	807,047
Transactions in transit	8,179	3,416	47,675	55,649
Other	521,688	528,769	927,449	676,813
	712,466	715,188	1,842,887	1,539,509

17. Deposits – Central Banks and Deposits – Credit institutions

The balance of "Financial Liabilities at Amortised Cost - Deposits from Central Banks" in the accompanying consolidated balance sheets as of 31 December 2021 and 2020, of EUR 19,997,499 thousand and EUR 14,562,273 thousand respectively, corresponds mainly to term deposits of the Group entities, including the balances of the long-term conditional financing from the European Central Bank TLTRO (Targeted Longer-Term Refinancing Operation).

As of December 31, 2021, the balance of conditional long-term financing from the European Central Bank TLTRO (Targeted Longer-Term Refinancing Operation) amounted to EUR 20,218 thousand, all belonging to TLTRO III. As of December 31, 2020, out of a total of 14,644 million, EUR 272 million and EUR 14,372 million corresponded to the TLTROS II and TLTROS III programs, respectively.

The detail, by type and currency, of the balance of "Financial Liabilities at Amortised Cost - Deposits from Credit Institutions" in the accompanying consolidated balance sheets as of 31 December 2021 and 2020 is as follows:

	EUR Thousands	
	2021	2020
Type:		
Deposits on demand	185,566	178,069
Term deposits	10,965,116	11,001,259
Reverse repurchase agreements	174,363	50,088
Subordinated deposits	455,224	1,372,018
	11,780,269	12,601,434
Currency		
Euro	11,684,171	12,416,027
Foreign currency	96,098	185,407
	11,780,269	12,601,434

A significant portion of these deposits from credit institutions on 31 December 2021 and 2020 relate to transactions performed with Santander Group entities (see Note 46).

Note 44 contains a detail of the terms to maturity and estimated fair value of these financial liabilities at amortised cost on 31 December 2021 and 2020.

On 31 December 2021 and 2020, the consolidated entities had unused credit facilities amounting to EUR 544.964 thousand and 379.349 thousand, respectively.

The detail of the balance of subordinated liabilities on 31 December 2021 and 2021 based on the currency in which the issue is denominated is as follows:

	EUR Thousands		2021		2020	
Currency of issue	2021	2020	Outstanding amount (millions)	Annual interest rate (31/12/2021)	Outstanding amount (millions)	Annual interest rate (31/12/2020)
Euros	455,224	1,372,018	453,500	2.01 %	1,370,500	2.59 %
Balance at end of period	455,224	1,372,018				

The list of subordinated liabilities denominated in euro on 31 December 2021 and 2020, set out by company, is as follows:

2021				
			Date	
Company	EUR Thousands	Counterparty	Early cancellation	Maturity date
Santander Consumer Finance S.A.	200,000	Banco Santander, S.A.	—	06/06/2029
Santander Consumer Finance S.A.	200,000	Banco Santander, S.A.	—	08/05/2029
Banca PSA Italia S.p.a.	11,000	Banque PSA France	—	11/22/2029
PSA Bank Deutschland GmbH	22,500	Banque PSA France	—	10/24/2029
PSA Financial Services Spain EFC SA	20,000	Banque PSA France	—	12/19/2027
Add - Valuation adjustments	1,724			
Total	455,224			

(1) May not be repaid early.

(2) May be repaid early.

2020				
			Date	
Company	EUR Thousands	Counterparty	Early cancellation	Maturity date
Santander Consumer Finance S.A.	200,000	Banco Santander, S.A.	(2)	06/06/2029
Santander Consumer Finance S.A.	200,000	Banco Santander, S.A.	(2)	08/05/2029
Santander Consumer Holding GmbH	600,000	Banco Santander, S.A.	(1)	03/22/2021
Santander Consumer Holding GmbH	200,000	Banco Santander, S.A.	(1)	03/22/2021
Banca PSA Italia S.p.a.	22,500	Banque PSA France	(2)	12/13/2027
Banca PSA Italia S.p.a.	11,000	Banque PSA France	(2)	11/22/2029
PSA Banque France	77,500	PSA Finance Nederland B.V.	(2)	12/15/2027
PSA Bank Deutschland GmbH	17,000	Banque PSA France	(2)	12/18/2028
PSA Bank Deutschland GmbH	22,500	Banque PSA France	(2)	10/24/2029
Hyundai Capital Bank Europe GmbH	20,000	Banque PSA France	(2)	12/19/2027
Add - Valuation adjustments	1,518			
Total	1,372,018			

(1) May not be repaid.

(2) May be repaid.

The change in the consolidated balance sheet heading in 2021 and 2020 is as follows:

	EUR Thousands	
	2021	2020
Balance at beginning of period	1,372,018	1,377,336
Additions	—	20,000
Of which		
Italy	—	*20,000*
Repayments (*)	—	—
Germany	(800,000)	—
Net additions/disposals due to changes in the consolidation perimeter	(117,000)	(22,000)
Currency translation and other	206	(3,318)
Balance at end of period	455,224	1,372,018

(*) The balance of amortizations in the exercise 2021, amounted to EUR 800,000 thousand (there were no amortizations during 2020)in addition to the interest paid as remuneration for these issues (EUR 13,361 thousand) are included in the cash flows from financing activities.

18. Deposits - Customers

The detail, by type, geographical area and currency, of "Customer Deposits" in the accompanying consolidated balance sheets as of 31 December 2021 and 2020 is as follows:

	EUR Thousands	
	2021	2020
Type:		
On demand-		
Current accounts	19,365,490	17,187,986
Savings accounts	12,320,358	12,383,984
Other deposits on demand	1,129	982
Term deposits		
Fixed-term and other deposits	7,261,195	7,905,277
Subordinated liabilities	140,307	22,627
	39,088,479	**37,500,856**
Geographical area:		
Spain and Portugal	1,633,728	525,046
Germany	23,518,888	22,222,220
Italy	1,290,210	1,297,948
France	3,467,646	3,259,147
Scandinavia	7,340,655	7,749,016
Austria	1,789,291	1,609,179
Other	48,061	838,3
	39,088,479	**37,500,856**
Currency:		
Euros	31,740,455	29,744,255
Foreign currency	7,348,024	7,756,601
	39,088,479	**37,500,856**

The amount recognised under "Fixed term and other deposits" on 31 December 2021 and 2020 in the table above relates basically to single mortgage-backed bonds ("cédulas hipotecarias") issued by the Bank on 20 July 2007 for a principal amount of EUR 150,000 thousand, which mature on 20 July 2022 and are secured by mortgages registered in the Bank's favour (see Notes 10 and 19). These bonds were subscribed by Santander Investment Bolsa, Sociedad de Valores, S.A., which in turn transferred them to the securitization special-purpose vehicle, Programa Independiente de Titulización de Cédulas Hipotecarias. The annual interest rate on these bonds is 5.135% and they mature on 20 July 2022. There are no early redemption options on these bonds for the Bank or for the holder, except in the legally stipulated circumstances.

Likewise, at December 31, 2021, such balance includes guarantees received amounting to EUR 192,424 thousand (December 31, 2020: EUR 145,651 thousand) and other installment liabilities amounting to EUR 20,239 thousand (December 31, 2020: EUR 19,035 thousand).

Note 44 contains details of the terms to maturity and estimated fair value of these financial liabilities at amortised cost on 31 December 2021 and 2020 and of the related average annual interest rates in the years then ended.

19. Debt securities in issue

The detail, by type, of "Debt securities in issue" in the accompanying consolidated balance sheets as of 31 December 2021 and 2020 is as follows:

.	EUR Thousands	
	2021	2020
Bonds and debentures outstanding	34,756,330	31,143,866
Mortgage-backed bonds	450,012	450,048
Notes and other securities	5,142,670	4,770,259
Subordinated	303,219	202,175
	40,652,231	**36,566,348**

Bonds and debentures outstanding

The balance of "Bonds and Debentures Outstanding" in the foregoing table includes, inter alia, the outstanding balance of the bonds and debentures issued by Group subsidiaries – PSA Banque France, S.A. (France), Santander Consumer Bank AG (Germany) and Santander Consumer Bank AS (Norway) – amounting to EUR 7,844 million as of 31 December 2021 (EUR 6,891 million in 2020), and the balance, at that date, of the financing obtained by the Group in the securitization transactions carried out by the Group's subsidiaries, amounting to 12,891 million euros (10,075 million euros at December 31, 2020).

The Bank's General Meeting, held on May 28, 2020, agreed to authorize the Bank's Board of Directors to issue multi-currency fixed-income securities up to an amount of EUR 45 billion. In turn, the Board of Directors, at its meeting held on May 28, 2020, delegated these powers to the Bank's Executive Committee. The Board of Directors, at its meeting held on June 11, 2020, resolved to issue a Euro Medium Term Note Program, replacing the one described above, for a maximum nominal outstanding amount not exceeding EUR 25 billion. This program was listed on the Irish Stock Exchange on June 19, 2020.

The Bank's General Meeting, held on March 18, 2021, agreed to authorize the Bank's Board of Directors to issue multi-currency fixed-income securities up to an amount of EUR 45 billion. In turn, the Board of Directors, at its meeting held on March 18, 2021, delegated these powers to the Bank's Executive Committee. The Board of Directors, at its meeting held on June 03, 2021, resolved to issue a Euro Medium Term Note Program, replacing the one described above, for a maximum nominal outstanding amount not exceeding EUR 25 billion. This program was listed on the Irish Stock Exchange on June 17, 2021.

At December 31, 2021, the outstanding balance of these notes amounted to 13,126,683 thousand euros (12,657,678 thousand euros at December 31, 2020), maturing between January 17, 2022 and January 14, 2027. The annual interest rate on these financial liabilities was between 0% and 1.356% (0.09% and 1.125% at December 31, 2020).

As of 31 December 2021, the outstanding balance of these notes amounts to EUR 13,126,683 thousand (EUR 12,657,678 thousand in 2020), and their maturity date is between 17 January 2022 and 14 January 2021. The annual interest rate on these securities stands at 0% and 1.356% (0.09% and 1.125% in 2020).

Mortgage-backed bonds

On 31 December 2021 and 2020, the balance of "Mortgage-Backed Bonds" in the foregoing table includes the amount of the mortgage-backed bonds issued by the Bank on 6 May 2019. These bonds, which are listed on the Spanish AIAF fixed-income market, are secured by mortgages registered in the Bank's favor (see Note 9), have a principal amount of EUR 450,000 thousand and mature on 6 May 2022. The annual interest rate on these liabilities is 0.00% and there are no early redemption options on these bonds for the Bank or for the holders, except in the legally stipulated circumstances.

Notes and other securities

"Notes and Other Securities" in the foregoing table relates to issues launched by the Bank, admitted to trading, which bore average annual interest of -0.367% in 2021 (0.18% in 2020), the detail being as follows:

- At the meeting held on 16 July 2020, the Bank's Executive Committee resolved to issue a Notes Programme, replacing the previous, with a maximum principal amount outstanding that may not exceed EUR 5,000 million. These notes, whose unit nominal value is EUR 100,000, have maturities ranging from a minimum of 3 business days to a maximum of 731 calendar days (2 years and 1 day). This programme is registered in the Official Registers of the Spanish National Securities Market Commission (CNMV) on 19 November 2020.

- At the meeting held on 16 June 2021, the Bank's Executive Committee resolved to issue a Notes Programme, with a maximum principal amount outstanding that may not exceed EUR 5,000 million. These notes, whose unit nominal value is EUR 100,000, have maturities ranging from a minimum of 3 business days to a maximum of 731 calendar days (2 years and 1 day). This programme is registered in the Official Registers of the Spanish National Securities Market Commission (CNMV) on 18 November 2021.

On 31 December 2021, the outstanding balance of these notes quoted on the AIAF market amounted to EUR 82,200 thousand (EUR 767,8198 thousand in 2020).

- At the meeting held on 11 June 2020, the Bank's Executive Committee resolved to launch a Euro Commercial Paper programme with a maximum principal amount outstanding that may not exceed EUR 10,000 million. The maturities of this commercial paper range from a minimum of 1 day to a maximum of 364 days. The programme was listed on the Irish Stock Exchange on 19 June 2020.

- During 2021, the Bank's Executive Committee, as its meeting held on June 3, 2021, agreed to issue a Euro Commercial Paper Issuance Programme, replacing the one in force to date, for a maximum nominal outstanding amount not exceeding EUR 10,000 million. These fixed income securities have a maturity ranging from a minimum of 1 day to a maximum of 364 days. This program was listed on the Irish Stock Exchange on June 17, 2021.

The outstanding balance of this commercial paper recognised in these consolidated financial statements amounted to EUR 4,320,000 thousand on 31 December 2021 (EUR 2,978,368 thousand as of 31 December, 2020).

Additionally, on 31 December 2021 Santander Consumer Bank AG maintained issues in promissory notes and marketable securities amounting to EUR 605,000 thousand and PSA Banque France EUR 129,000 thousand (EUR 505,000 thousand and EUR 523,000 thousand, respectively as of December 31, 2020).

Other information

On 31 December 2021 and 2020, none of these issues are convertible into Bank shares or granted privileges or rights which, in certain circumstances, make them convertible into shares.

Note 44 contains a detail of the terms to maturity and estimated fair value of these financial liabilities at amortised cost on 31 December 2021 and 2020 and of the related average annual interest rates in the years then ended.

Information on issues, repurchases and redemption of debt securities

Following is a detail, by trading market, of the outstanding balance of the debt instruments issued by the Bank or by any other Group entity on 31 December 2021 and 2020, and of the changes in this balance in 2021 and 2020:

Santander Consumer Finance	EUR Thousands				
	2021				
	Outstanding Balance at 01/01/21	Issues	Repurchases or Redemptions	Exchange Rate and Other Adjustments (*)	Outstanding Balance on 31/12/21
Debt instruments issued in an EU Member State for which it was necessary to file a prospectus	34,495,304	16,303,538	(12,967,229)	1,132,164	38,963,777
Debt instruments issued in an EU Member State for which it was not necessary to file a prospectus	1,249,187	—	(517,161)	(2,441)	729,585
Other debt instruments issued outside EU Member States	619,681	98,140	(62,171)	—	655,650
Total	36,364,172	16,401,678	13,546,561	1,129,723	**40.349.012**

(*) Includes, inter alia, the additions to and exclusions from the Group's scope of consolidation.

Santander Consumer Finance	EUR Thousands				
	2020				
	Outstanding Balance at 01/01/20	Issues	Repurchases or Redemptions	Exchange Rate and Other Adjustments (*)	Outstanding Balance on 31/12/20
Debt instruments issued in an EU Member State for which it was necessary to file a prospectus	36,403,695	13,423,576	(15,427,589)	95,622	34,495,304
Debt instruments issued in an EU Member State for which it was not necessary to file a prospectus	1,156,968	113,094	(545,036)	524,161	1,249,187
Other debt instruments issued outside EU Member States	716,332	69,550	(166,201)	—	619,681
Total	38,276,995	13,606,220	(16.138.826)	619,783	**36,364,172**

(*) Includes, inter alia, the additions to and exclusions from the Group's scope of consolidation.

Other issues guaranteed by the Group

On 31 December 2021 and 2020, the Group guaranteed certain debt securities issued by Group companies.

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

The members of the board of directors hereby state that the Bank has established and implemented specific policies and procedures to cover all activities carried on and guarantee strict compliance with mortgage market regulations applicable to these activities. Also, financial management defines the Bank's funding strategy.

Summarized below is the information required by Bank of Spain Circulars 7/2010 and 5/2011, pursuant to the aforementioned Royal Decree 716/2009, of 24 April:

	EUR Millions	
	2021	2020
Face value of the outstanding mortgage loans and credits that support the issuance of mortgage-backed and mortgage bonds pursuant to Royal Decree 716/2009 (excluding securitised loans and credits) (*)	1,402	1,556
Of which		
Loans eligible to cover issue of mortgage-backed securities	*954*	*1,036*
Non-eligible mortgage loans and credits	*449*	*521*

(*) On 31 December 2021 and 2020, the only issues of this type related to the mortgage-backed bond issues launched by the Bank.

Mortgage-backed bonds

The mortgage-backed bonds issued by the Bank are securities the principal and interest of which are specifically secured by mortgages, there being no need for registration in the Property Register, without prejudice to the issuer's unlimited liability.

The mortgage-backed bonds include the holder’s financial claim on the issuer, secured as indicated in the preceding paragraph, and may be enforced to claim payment from the issuer after maturity. The holders of these securities have the status of special preferential creditors vis-à-vis all other creditors (established in Article 1923,3 of the Spanish Civil Code) in relation to all the mortgage loans and credits registered in the issuer's favor and, where appropriate, in relation to the cash flows generated by the derivative financial instruments associated with the issues.

In the event of insolvency, the holders of mortgage-backed bonds will enjoy the special privilege established in Article 90, 1.1 of Insolvency Law 22/2003, of 9 July. Without prejudice to the foregoing, in accordance with Article 84, 2.7 of the Insolvency Law, during the insolvency proceedings, the payments relating to the repayment of the principal and interest of the bonds issued and outstanding at the date of the insolvency filing will be settled up to the amount of the income received by the insolvent party from the mortgage loans and credits and, where appropriate, from the replacement assets backing the bonds and from the cash flows generated by the financial instruments associated with the issues (Final Provision 19 of the Insolvency Law).

If, due to a timing mismatch, the income received by the insolvent party is insufficient to meet the payments described in the preceding paragraph, the insolvency managers must settle them by realising the replacement assets set aside to cover the issue and, if this is not sufficient, they must obtain financing to meet the mandated payments to the holders of the mortgage-backed bonds, and the finance provider must be subrogated to the position of the bond-holders.

In the event that the measure indicated in Article 155 of the Insolvency Law were to be adopted, the payments to all holders of the mortgage-backed bonds issued would be made on a pro-rata basis, irrespective of the issue dates of the bonds.

The Group has mortgage-backed bonds outstanding amounted to EUR 600 million, respectively, at 31 December 2021 and 2020 respectively.

Mortgage-backed bond issuers have an early redemption option solely for the purpose of complying with the limits on the volume of outstanding mortgage-backed bonds stipulated by mortgage market regulations.

None of the mortgage-backed bonds issued by the Group entities had replacement assets assigned to them.

Appendix VI contains the additional disclosures required pursuant to Mortgage Market Law 2/1981, of 25 March, and to Royal Decree 716/2009, of 24 April, implementing certain provisions of the aforementioned Law, implemented by Bank of Spain Circular 5/2011.

20. Other financial liabilities

The detail of "Other Financial Liabilities" in the accompanying consolidated balance sheets as of 31 December 2021 and 2020 is as follows:

	EUR Thousands	
	2021	2020
Declared dividends payable	637,093	—
Trade payables	171,519	134,487
Tax collection accounts	25,213	22,853
Other financial liabilities (*)	917,728	960,721
	1,751,553	1,118,061

(*) At 31 December 2021, the balance included EUR 1,861 thousand relating to balances payable on consolidation for tax purposes to Banco Santander, S.A., of which EUR 6,578 thousand were recognised in this connection at 31 December 2020.

Note 44 contains a detail of the terms to maturity and estimated fair value of these financial liabilities on 31 December 2021 and 2020.

Lease liabilities

The cash outflow of leases in 2021 was EUR 36,762 thousand (EUR 34,944 thousand in 2020).

The analysis of the maturities of lease liabilities as of 31 December 2021 and 2020 is shown below:

	EUR Thousands	
	2021	2020
Maturity Analysis – Discounted payments		
Within 1 year	54,615	36,507
Between 1 year and 3 years	74,101	72,770
Between 3 years and 5 years	60,547	69,372
More than 5 years	94,960	109,460
Recognised lease liabilities as of December 31	284,223	288,109

No significant variable payments not included in the valuation of lease liabilities have been made during 2021 and 2020.

Disclosures on the average period of payment to suppliers. Additional Provision Three "Disclosure obligation" provided for in Law 15/2010, of 5 July

Additional Provision Three of Law 15/2010, of 5 July, amending Law 3/2004, of 29 December, on combating late payment in commercial transactions, amended by Final Provision Two of Law 31/2014, of 3 December, establishes the obligation for companies to expressly disclose their average periods of payment to suppliers in the notes to their financial statements, and stipulates that the Spanish Accounting and Audit Institute ("ICAC") shall indicate, by way of a resolution, such adaptations as may be required, in accordance with the provisions of this Law, in order for companies not covered by Article 2,1 of Organic Law 2/2012, of 27 April, on Budgetary Stability and Financial Sustainability to correctly apply the methodology for calculating the average period of payment to suppliers established by the Ministry of Finance and Public Administration. This disclosure obligation is also applicable to the consolidated financial statements of such companies as prepare them, although solely in respect of the fully consolidated companies located in Spain.

The aforementioned ICAC Resolution (Resolution of 29 January 2016 on the disclosures to be included in notes to financial statements on the average period of payment to suppliers in commercial transactions), which was published in the Spanish Official State Gazette on 4 February 2016, implements, inter alia, the methodology that must be applied to calculate the average period of payment to suppliers. Therefore, this methodology was applied by the Bank for the purpose of preparing the disclosures included in this connection in these consolidated financial statements.

In order to ensure a proper understanding of the disclosures contained in this Note, as provided for in the aforementioned applicable legislation, it should be noted that “suppliers” are considered to be only those suppliers of goods and services to the Group's Spanish companies for which the related expense is recognised, mainly, under “Administrative Expenses – Other Administrative Expenses” in the consolidated income statement; this Note does not include, therefore, any information on payments in financial transactions constituting the Group's object and core activity or on payments to any non-current asset suppliers, which in any case were made in accordance with the periods established in the corresponding agreements and in current legislation.

Also, it should be noted that, in accordance with the provisions of the aforementioned ICAC Resolution, only transactions for goods or services received for which payment has accrued since the entry into force of Law 31/2014 were taken into consideration and that, given the nature of the services that the Group's consolidated Spanish entities receive, for the purpose of preparing this information “period of payment (days)” was deemed to be the period between the date of receipt of the invoices and the payment date.

The information for 2021 and 2020 required under the aforementioned legislation, in the format required by the ICAC Resolution mentioned above for the Spanish consolidated Group companies in these consolidated financial statements, is as follows:

	2021	2020
	Days	Days
Average period of payment to suppliers	15.09	13.68
Ratio of transactions settled	14.91	13.54
Ratio of transactions not yet settled	20.10	18.29
	EUR Thousands	EUR Thousands
Total payments made	312,822	280,702
Total payments outstanding	11,049	8,414

It should be noted that although under Law 3/2014, of 29 December, the maximum period for payment to suppliers is 60 days, Law 11/2013, of 26 July, established a maximum payment period of 30 days, extendable by agreement between the parties to a maximum of 60 days.

The average period and the ratios of transactions settled and transactions not yet settled shown in the table above were calculated on the basis of the definitions and methodology established in the aforementioned ICAC Resolution of 29 January 2016.

21. Provisions

The detail of “Provisions” in the accompanying consolidated balance sheets as of 31 December 2021 and 2020 is as follows:

	EUR Thousands	
	2021	2020
Provision for pensions and other employment defined benefit obligations	598,456	636,531
Provisions for other long-term employee benefits	44,442	52,500
Provisions for taxes and other legal contingencies	9,576	22,878
Provisions for commitments and guarantees given	39,403	33,396
Other provisions	134,033	146,923
	825,910	892,228

The changes in 2021 and 2020 in the balances of these items in the accompanying consolidated balance sheets were as follows:

	2021					
	Pensions and similar obligations	Other long term employee benefits	Taxes and other legal contingencies	Contingent liabilities and commitments	Other provisions (****)	Total
Balances at beginning of period	636,531	52,500	22,878	33,396	146,923	892,228
Net inclusion (exclusion) of	—	—	—	—	2,655	2,655
Entities in (from) the Group						
Additions/(Reversals) charged (credited) to income:	*20,618*	*4,216*	*4,676*	*5,485*	*36,785*	*71,780*
Interest expense (Note 31)	*7,120*	*275*	—	—	—	*7,395*
Other Interest	—	—	—	—	—	—
Staff costs (Note 39)	*13,261*	*671*	—	—	—	*13,932*
Net additions to provisions (amounts used) (*) (***)	*237*	*3,270*	*4,676*	*5,485*	*36,785*	*50,453*
	657,149	*56,716*	*27,554*	*38,881*	*186,363*	*966,663*
Changes in value recognised in equity	(46,673)	—	—	—	—	*(46,673)*
Payments to retired employees and pre-retirees with a charge to internal provisions (**)	(17,410)	(11,655)	—	—	—	*(29,065)*
Insurance premiums paid, return premiums received and payments to external funds	(1,238)	—	—	—	—	*(1,238)*
Amounts used	—	—	*(23,440)*	—	*(58,158)*	*(81,598)*
Transfers, exchange differences and other changes	6,628	(619)	*5,462*	*522*	*5,828*	*17,821*
	(58,693)	(12,274)	(17,978)	522	(52,330)	(140,753)
Balances at end of year	*598,456*	*44,442*	*9,576*	*39,403*	*134,033*	*825,910*

(***) This amount is recognised with a charge to “Provisions or reversal of provisions” in the consolidated income statement.

(****) Includes provisions allocated by the various group companies as a result of their normal operations.

	2020					
	Pensions and similar obligations	Other long term employee benefits	Taxes and other legal contingencies	Contingent liabilities and commitments	Other provisions (****)	Total
Balances at beginning of period	603,472	48,882	80,932	38,928	133,384	905,598
Net inclusion (exclusion) of	—	—	—	—	4,147	4,147
Entities in (from) the Group						
Additions/(Reversals) charged (credited) to income:	*19,945*	*15,185*	*3,372*	*(4,415)*	*49,733*	*83,820*
Interest expense (Note 31)	*8,280*	*298*	—	—	—	*8,578*
Other Interest	—	—	—	—	—	—
Staff costs (Note 39)	*13,199*	*1,266*	—	—	—	*14,465*
Net additions to provisions (amounts used) (*) (***)	*(1,534)*	*13,621*	*3,372*	*(4,415)*	*49,733*	*60,777*
	623,417	*64,067*	*84,304*	*34,513*	*187,264*	*993,565*
Changes in value recognised in equity	31,091	—	—	—	—	*31,091*
Payments to retired employees and pre-retirees with a charge to internal provisions (**)	(14,246)	(11,420)	—	—	—	*(25,666)*
Insurance premiums paid, return premiums received and payments to external funds	(3,852)	—	—	—	—	*(3,852)*
Amounts used	—	—	*(13,789)*	—	*(98,391)*	*(112,180)*
Transfers, exchange differences and other changes	121	(147)	*(47,637)*	*(1,117)*	*58,050*	*9,270*
	13,114	(11,567)	(61,426)	(1,117)	(40,341)	(101,337)
Balances at end of year	*636,531*	*52,500*	*22,878*	*33,396*	*146,923*	*892,228*

(*) The detail of "Net Additions to Provisions (Amounts Used)" with respect to pensions and similar obligations in 2021 and 2020 is as follows:

	EUR Thousands	
	2021	2020
	Expenses / (Income)	
Post-employment benefits - Spanish entities:		
Past service cost	9	—
Pre-retirements	—	—
Curtailments/settlements	—	—
Return premiums received on defined contribution pension plans	—	—
	9	—
Other long-term benefits - Spanish entities:		
Recognised actuarial losses/(gains) (obligations and assets)	(246)	171
Pre-retirements	4,984	13,529
Past service cost	1	—
Curtailments/settlements	(133)	—
	4,606	13,700
Foreign entities:		
Recognised actuarial losses/(gains) (obligations and assets)	155	(79)
Past service cost	283	—
Pre-retirements	(15)	—
Curtailments/settlements	(1,108)	(1,534)
	(685)	(1,613)
	3,930	12,087

(**) The detail of "Payments to Retired Employees and Pre-retirees with a Charge to Internal Provisions" is as follows:

	EUR Thousands	
	2021	2020
Post-employment benefits - Spanish entities	2,081	2,166
Other long-term benefits - Spanish entities	10,813	10,103
Foreign entities	16,171	13,397
	29,065	25,666

a) Provisions for pensions and similar obligations

i. Post-employment benefits: defined contribution plans - Spanish entities

The Group guarantees the following defined contribution post-employment commitments:

Santander Consumer Finance, S.A.

Obligations guaranteed from the date of effective retirement to employees who took pre-retirement after May 1996, which were externalised through an insurance policy taken out with a non-related entity (Generali España, Sociedad Anónima de Seguros y Reaseguros). Currently, pre-retired collective is already collecting the retirement compensation.

No premiums were paid to the insurance company in 2021 and 2020 (see Note 2-r).

Spanish entities

The Collective Agreement of the Group's Spanish entities entered into on 2 February 2012 established a supplementary employee welfare system for current employees meeting certain conditions, which was instrumented through a defined contribution pension plan. This pension plan covers the following contingencies: retirement, death and permanent disability (total, absolute or severe disability). The Group's Spanish entities assumed the obligation of making an annual contribution of EUR 800 for each employee participating in the plan. In 2021 the contributions made in this connection amounted to EUR 439 thousand (EUR 448 thousand in 2020) and were recognised with a charge to "Administrative Expenses - Staff Costs" in the accompanying consolidated income statement (see Note 39).

Additionally, some of the branches abroad have defined contribution plans (basically, Santander Consumer Holland, Santander Consumer Benelux,….). The contributions made to these plans in 2021 and 2020 amounted 1,015 thousand euros and 988 thousand euros, respectively, which are recorded under the heading "Administration expenses - Personnel expenses" in the consolidated income statement for both years (See Note 39).

ii. Post-employment benefits: Defined benefit plans - Spanish entities

The Group guarantees as a defined benefit the following commitments of the Spanish entities:

Santander Consumer Finance, S.A.

- Pension obligations under the Banking Collective Agreement to current employees, employees who took pre-retirement (including future insurance premiums) and retired employees, in addition to other commitments acquired with early-retired personnel and liabilities prior to May 1996, which are covered in full by an internal provision.

- Life insurance guaranteed to retired employees from Banco de Fomento, S.A., covered by an insurance policy (that does not meet the requirements for externalisation) taken out with a non-related entity (AXA España, S.A.). The present value of future premiums is covered by an internal provision.

- Company store and coal and gas benefits guaranteed to retired employees by virtue of the Internal Regulations of Banking Company Stores, which are covered by an internal provision.

Due to the merger between Santander Consumer Finance S.A. and Santander Consumer E.F.C., S.A., the defined-benefit post-employment obligations of the latter have been transferred to the former, with no change in their nature or origin.

Additionally, defined benefit post-employment commitments have been incorporated from the foreign branches acquired during 2021, mainly from Greece and Belgium.

The present value of the obligations assumed by the Spanish consolidated entities in relation to post-employment benefits on 31 December 2021 and 2020 is as follows:

	EUR Thousands	
	2021	2020
Present value of the obligations: To current employees		
Active employees	—	—
Vested obligations to retired employees and pre-retirees	22,351	24,906
Other obligations to retired employees	9	113
Provisions - Pensions and similar obligations for defined contribution plans (Note 2-r)	22,360	25,019

The present value of the obligations was determined by independent actuaries using the following actuarial techniques:

Valuation method: projected unit credit method, which considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately.

Actuarial assumptions used: unbiased and mutually compatible. Specifically, the most significant actuarial assumptions used in the calculations were as follows:

	2021	2020
Annual discount rate	0.70%	0.40%
Mortality tables	PERM/F-2020	PERM/F-2020
Cumulative annual CPI growth	1%	1%
Annual salary increase rate	N/A	N/A
Annual social security pension increase rate	1%	1%

The discount rate used for the update of cash-flows was determined by reference to high-quality corporate bonds.

The estimated retirement age of each employee is the earliest at which the employee is entitled to retire or the agreed-upon age, as appropriate.

The amounts recognised in the consolidated income statements in relation to these pension obligations in 2021 and 2020 were as follows:

	EUR Thousands	
	2021	2020
	Expenses / (Income)	
Current service cost (Notes 2-r and 39)	333	62
Net interest cost (Note 31)	124	135
Extraordinary charges	—	—
Past service cost	9	—
Amount recognised in the year	466	197

In addition, in 2021 a net payment of EUR 1,126 thousand with respect to defined benefit obligations was recognised under "Other comprehensive income - Actuarial gains or (-) losses on defined benefit pension plans" (EUR 892 thousand in 2020).

The changes in 2021 and 2020 in the present value of the accrued defined benefit obligations of the Spanish entities in the Group were as follows:

	EUR Thousands	
	2021	2020
Present value of the obligations at beginning of year	25,019	25,714
Increase or decrease by acquisition	5,563	—
Current service cost (Notes 39 and 2-r)	333	62
Interest cost (Note 31)	164	135
Pre-retirements	—	—
Effect of curtailments/settlements	—	—
Benefits paid	(2,643)	(2,166)
Past service cost	9	—
Actuarial (gains)/losses (Note 2-r) (*)	(932)	1,274
Other	—	—
Present value of the obligations at end of year	27,513	25,019

(*) In 2021 this includes demographic actuarial earnings of EUR 177 thousand and actuarial earnings from financial hypotheses of EUR 755 thousand (demographic losses of EUR 929 thousand and financial of EUR 345 thousand actuarial losses in 2020).

The movement that has occurred, during the years 2021 and 2020, in the current value of the assets affected by defined benefit commitments of the Spanish entities of the Group, has been as follows:

	EUR Thousands	
	2021	2020
Present value of the obligations at beginning of year		
Increase or decrease by acquisition	5,871	—
Expected return on plan assets	40	—
Actuarial (gains)/losses	658	—
Contributions	439	—
Benefits paid	(595)	—
Other	(72)	—
Fair value of plan assets at the end of year	6,341	—

iii. Other long-term benefits – Spanish entities

The long-term benefit obligations (other than post-employment benefit obligations) guaranteed by the Spanish subsidiaries of the Group and classified as defined benefit plans are as follows:

Santander Consumer Finance, S.A.

- Obligations to pre-retirees until the effective date of retirement, which are covered by an internal provision.

- Life insurance guaranteed to pre-retirees, by virtue of the Group's Collective Agreement, taken out with a non-related entity (Generali España, Sociedad Anónima de Seguros y Reaseguros). The present value of future premiums is covered by an internal provision.

- Health insurance guaranteed to pre-retirees by virtue of the Group's Collective Agreement. The present value of future premiums is covered by an internal provision.

- Long-service bonus guaranteed to current employees, by virtue of the Group's Collective Agreement, which is covered by an internal provision.

Santander Consumer Renting, S.L.

- Obligations to pre-retirees until the effective date of retirement, which are covered by an internal provision.

- Life insurance guaranteed to pre-retirees, by virtue of the Group's Collective Agreement, taken out with a non-related entity (Generali España, Sociedad Anónima de Seguros y Reaseguros). The present value of future premiums is covered by an internal provision.

- Health insurance guaranteed to pre-retirees by virtue of the Group's Collective Agreement. The present value of future premiums is covered by an internal provision.

Transolver Finance, E.F.C.

- Obligations to pre-retirees until the effective date of retirement, which are covered by an internal provision.

- Life insurance guaranteed to pre-retirees, by virtue of the Group's Collective Agreement, taken out with a non-related entity (Generali España, Sociedad Anónima de Seguros y Reaseguros). The present value of future premiums is covered by an internal provision.

- Health insurance guaranteed to pre-retirees by virtue of the Group's Collective Agreement. The present value of future premiums is covered by an internal provision.

– Obligations to pre-retirees until the effective date of retirement, which are covered by an internal provision**.**

The present value of the aforementioned obligations on 31 December 2021 and 2020 was as follows:

	EUR Thousands	
	2021	2020
Present value of the obligations:		
To pre-retirees	31,527	37,542
Long-service	130	139
Provisions - Pensions and similar obligations for defined contribution plans (Note 2-r)	31,657	37,681

The present value of the obligations was determined by qualified independent actuaries using the following actuarial techniques:

Valuation method: projected unit credit method.

Actuarial assumptions used: unbiased and mutually compatible. Specifically, the most significant actuarial assumptions used in the calculations were as follows:

	2021	2020
Annual discount rate	0,70%-0,55%	0.40%
Mortality tables	PERM/F-2020	PERM/F-2020
Cumulative annual CPI growth	1%	1%
Annual salary increase rate	N/A	N/A
Annual social security pension increase rate	1%	1%

The discount rate used for the flows was determined by reference to high-quality corporate bonds.

The estimated retirement age of each employee is the earliest at which the employee is entitled to retire or the agreed-upon age, as appropriate.

The amounts recognised in the consolidated income statements for 2021 and 2020 in relation to these long-term obligations were as follows:

	EUR Thousands	
	2021	2020
	Expenses/(Income)	
Current service cost (Note 39)	9	9
Net interest cost (Note 31)	171	168
Expected return on insurance contracts linked to pensions	—	—
Extraordinary charges	—	—
Actuarial (gains)/losses recognised in the year	(246)	172
Past service cost	—	3
Pre-retirement cost	4,984	13,529
Curtailments/settlements	(132)	(4)
Amount recognised in the year	4,786	13,877

The changes in 2021 and 2020 in the present value of the accrued obligations for other long-term benefits at the Spanish entities in the Group were as follows:

	EUR Thousands	
	2021	2020
Present value of the obligations at beginning of year	37,684	33,909
Current service cost (Note 39)	9	9
Interest cost (Note 31)	171	168
Pre-retirement cost	4,984	13,529
Effect of curtailments/settlements	(132)	(4)
Benefits paid	(10,813)	(10,103)
Past service cost	—	4
Actuarial (gains)/losses recognised in the year	(246)	172
Other	—	—
Present value of the obligations at end of year	31,657	37,684

The table that follows shows the estimated benefits payable at 31 December 2021 for the next ten years:

	EUR Thousands
2022	12,585
2023	9,501
2024	7,503
2025	6,647
2026	4,652
2027-2031	10,445

iv. Post-employment benefits - Other foreign subsidiaries

Certain of the consolidated foreign entities have acquired obligations to their employees similar to postemployment benefits and other long-term benefits. The technical assumptions applied by these companies (discount rates, mortality tables, cumulative annual CPI growth, etc.) in their actuarial estimates of these obligations are consistent with the economic and social conditions prevailing in the countries in which they are located.

The detail of the present value of these obligations on 31 December 2021 and 2020, net of the assets that meet the requirements established in the applicable legislation in order to qualify as plan assets, is as follows:

	EUR Thousands	
	2021	2020
Present value of the obligations	734,375	725,050
Of which:		
Germany	*583,341*	*612,226*
Nordics (Scandinavia)	40,000	48,163
Less-		
Plan assets	(168,735)	(98,721)
Provisions - Provisions for pensions and similar obligations (Note 2-r)	565,640	626,329
Of which:		
Internal pension funds	*588,520*	—
Net plan assets	(22,880)	—

The detail of assets classes in the plan as a percentage of the total amount of plan assets of foreign subsidiaries is as follows:

	2021	2020
Equity instruments	6 %	11 %
Debt instruments	53 %	39 %
Investment property	17 %	9 %
Other	24 %	41 %

The most significant actuarial assumptions used by the Group companies located in Germany and Nordics (Scandinavia) in estimating the value of their obligations were as follows:

	2021		2020	
	Germany	Nordics (Scandinavia)	Germany	Nordics (Scandinavia)
Annual discount rate	1.45%	2.00%	1.17%	1.50%
Mortality tables	Heubeck RT 2018	DUS2014	Heubeck RT 2018	DUS2014
Cumulative annual CPI growth	1.90%	1.75%	1.90%	1.75%
Annual salary increase rate	2.75%	3.25%	2.75%	3.25%
Annual social security pension increase rate	2.00%	1.75%	1.90%	1.75%
Estimated retirement age	60/63(M/F)	65 - 67	60/63(M/F)	65 - 67

The discount rate used for the flows was determined by reference to high-quality corporate bonds.

The amounts recognised in the consolidated income statements for 2021 and 2020 in relation to these defined benefit pension obligations of the Germany's foreign entities were as follows:

	EUR Thousands	
	2021	2020
	Expenses / (Income)	
Current service cost (Note 39)	10,042	10,132
Net interest cost (Note 31)	7,069	8,140
Extraordinary charges	—	—
Actuarial gains or losses recognised	—	—
Past service cost	—	—
Early retirements	—	—
Effect of curtailments/settlements	(1,131)	—
Expected return on plan assets (Note 31)	(336)	(403)
Other interests	—	—
Amount recognised in the year	15,644	17,869

The changes in 2021 and 2020 in the present value of the accrued defined benefit obligations of the Germany's foreign companies, were as follows:

	EUR Thousands	
	2021	2020
Present value of the obligations at beginning of year	612,226	575,315
Net inclusion/(exclusion) of entities in/(from) the Group	121	260
Current service cost (Note 39)	10,042	10,132
Interest cost	6,733	8,140
Effect of curtailments/settlements	(1,131)	—
Benefits paid	(13,469)	(12,995)
Actuarial (gains)/losses (*)	(30,972)	31,253
Exchange differences, transfers and other items	(209)	121
Present value of the obligations at end of year	583,341	612,226

(*) Including in 2021 demographic actuarial earnings of EUR 9040 thousand (demographic actuarial losses of EUR 741 thousand in 2020) and financial actuarial earnings of EUR 21,932 thousand (financial actuarial losses of EUR 30,512 thousand in 2020).

The changes in 2021 and 2020 in the fair value of the plan assets associated with these defined benefit obligations of the Germany's foreign subsidiaries were as follows:

	EUR Thousands	
	2021	2020
Fair value of plan assets at beginning of year	30,754	29,199
Expected return on plan assets	336	403
Actuarial gains/(losses) arising in the year	(748)	1,410
Contributions	503	498
Benefits paid	(788)	(756)
Fair value of plan assets at end of year	30,057	30,754

The table below shows the estimated benefits payable at 31 December 2021 for the next ten years:

	EUR Thousands
2022	14,815
2023	14,969
2024	15,274
2025	16,791
2026	17,383
2027-2031	103,518

The amounts recognised in the consolidated income statements for 2021 and 2020 in relation to these defined benefit pension obligations of the Group's foreign entities (without Germany) were as follows:

	EUR Thousands	
	2021	2020
	Expenses / (Income)	
Current service cost (Note 39)	3,032	4,263
Net interest cost (*)	2,023	1,432
Actuarial Gains/losses during period	283	(79)
Past service cost	—	—
Effect of curtailments/settlements	(259)	(1,534)
Expected return on plan assets (*)	(1,656)	(894)
Other interests	—	—
Amount recognised in the year	3,423	3,188

(*) These items are recognised by their net amounts (EUR 367 thousand in 2021 and EUR 538 thousand in 2020) under “Interest expenses” in the accompanying consolidated income statements (see Note 31).

The changes in the present value of the accrued obligation from defined benefit pension plans in 2021 and 2020 of all foreign entities, excluding Germany, as well as in the plan assets is as follows:

	EUR Thousands	
	2021	2020
Present value of the obligations at beginning of year	112,823	111,885
Net inclusion/(exclusion) of entities in/(from) the Group	49,843	
Current service cost (Note 39)	3,032	4,263
Interest cost	2,023	1,432
Pre-retirements	—	—
Effect of curtailments/settlements	(259)	(1,534)
Benefits paid	(8,143)	(5,828)
Benefits paid in case of liquidation	—	—
Past service cost	—	—
Actuarial (gains)/losses (*)	(7,335)	743
Exchange differences, transfers and other items	(950)	1,862
Present value of the obligations at end of year	151,034	112,823

(*) In 2021 this includes demographic losses of EUR 572 thousand (gaining of EUR 3.582 thousand in 2020) and financial actuarial losses of EUR 7,907 thousand (EUR 4,235 thousand in 2020).

The changes in 2021 and 2020 in the fair value of the plan assets associated with these defined benefit obligations of the Group's foreign subsidiaries (without Germany) were as follows:

	EUR Thousands	
	2021	2020
Fair value of plan assets at beginning of year	67,967	65,959
Net additions / (disposals) of Group's companies	64,695	—
Expected return on plan assets	1,656	894
Actuarial gains/(losses) arising in the year	7,180	637
Contributions	3,617	3,448
Benefits paid	(4,653)	(4,669)
Exchange differences and other items	(1,783)	1,698
Fair value of plan assets at end of year	138,679	67,967

The table below shows the estimated benefits payable at 31 December 2021 for the next ten years:

	EUR Thousands
2022	3,955
2023	3,099
2024	4,247
2025	4,067
2026	4,897
2027-2031	29,201

In addition, in 2021 the heading "Other comprehensive income - Items that will not be reclassified to profit or loss - actuarial losses on defined benefit pension plans" recognized a net payment totaling EUR 54,659 thousand for defined benefit commitments relating to the Group's foreign companies (net charge of EUR 21,724 thousand in 2020).

Also, certain foreign entities have defined contribution plans (mainly Santander Consumer Bank, S.p.A., Santander Consumer Bank AS, Santander Consumer Bank, AG, and Santander Consumer France, S.A.). The contributions made to these plans in 2021 and 2020 amounted to EUR 37,343 thousand (EUR 39,356 thousand in 2020), which were recognised under "Administrative Expenses - Staff Costs" in the consolidated income statement (see Note 39).

v. Sensitivity analysis

Changes in the main assumptions used in the valuation can affect the calculation of the obligations. On 31 December 2021, if the discount rate used had been decreased or increased by 50 bps, there would have been an increase or decrease in the present value of the post-employment obligations of +8.53% y -9.79%, respectively.

vi. Funded state of pension plans in current and four preceding fiscal years

The situation of the defined benefit obligations at the end of 2021 and the four preceding years was as follows:

1. Spanish entities

	EUR Thousands									
	Post-employment benefits					Other long-term employee benefits				
	2021	2020	2019	2018	2017	2021	2020	2019	2018	2017
Present value of the obligation:										
To current employees	—	—	—	—	191	—	—	—	—	—
Vested obligations to retired employees	27,512	25,023	25,601	26,149	27,483	—	—	—	—	—
To pre-retirees	—	—	—	—	—	31,527	37,542	33,766	42,253	52,911
Long-service bonuses and other obligations	—	—	—	—	—	130	139	141	138	154
Other	—	—	113	120	134	—	—	—	—	—
Fair value of plan assets	6,341	—	—	—	—	—	—	—	—	—
Provisions for pensions	21,171	25,023	25,714	26,269	27,808	31,657	37,681	33,907	42,391	53,065
Of which:										
Internal pension funds	22,360	—		—	—	—	—	—	—	—
Net pension assets	(1,188)	—	—	—	—	—	—	—	—	—

2. Foreign entities

	EUR Thousands				
	2021	2020	2019	2018	2017
Present value of the obligation	733,730	725,050	687,925	576,177	556,151
Fair value of plan assets	(168,735)	(98,721)	(95,192)	(79,034)	(78,965)
Provisions for pensions	564,995	626,329	592,733	497,143	477,186
Of which:					
Internal pension funds	587,875	—	—	—	—
Net pension assets	(22,880)	—	—	—	—

b) Other provisions

The balance of “Provisions for taxes and other legal contingencies” and “Other provisions” under the Provisions heading includes provisions for restructuring and tax and other lawsuits. It is estimated using prudent calculation procedures consistent with the uncertainty inherent to the obligations they cover, with the timing of the outflow of resources embodying economic benefits for the Group being determined for each of the obligations, in some cases with no fixed expiry period, and, in other cases, depending on the progress of lawsuits that are under way.

The balance of this item by geographic area is as follows:

	EUR Thousands	
	2021	2020
Recognised in Spanish companies	56,113	33,892
Recognised in other European Union companies	87,496	135,908
	143,609	169,800

A breakdown of the balance of the headings Provisions for taxes and other legal contingencies and other provisions is shown below for each type of provision on 31 December 2021 and 2020. The types of provisions have been determined by grouping items of a similar nature:

	EUR Thousands	
	2021	2020
Provisions for taxes	7,655	23,979
Provisions for other proceedings of a legal nature	1,921	24,776
Provisions for operational risks	49,935	27,333
Provisions for restructuring	32,188	57,094
Other	51,910	36,618
	143,609	169,800

Information is provided below for each of the type of provisions shown in the table:

- Provisions for taxes include provisions for tax proceedings.

- The provisions for other proceedings of a legal nature include provisions for court, arbitration and administrative proceedings (other than those included in other categories or types of provisions stated separately) initiated against companies in the Santander Consumer Finance Group

As at 31 December 2021, the main legal proceedings affecting the Group are as follows:

Swiss franc (CHF) mortgage portfolio in Poland: on 3 October 2019, the Court of Justice of the European Union (CJEU) ruled on a preliminary ruling procedure in relation to legal proceedings brought against a bank unrelated to the Santander Group, declaring certain clauses in loan agreements indexed to CHF to be abusive. The CJEU has allowed the Polish courts to decide whether the agreement can remain in force without the abusive clause and whether the effects of termination are detrimental to the consumer. If the contract remains in effect, the court may only integrate it with supplementary provisions of national law and decide on the applicable rate in accordance with those provisions.

The Supreme Court was expected to take a stance on key issues in disputes related to foreign currency-based lending, clarifying discrepancies and unifying case-law, on 2 September 2021. The Supreme Court has not ruled on the matter and has instead initiated a preliminary ruling procedure at the CJEU regarding certain constitutional aspects of the Polish judicial system. A new hearing has not been set and a comprehensive pronouncement of the Supreme Court on this matter is not expected in the short term. In the absence of a judgement by the Supreme Court, it is difficult to expect full unification of the decisions handed down by the courts, so related case-law will be shaped by the decisions of the Supreme Court and the CJEU on individual matters.

At 31 December 2021, Santander Consumer Bank, S.A. has a mortgage portfolio amounting to approximately PLN 2,023 million (EUR 440 million) denominated in or indexed to CHF. At the same date, a provision of EUR 457 million (EUR 99 million) is set aside for the CHF mortgage portfolio. This provision reflects the best estimate as at 31 December 2021, considering that the financial impact is difficult to predict as it is up to the national courts to decide on the relevant issues and the analysis and decision-making process of the FSA settlement proposal described below is still to be completed. Santander Consumer Bank, S.A. will continue to monitor and assess the adequacy of these provisions on an ongoing basis.

In December 2020, the chair of the Financial Supervisory Authority (FSA) announced a high-level proposal for voluntary agreements between banks and borrowers whereby outstanding loans denominated in Swiss francs would be subject to settlement as zloty loans bearing interest indexed to the WIBOR rate plus a spread. This proposal is currently being analysed by Santander Consumer Bank, S.A. Depending on the findings, Santander Consumer Bank, S.A. will decide whether to adhere to this proposal and will include these additional scenarios in the provision calculation models to reflect the estimated impact.

Although the events referred to above could give rise to significant changes in the level of estimated provisions, Santander Consumer Bank, S.A. considers that it is not possible to reliably estimate the potential impact on its financial position at 31 December 2021.

The Group consolidated the 40% ownership interest in Santander Consumer Bank, S.A. (Poland) using the equity method at 31 December 2021 and 2020.

- Provisions for other operating risks mainly cover risks arising from the Group companies' business transactions, the most significant being those recognised by Santander Consumer, S.A. at 31 December 2021 totaling EUR 18,394 thousand (EUR 6,892 thousand at 31 December 2020) and by Santander Consumer Bank, A.G. (Germany) in the amount of EUR 17,855 thousand at 31 December 2021 (EUR 13,182 thousand at 31 December 2020).

- Restructuring provisions include only the costs arising from restructuring processes undertaken by Group companies. In 2020 and 2021, the Group completed a number of restructuring processes in some companies to adapt the business to the current market conditions in the geographies in question. In such cases, the Group companies offer their employees the possibility of termination through early retirement and voluntary redundancy. At 31 December 2021, the outstanding balance of this item relates primarily to the companies Santander Consumer Bank, A.G. (Germany), amounting to EUR 25,917 thousand (EUR 40,354 thousand at 31 December 2020), and Compagnie Generale de Credit Aux Particuliers - Credipar S.A. (France), amounting to EUR 2,312.42 thousand (EUR 2,746 thousand at 31 December 2020). At 31 December 2020, an additional amount of EUR 21,214 thousand relating to the Santander Consumer Bank, A.S. restructuring was included in the transformation and restructuring plan for the company and its branches in Denmark and Sweden.

The Group has a general policy of posting provisions for tax and legal processes in which a loss is deemed probable, while no provisions are recorded when the risk of loss is possible or remote. The amounts to be provisioned are calculated using the best estimate of the sum necessary to settle the relevant claim based, among other aspects, on an itemized analysis of the facts and on legal opinions of internal and external advisors, or taking into account the historical average figure for losses arising from similar claims. The definitive date of the outflow of funds including economic benefits for the Group depends on each of the obligations. In some cases, obligations have no fixed settlement period, while others depend on legal processes under way.

22. Tax matters

a) *Current tax receivables and payables*

The balance of "Tax Assets – Current Tax Assets" in the consolidated balance sheets as of 31 December 2021 and 2020 includes basically income tax prepayments made by the consolidated entities to the public authorities of the countries in which they reside. The balance of "Tax Liabilities – Current Tax Liabilities" in the consolidated balance sheet includes the liability for the various taxes applicable to the Group.

b) *Reconciliation of the accounting profit to the income tax expense recognised in the consolidated income statement.*

The reconciliation of the consolidated accounting profit to the income tax expense in the consolidated income statements for 2021 and 2020 is as follows:

	EUR Thousands	
	2021	2020
	Continuing operations	Continuing operations
Consolidated profit (loss) before tax	2,023,932	1,287,010
Accounting profit multiplied by income tax rate (*)	*607,180*	*386,103*
Permanent differences and adjustments (**)	(73,909)	89,966
Consolidated income tax expense	533,271	476,069
Effective tax rate	26.35%	36.99%

(*) Computed using nominal tax rate applicable to the Bank (30%)
(**) These include the net tax effect of permanent differences at the consolidated entities, differences resulting from the existence of different tax rates in the countries in which the Group operates, the effects of consolidation, prior years' tax adjustments, and the effect of considering the exemptions, tax credits and tax relief based on the jurisdictions in which the Group companies carry on their business. It does not include the amortization of deferred tax assets incurred in 2020 which amounted to EUR 47,243 thousand.

c) *Years open for review by the Tax Authorities*

The Bank forms part of the Tax Group headed by Banco Santander, S.A. Under current legislation, taxes cannot be deemed to have been definitively settled until the tax returns filed have been reviewed by the tax authorities or until the four-year statute-of-limitations period has expired.

In 2018 the conformity and non-conformity acts relating to the Corporate Income Tax financial years 2009 to 2011 were formalised. The adjustments signed in conformity had no significant impact on results and, in relation to the concepts signed in disconformity both in this year and in previous years (Corporate Income Tax 2003 to 2007), Banco Santander, S.A., as the Parent of the Consolidated Tax Group, considers, in accordance with the advice of its external lawyers, that the adjustments made should not have a significant impact on the consolidated financial statements, and there are sound arguments as proof in the appeals filed against them pending at the National Appellate Court (tax years 2003 to 2007) and the Economic Administrative Court (tax years 2009-2011). Consequently, no provision has been recorded for this concept. Following the completion of these actions for 2009 to 2011, subsequent years up to and including 2021 are subject to review. At the date of approval of these accounts, the Corporate Income Tax proceedings for periods not yet prescribed up to and including 2015, and the proceedings relate to other taxes up to and including 2016 are ongoing.

The other entities have the corresponding years open for review, pursuant to their respective tax regulations.

The notes to the separate financial statements of the Group's consolidated entities include other salient information in relation to the tax matters affecting those entities.

Because of the possible different interpretations which can be made of the tax regulations, the outcome of the tax audits of the years open for review may give rise to contingent tax liabilities. However, the Group's tax advisers and the Bank's directors consider that it is unlikely that such tax liabilities will arise, and that in any event the tax charge arising therefrom would not materially affect the Group's consolidated financial statements.

Except for the above mentioned, in 2021 there were no developments with a significant impact in connection with the tax disputes at various instances which were pending resolution on 31 December 2020.

d) Deferred taxes

The detail of the deferred taxes on 31 December 2021 and 2020 is as follows:

	EUR Thousands					
	2021			2020		
	Monetisable	Other	Total	Monetisable	Other	Total
Tax assets (*)	283,871	304,041	587,912	309,797	262,995	572,792
Tax losses and tax credits	—	5,546	5,546	—	4,104	4,104
Temporary differences	283,871	298,495	582,366	309,797	258,891	568,688
Of which:						
Non-deductible provisions	—	*38,458*	38,458	—	*29,538*	*29,538*
Valuation of financial instruments	—	*37,081*	37,081	—	*26,153*	*26,153*
Credit losses	*237,199*	*22,770*	259,969	*263,124.7*	*28,422.5*	*291,547*
Pensions	*34,655*	*103,893*	138,548	*34,655*	*117,336*	*151,991*
Valuation of tangible and intangible assets	*12,017*	*70,251*	82,268	*12,017*	*10,191*	*22,208*
Tax liabilities	—	1,072,514	1,072,514	—	946,424	946,424
Temporary differences	—	—	—	—	—	—
Of which:						
Valuation of financial instruments	—	*132,351*	*132,351*	—	*92,063*	*92,063*
Valuation of tangible and intangible assets	—	*610,981*	*610,981*	—	*546,091*	*546,091*
Gains on disposal of investments	—	—	—	—	—	—
Valuation of Group investments	—	*126,857*	*126,857*	—	*115,283*	*115,283*

(*) As at 31 December 2021 and 2020, EUR 148 million in both exercises of monetisable tax assets correspond to Spain and EUR 136 and 162 million correspond to Italy in the respective exercises.

The movement in the balance of deferred tax assets and liabilities over the last two years is shown below:

	Balance as of 31-12-2020	(debit)/ credit to the income statement	Conversion differences on foreign currency balances and other items	(debit) / credit to asset and liability valuation reserve	Acquisitions (net) for the year	Balance as of 31-12-21
Deferred tax assets	572,791	(18,113)	(14,990)	(6,199)	54,423	587,912
BIN's and deductions	4,104	1,429	13	—	—	5,546
Temporary differences	568,687	(19,542)	(15,003)	(6,199)	54,423	582,366
Of which monetizable	*309,797*	*(26,346)*	*420*	—	—	*283,871*
Deferred tax liabilities	(946,424)	(105,150)	(12,898)	(2,800)	(5,242)	(1,072,514)
Temporary differences	(946,424)	(105,150)	(12,898)	(2,800)	(5,242)	(1,072,514)
Total	(373,633)	(123,263)	(27,888)	(8,999)	49,181	(484,602)

	Balance as of 31-12-2019	(debit)/ credit to the income statement	Conversion differences on foreign currency balances and other items	(debit) / credit to asset and liability valuation reserve	Acquisitions (net) for the year	Balance as of 31-12-20
Deferred tax assets	641,988	(70,604)	(8,364)	4,933	4,838	572,791
BIN's and deductions	56,533	(52,076)	(353)	—	—	4,104
Temporary differences	585,455	(18,528)	(8,011)	4,933	4,838	568,687
Of which monetizable	*335,718*	*(25,921)*	—	—	—	*309,797*
Deferred tax liabilities	(765,388)	(136,838)	1,874	(294)	(45,778)	(946,424)
Temporary differences	(765,388)	(136,838)	1,874	(294)	(45,778)	(946,424)
Total	(123,400)	(207,442)	(6,490)	4,639	(40,940)	(373,633)

The balance of "Tax Assets - Deferred" in the consolidated balance sheets includes the balances receivable from the tax authorities in respect of deferred income tax assets. The balance of "Tax Liabilities" in the consolidated balance sheets includes the liability for the various deferred taxes of the group.

On 26 June 2013, the Basel III legal framework was included in European law through Directive 2013/36 (CRD IV) and Regulation 575/2013 on prudential requirements for credit institutions and investment firms (CRR), directly applicable in every Member State as from 1 January 2014, albeit with a gradual timetable with respect to the application of, and compliance with, various requirements.

This legislation establishes that deferred tax assets, the use of which relies on future profits being obtained, must be deducted from regulatory capital.

In this regard, pursuant to Basel III, in recent years several countries have amended their tax regimes with respect to certain deferred tax assets so that they may continue to be considered regulatory capital since their use does not rely on the future profits of the entities that generate them (referred to hereinafter as "monetisable tax assets"). Italy had similar regime to that described above, which was introduced by Decree-Law no. 225, of 29 December 2010, and amended by Law no. 10, of 26 February 2011.

In addition, in Spain, through Royal Decree-Law 14/2013, of 29 November confirmed by Law 27/2014, of 27 November tax regimes were established whereby certain deferred tax assets (arising from provisions to allowances for loan losses, provisions to allowances for foreclosed assets and provisions for pension and pre-retirement obligations) may be converted into tax receivables in specific circumstances. As a result, their use does not rely on the entities obtaining future profits and, accordingly, they are exempt from deduction from regulatory capital.

In 2015 Spain completed its regulations on monetisable tax assets with the introduction of a financial contribution which will involve the payment of 1.5% for maintaining the right to monetise which will be applied to the portion of the deferred tax assets that qualify under the legal requirements as monetisable assets generated prior to 2016.

In a similar manner, Italy, by decree of 3 May 2016 has introduced a fee of 1.5% annually to maintain the monetisable of part of the deferred tax assets.

The Group only recognises deferred tax assets for temporary differences or tax loss and tax credit carry forwards where it is considered probable that the consolidated entities that generated them will have sufficient future taxable profits against which they can be utilised.

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

These analyses take into account, inter alia: (i) the results generated by the various entities in prior years, (ii) each entity or tax group's projected earnings, (iii) the estimated reversal of the various temporary differences, based on their nature, and (iv) the period and limits established by the legislation of each country for the recovery of the various deferred tax assets, thereby concluding on each entity or tax group's ability to recover its recognised deferred tax assets.

The projected earnings used in these analyses are based on the financial budgets approved by the Group's directors for the various entities (see Note 14) applying constant growth rates not exceeding the average long-term growth rate for the market in which the consolidated entities operate, in order to estimate the earnings for subsequent years considered in the analyses.

The earnings projections used in this analysis are based on the financial budgets approved by the local management of the relevant units and by the Group's directors. The Group's budget estimation process is common to all units. Group management prepares its financial budgets based on the following key assumptions:

a. Microeconomic variables of the entities comprising the tax group at each location: consideration is given to the existing balance sheet structure, the mix of products offered, and the commercial strategy defined by the local management units at any given time based on the competitive, regulatory and market environment.

b. Macroeconomic variables: the estimated growths are based on the evolution of the economic environment considering the expected evolution of the Gross Domestic Product of each location and the forecasts of the behavior of interest rates, inflation and exchange rates. Said data are provided by the Group's Research Department, which are based on external information sources.

In addition, the Group performs backtesting on the variables projected in the past. The differential behavior of these variables with respect to the actual market data is considered in the projections estimated in each year. Thus, in relation to Spain, the deviations identified by management in recent years are due to nonrecurring events unrelated to the operation of the business, such as the impact of the first application of new applicable regulations, the costs assumed for the acceleration of the restructuring plans and the changing effect of the current macroeconomic environment.

During 2020, taking into account the uncertainties about the economic impacts derived from the covid-19 health crisis, the Group has reassessed the ability to generate future taxable income in relation to the recoverability of deferred tax assets recorded in the main Group companies. Management considers that the recovery period of these assets would not be affected and that it is not necessary to make adjustments to the deferred tax assets recognised in the Group on the basis of the results of the analyses performed.

Lastly, given the degree of uncertainty of these assumptions, the Group performs a sensitivity analysis of the most significant assumptions considered in the analysis of the recoverability of deferred tax assets, considering reasonable changes in the key assumptions on which the projected results of each entity or tax group are based and the estimated reversal of the various temporary differences. In relation to Spain, the sensitivity analysis consisted of adjusting growth (gross domestic product) by 50 basis points and adjusting inflation by 50 basis points. Following the sensitivity analysis performed, the Group does not estimate significant changes in future taxable profit in relation to its deferred tax assets.

In addition to the income taxes recognised in the consolidated income statements, in 2021 and 2020 the Group recognised the following amounts in consolidated equity:

	EUR Thousands	
	Credits (Charges) to Consolidated Equity	
	2021	2020
Actuarial gains and losses on pension plans	12,289	10,090
Cash flow hedges	5,036	(503)
Debt instruments at fair value through other comprehensive income	(99)	(658)
Other	(2,133)	(179)
Total	15,093	8,750

23. Registered share capital and equity instruments other than capital

a) *Registered share capital*

As of December 31, 2021 and 2020, the Bank's capital stock consisted of 1,879,546,172 registered shares, each with a par value of €3, fully subscribed and paid up, with identical voting and dividend rights.

On December 20, 2019, Holneth, B.V. sold the registered shares it held over the Bank, of which 469,886,523 registered shares were acquired by Banco Santander, S.A. and 20 by Cántabro Catalana de Inversiones, S.A.. Thus, as of December 31, 2019 and 2020, Banco Santander, S.A. owned 1,879,546,152 shares and Cántabro Catalana de Inversiones, S.A. owned 20 shares.

b) *Equity instruments other than capital*

At the meeting held on 3 December 2020, the Shareholders agreed to issue preferred participations, contingently convertible into newly issued ordinary shares (henceforth "PPCC"), for a nominal amount of EUR 150,000 thousand. The payment of PPCC is subject to certain conditions, especially the availability of sufficient funds, and which is also discretionary, was set at 5% annual for the first five years, revised thereafter by applying a yearly margin of 5.551% over the 5-year Mid-Swap Rate.

On 14 December 2018, the Annual General Meeting of the Bank approved an issuance of contingently convertible preferred shares in ordinary shares of the newly issued Bank (the "PPCC") for a nominal amount of EUR 200,000 thousand. The remuneration of the PPCCs, whose payment is subject to compliance with certain conditions for their distribution linked mainly to the availability of the necessary funds, as well as the decision by the Bank, was fixed at an annual 8.25% for the first five years, being revised thereafter applying a margin of 8.22% per year plus the Mid-Swap rate to five years (5-year Mid-Swap Rate).

On 6 February 2019, the European Central Bank approved the computability of these PPCCs as Tier 1 capital (additional tier 1) under the new European regulations on own resources of the European Regulation 575/2013. The PPCCs are perpetual, although they can be amortized early if the Bank or its consolidated group presents a ratio of less than 5.125% of ordinary capital (common equity Tier 1 ratio) calculated according to the applicable regulations. In this case and subject to compliance with certain requirements, the shares would be converted into ordinary shares of new issue of Santander Consumer Finance, S.A. in accordance with the value established in the brochure of issuance of the shares. In addition, these shares may be redeemed by the Bank's decision only when there is a change in the rules for calculating regulatory capital or the tax framework applicable to preferred shares, and with the prior approval of the European Central Bank.

On 14 December 2017, the Annual General Meeting of the Bank approved an issuance of contingently convertible preferred shares in ordinary shares of the newly issued Bank (the "PPCC") for a nominal amount of EUR 850,000 thousand. The remuneration of the PPCCs, whose payment is subject to compliance with certain conditions for their distribution linked mainly to the availability of the necessary funds, as well as the decision by the Bank, was fixed at an annual 5.75% for the first five years, being revised thereafter applying a margin of 5.545% per year plus the Mid-Swap rate to five years (5-year Mid-Swap Rate).

On 7 February 2018, the European Central Bank has approved the computability of these PPCCs as Tier 1 capital (additional tier 1) under the new European regulations on own resources of the European Regulation 575/2013. The PPCCs are perpetual, although they can be amortized early if the Bank or its consolidated group presents a ratio of less than 5.125% of ordinary capital (common equity Tier 1 ratio) calculated according to the applicable regulations. In this case and subject to compliance with certain requirements, the shares would be converted into ordinary shares of new issue of Santander Consumer Finance, S.A. in accordance with the value established in the brochure of issuance of the shares. In addition, these shares may be redeemed by the Bank's decision only when there is a change in the rules for calculating regulatory capital or the tax framework applicable to preferred shares, and with the prior approval of the European Central Bank. PPCCs are traded on the Frankfurt Stock Exchange. All of the preferred shares have been fully subscribed by Banco Santander, S.A. as of 31 December 2018 and 2017.

The accrued income on the shares issued at 31 December 2021 and 31 December 2020 amounted to EUR 252,500 thousand and EUR 179,627 thousand, respectively, and was recognised under "Retained Earnings" having accrued EUR 72,873 thousand and EUR 65,377 thousand in the years 2021 and 2020, respectively (see Note 26).

24. Share premium

The balance of “Share Premium” in the accompanying consolidated balance sheets as of 31 December 2021 and 2020 includes the amount paid up by the Bank's shareholders in capital issues in excess of the par value. The Consolidated Spanish Limited Liability Companies Law expressly permits the use of the share premium account balance to increase capital at the entities at which it is recognised and does not establish any specific restrictions as to its use.

25. Retained earnings and other reserves

The balance of “Shareholders’ Equity - Reserves - Retained Earnings” in the accompanying consolidated balance sheet includes the net amount of the accumulated profit or loss attributable to the Group recognised in previous years through the consolidated income statement that, in the distribution of profit, was appropriated to consolidated equity, as well as any own equity instrument issuance expenses and the differences between the selling price of treasury shares and the cost of acquisition thereof, should the Bank perform such transactions, and the distribution of profits to the Bank's shareholders recognised with a charge to reserves.

The balance of “Shareholders' Equity – Other Reserves – Reserves or Accumulated Losses in Investments in Joint Ventures and Associates” in the accompanying consolidated balance sheets includes the net amount corresponding to the Group of the undistributed accumulated profit or loss generated in previous years by entities accounted for using the equity method, recognised through the consolidated income statement.

The detail of "Shareholders' Equity – Other Reserves - Retained Earnings" and "Shareholders' Equity - Reserves - Reserves or Accumulated Losses in Investments in Joint Ventures and Associates" in the consolidated balance sheets as of 31 December 2021 and 2020 is as follows:

	EUR Thousands	
	2021	2020
Retained earnings:		
Legal reserve of the Bank	652,428	642,830
Unrestricted, voluntary and other reserves	452,176	1,660,430
Consolidation reserves attributable to the Bank	162,982	289,363
Reserves of subsidiaries	1,718,272	1,326,586
	2,985,858	**3,919,209**
Other reserves		
Other	(344,926)	(271,329)
Reserves or accumulated losses from investments in:		
Joint ventures and associates	*398,835*	*346,193*
	53,909	**74,864**

Legal reserve

Under the Consolidated Spanish Capital Companies Law, 10% of net profit for each year must be transferred to the legal reserve. These transfers must be made until the balance of this reserve reaches 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

Reserves of subsidiaries

The detail, by company, of "Reserves of Subsidiaries", based on the subsidiaries' contribution to the Group (considering the effect of consolidation adjustments), is as follows:

	EUR Thousands	
	2021	2020
Santander Consumer Holding GmbH	(1,431,523)	(1,670,393)
Santander Consumer Bank S.p.A.	96,549	30,285
Banco Santander Consumer Portugal S.A.	—	74,377
Santander Consumer Bank Gmbh	178,840	150,064
Compagnie Generale de Credit Aux Particuliers - Credipar S.A.	196,393	115,111
Santander Consumer Finance Benelux B.V.	—	94,887
Santander Consumer Finance OY	201,697	173,555
Andaluza de Inversiones, S.A.	65,037	64,188
Santander Consumer Bank A.S.	1,364,381	1,191,103
Santander Consumer Bank AG	496,070	460,684
PSA Banque France	131,656	151,394
Financiera el Corte Inglés, E.F.C., S.A.	37,761	78,024
Banca PSA ITALIA S.P.A.	96,071	67,392
PSA Bank Deutschland GmbH	81,446	53,389
ANDALUZA DE INVERSIONES, S.A.	65,037	64,188
Santander Consumer Banque, S.A.	43,195	33,427
Other	95,662	194,912
	1,718,272	1,326,587

26. Other comprehensive income

The balances of Other comprehensive income include the amounts, net of the related tax effect, of the adjustments to assets and liabilities recognised in equity through the consolidated statement of recognised income and expense. The amounts arising from subsidiaries are presented, on a line-by-line basis, in the appropriate items according to their nature.

Respect to items that may be reclassified to profit or loss, the consolidated statement of recognised income and expense includes changes in other comprehensive income as follows:

- Revaluation gains (losses): includes the amount of the income, net of the expenses incurred in the year, recognised directly in equity. The amounts recognised in equity in the year remain under this item, even if in the same year they are transferred to the income statement or to the initial carrying amount of the assets or liabilities or are reclassified to another line item.

- Amounts transferred to income statement: includes the amount of the revaluation gains and losses previously recognised in equity, even in the same year, which are recognised in the income statement.

- Amounts transferred to initial carrying amount of hedged items: includes the amount of the revaluation gains and losses previously recognised in equity, even in the same year, which are recognised in the initial carrying amount of assets or liabilities as a result of cash flow hedges.

- Other reclassifications: includes the amount of the transfers made in the year between the various valuation adjustment items.

The amounts of these items are recognised gross, including the amount of the Other comprehensive income relating to non-controlling interests, and the corresponding tax effect is presented under a separate item, except in the case of entities accounted for using the equity method, the amounts for which are presented net of the tax effect.

a) *Breakdown of Other comprehensive income - Items that will not be reclassified in results and Items that can be classified in results*

	EUR Thousands	
	31-12-2021	31-12-2020
Other comprehensive income	(645,972)	(701,640)
Items that will not be reclassified to profit or loss	(155,200)	(185,799)
Actuarial gains or losses on defined benefit pension plans	(163,721)	(191,186)
Assets included in disposal groups classified as held for sale	—	—
Other recognised income and expense in investments in joint ventures and associates	161	69
Changes in the fair value of equity instruments at fair value through other comprehensive income	8,360	5,318
Other valuation adjustments	—	—
Items that may be reclassified to profit or loss	(490,772)	(515,841)
Hedges of net investments in foreign operations (effective portion)	(100,443)	11,864
Currency translation differences	(351,791)	(480,499)
Derivatives – hedge accounting. Cash flow hedges (effective portion)	10,170	(3,587)
Changes in the fair value of debt instruments measured at fair value with changes in other comprehensive income	256	526
Hedging instruments (items not designated)	—	—
Assets included in disposal groups classified as held for sale	—	—
Share in other recognised income and expenses in investments in joint ventures and associates	(48,964)	(44,145)

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

The balance of "Other comprenhensive income - Items not reclassified to profit or loss - Actuarial gains or (-) losses on defined benefit pension plans" includes the actuarial gains and losses and the return on plan assets, less the administrative expenses and taxes inherent to the plan, and any change in the effect of the asset ceiling, excluding amounts included in net interest on the net liability (asset) relating to the defined benefit postemployment obligations of the consolidated companies.

Changes in these items are mainly recognised in the consolidated statement of recognised income and expense. The most significant changes in 2021 relate mainly to the variations in the main actuarial assumptions of the German subsidiary – actuarial gains by experience and increase of interest rates from 1.17% to 1.45% -, as well as actuarial earnings , mainly financial, in Nordics (Scandinavia) – increases in interest rates from 1.50% to 2.00% in Sweden and with actuarial gains from experience in Spanish entities – increase in the interest rate from 0.40% to 0.70% and gains on affected assets (in 2020 changes related mainly due to the variations in the main actuarial assumptions of the German subsidiary – increase in interest rates from 1.46% to 1.7%, and mainly financial actuarial losses in Nordics due to the decrease in interest rates from 1.60% to 1.50% in Sweden).

c) Items that may be reclassified to profit or loss

c.1) Hedges of net investments in foreign operations (hedging derivatives)

The balance of "Other comprehensive income – Items that may be reclassified to profit or loss - Hedge of net investments in foreign operations (Effective portion)" in consolidated equity includes the net amount of the changes in the derivatives arranged by the Group and designated as hedging instruments considered to be effective in hedges of this type. The changes therein in 2021 and 2020 were as follows:

	EUR Thousands	
	2021	2020
Balance at beginning of period	11,864	(9,284)
Valuation gains/(losses)	88,579	21,148
Transferred to the income statement		—
Balance at end of period	100,443	11,864

c.2) Currency translation differences

The balance of "Currency translation differences" includes the net amount of exchange differences arising from non-monetary items whose fair value is adjusted against equity and the differences arising from the translation to euros of the balances of the consolidated entities whose functional currency is not the euro (see Note 2-a).

c.3) Derivatives – hedge accounting. Cash flow hedges (effective portion)

The balance of "Hedging derivatives. Cash flow hedges (Effective portion)" includes the net amount of the changes in value of financial derivatives designated as hedging instruments in cash flow hedges, in respect of the portion of these changes considered to be effective hedges.

The changes in 2021 and 2020 were as follows:

	EUR Thousands	
	2021	2020
Balance at beginning of period	(3,587)	(5,907)
Valuation gains/(losses)	796	(11,937)
Amounts transferred to the income statement	17,997	14,760
Taxation	(5,036)	(503)
Balance at end of period (Note 29)	10,170	(3,587)

c.4) Changes in the fair value of debt instruments at fair value through other comprehensive income

The balance includes the net amount of unrealised changes in the fair value of financial assets classified as items that may be reclassified to profit or loss – changes in the fair value of debt instruments at fair value through profit or loss.

The changes, regardless of valuation adjustments attributable to non-controlling interests, in 2021 and 2020 were as follows:

	EUR Thousands	
	2021	2020
Balance at beginning of period	526	1,804
Valuation gains/(losses)	(6,062)	(516)
Transferred to the consolidated income statement	5,693	(104)
Taxation	99	(658)
Balance at end of period	256	526

27. Non-controlling interests

“Non-Controlling Interests” in the accompanying consolidated balance sheets as of 31 December 2021 and 2020 includes the net amount of the equity of subsidiaries attributable to equity instruments that are not held, directly or indirectly, by the Group, including the portion attributed to them of the consolidated profit for the year.

The detail, by Group Company, of “Non-Controlling Interests” in the accompanying consolidated balance sheets as of 31 December 2021 and 2020 is as follows:

	EUR Thousands	
	2021	2020
Suzuki Servicios Financieros, S.L.	4,246	3,357
PSA Banque France S.A	716,790	658,461
Financiera El Corte Inglés, E.F.C., S.A.	129,221	119,768
PSA Financial Services, Spain, E.F.C., S.A.	369,637	163,601
PSA Finance Belux S.A.	(5,633)	59,092
PSA Financial Services Nederland B.V.	(5,600)	38,087
PSA Bank Deutschland GmbH	283,792	281,303
Banca PSA Italia S.P.A.	160,170	220,944
Transolver Finance E.F.C., S.A.	33,085	30,497
PSA Renting Italia S.P.A.	1,358	453
Hyundai Capital Bank Europe GmbH	351,605	351,178
Allane SE	(47,331)	(57,462)
TIMFin S.p.A.	25,952	2,941
PSA FINANCE UK LIMITED	4,576	—
Other	(61)	33
	2,021,807	1,872,253
Profit attributable to non-controlling interests:		
Suzuki Servicios Financieros, S.L.	1,422	889
PSA Banque France S.A.	165,079	121,338
Financiera El Corte Inglés, E.F.C., S.A.	27,387	27,093
PSA Financial Services, Spain, E.F.C., S.A.	26,653	33,565
PSA Finance Belux S.A.	7,860	7,901
PSA Financial Services Nederland B.V.	8,341	7,638
PSA Bank Deutschland GmbH	29,534	28,057
Banca PSA Italia S.P.A.	33,713	27,339
Transolver Finance E.F.C., S.A.	1,728	2,545
PSA Renting Italia S.P.A.	4,468	2,244
Hyundai Capital Bank Europe GmbH	541	427
Allane SE	1,629	1,593
TIMFin S.p.A.	(3,722)	(998)
PSA FINANCE UK LIMITED	11,277	—
Other	62	12
	315,972	259,643
	2,337,779	2,131,896

The changes in 2021 and 2020 in “Non-Controlling Interests” in the consolidated balance sheets were as follows:

	EUR Thousands	
	2021	2020
Balance at beginning of period	2,131,896	1,883,080
Dividends	(233,406)	(201,008)
Currency translation differences and other (*)	123,317	190,181
Profit/(loss) attributable to NCIs	315,971	259,643
Balance at end of period	2,337,778	2,131,896

(*) Mainly includes the balances of the business combination of PSA Financial Services, Spain, E.F.C., S.A.

28. Memorandum items

The detail of the balances recognised under “Memorandum Items” in the consolidated balance sheets as of 31 December 2021 and 2020 is as follows:

	EUR Thousands	
	31/12/2021	31/12/2020
Loan commitments granted	24,122,179	22,592,463
Memorandum item: of which, doubtful	*62,600*	*38,838*
Financial guarantees granted	189,841	331,229
Memorandum item: of which, doubtful	—	—
Financial guarantees	187,253	326,785
Credit derivatives sold	2,588	4,444
Other commitments granted	1,183,948	549,884
Memorandum item: of which, doubtful	*3,367*	*3,703*
Technical guarantees	531,497	418,688
Other commitments	652,451	131,196

The breakdown as at 31 December 2021 of the exposures and the provision fund (see Note 10) out of balance sheet by impairment stage under IFRS 9 is EUR 25,192,422 thousand and EUR 22,928 thousand in stage 1, EUR 237,580 thousand and EUR 2,005 thousand in stage 2 and EUR 65,966 thousand and EUR 14,470 thousand in stage 3, respectively. (EUR 23,322,335 thousand and EUR 26,536 thousand in stage 1, EUR 108,700 thousand and EUR 1,293 thousand in stage 2 and EUR 42,541 thousand and EUR 5,567 thousand in stage 3, respectively at 31 December 2020).

A significant portion of these guarantees will expire without any payment obligation materialising for the consolidated entities and, therefore, the aggregate balance of these commitments cannot be considered as an actual future need for financing or liquidity to be provided by the Group to third parties.

Income from guarantee instruments is recognised under Fee and commission income in the consolidated income statements and is calculated by applying the rate established in the related contract to the nominal amount of the guarantee.

i. Loan commitments granted

Loan commitments granted: firm commitments of grating of credit under predefined terms and conditions, except for those that comply with the definition of derivatives as these can be settled in cash or through the delivery of issuance of another financial instrument. They include stand-by credit lines and long-term deposits.

ii. Financial guarantees granted

Financial guarantees include, inter alia, financial guarantee contracts such as financial bank guarantees, credit derivatives sold, and risks arising from derivatives arranged for the account of third parties.

iii. Other commitments granted

Other contingent liabilities include all commitments that could give rise to the recognition of financial assets not included in the above items, such as technical guarantees and guarantees for the import and export of goods and services.

29. Derivatives - Hedge accounting

The Group, within its financial risk management strategy, and in order to reduce asymmetries in the accounting treatment of its operations, enters into hedging derivatives on interest, exchange rate, credit risk or variation of stock prices, depending on the nature of the risk covered.

Based on its objective, the Group classifies its hedges in the following categories:

- Cash flow hedges: cover the exposure to the variation of the cash flows associated with an asset, liability or a highly probable forecast transaction. This covers the variable-rate issues in foreign currencies, fixed-rate issues in non-local currency, variable-rate interbank financing and variable-rate assets (bonds, commercial loans, mortgages, etc.).

- Fair value hedges: cover the exposure to the variation in the fair value of assets or liabilities, attributable to an identified and hedged risk. This covers the interest risk of assets or liabilities (bonds, loans, bills, issues, deposits, etc.) with coupons or fixed interest rates, interests in entities, issues in foreign currencies and deposits or other fixed rate liabilities.

- Hedging of net investments abroad: cover the exchange rate risk of the investments in subsidiaries domiciled in a country with a different currency from the functional one of the Group.

	EUR Thousands				
	2021				
	NOMINAL VALUE	MARKET VALUE		Changes in fair value used to calculate hedge ineffectiveness	Balance sheet line items
		ASSETS	LIABILITIES		
Fair value hedges:	**15,022,347**	**59,766**	**21,625**	**54,914**	
Interest rate risk	**13,576,712**	**50,966**	**14,000**	**61,171**	
Interest Rate Swap	13,576,712	50,966	14,000	61,171	Derivatives - hedge accounting
Exchange rate risk	**793,625**	**5,500**	**6,738**	**—**	
Fx Forward	793,625	5,500	6,738	—	Derivatives - hedge accounting
Interest rate and exchange rate risk	**652,009**	**3,299**	**887**	**(6,258)**	
Currency Swap	652,009	3,299	887	(6,258)	Derivatives - hedge accounting
				—	
Cash flow hedges	**6,424,718**	**57,788**	**66,746**	**19,489**	
Inherent rate risk	**2,208,724**	**8,943**	**314**	**13,149**	
Interest Rate Swap	2,208,724	8,943	314	13,149	Derivatives - hedge accounting
Exchange rate risk	**1,006,904**	**13,865**	**50,877**	**1,812**	
Currency swap	1,006,904	13,865	50,877	1,812	Derivatives - hedge accounting
Interest rate and exchange rate risk	**3,209,090**	**34,980**	**15,555**	**4,529**	
Currency swap	3,209,090	34,980	15,555	4,529	Derivatives - hedge accounting
Hedges of net investments in foreign operations	**2,136,966**	**4,031**	**40,279**	**—**	
Exchange rate risk	**2,136,966**	**4,031**	**40,279**	**—**	
Fx Forward	2,136,966	4,031	40,279	—	Derivatives - hedge accounting
Collected deposits	—	—	—	—	Deposits
	23,584,030	**121,585**	**128,650**	**74,403**	

	EUR Thousands				
	2020				
	NOMINAL VALUE	MARKET VALUE		Changes in fair value used to calculate hedge ineffectiveness	Balance sheet line items
		ASSETS	LIABILITIES		
Fair value hedges:	**9,114,023**	**22,216**	**41,169**	**25,226**	
Interest rate risk	**8,057,030**	**15,960**	**27,553**	**25,166**	
Interest Rate Swap	8,057,030	15,960	27,553	25,166	Derivatives - hedge accounting
Exchange rate risk	**405,390**	**330**	**12,338**	**—**	
Fx Forward	405,390	330	12,338	—	Derivatives - hedge accounting
Interest rate and exchange rate risk	**651,603**	**5,925**	**1,278**	**60**	
Currency Swap	651,603	5,925	1,278	60	Derivatives - hedge accounting
Cash flow hedges	**5,064,167**	**23,379**	**72,221**	**(2,147)**	
Inherent rate risk	**2,289,441**	**—**	**3,142**	**(894)**	
Interest Rate Swap	2,289,441	—	3,142	(894)	Derivatives - hedge accounting
Exchange rate risk	**1,078,341**	**15,445**	**21,063**	**(837)**	
Currency swap	1,078,341	15,445	21,063	(837)	Derivatives - hedge accounting
Interest rate and exchange rate risk	**1,696,385**	**7,934**	**48,016**	**(416)**	
Currency swap	1,696,385	7,934	48,016	(416)	Derivatives - hedge accounting
Hedges of net investments in foreign operations	**1,967,482**	**552**	**71,288**	**2,826**	
Exchange rate risk	**1,967,482**	**552**	**71,288**	**2,826**	
Fx Forward	1,967,482	552	71,288	—	Derivatives - hedge accounting
Collected deposits	—	—	—	2,826	Deposits
	15,523,672	**46,146**	**183,778**	**23,960**	

The Group's entities are exposed to changes in fair value caused by fluctuations in market interest rates, derived from their long-term fixed interest rate loan portfolios. They manage this risk by entering into interest rate swap contracts, in which they pay the fixed rate and receive the floating rate. This, however, only hedges interest rate risk and thus other types of risk, such as credit risk, are managed but not hedged by the entities. The interest rate risk component is determined as the change in the fair value of the loans that arise only from changes in a benchmark interest rate. This strategy is designated as a fair value hedge and its effectiveness is evaluated comparing changes in the fair value in the loans that are attributable to changes in benchmark interest rates and changes in the fair value of interest rate swaps.

Additionally, certain Group entities issue fixed rate debt instruments both in their functional currency and foreign currencies, to access foreign capital markets and obtain further sources of financing. Therefore, these entities are exposed to both interest rate risk and exchange rate risk, which they hedge by entering different derivatives contracts such as interest rate swaps, FX forwards and cross currency swaps in which they pay the floating rate and receive the fixed rate, and which they cover with a fair value hedge.

Cash flow hedges for entities in the Santander Consumer Finance Group mitigate exchange rate risk for loans and financing. These hedges involve mainly interest rate swaps and cross currency swaps.

In any case, in the event of ineffectiveness in fair value or cash flow hedges, the entity mainly considers the following causes:

- Possible economic events affecting the entity (e.g.: default),
- For movements and possible market-related differences in the collateralized and non-collateralized curves used in the valuation of derivatives and hedged items, respectively.
- Possible differences between the nominal value, settlement/price dates and credit risk of the hedged item and the hedging element.

Regarding net foreign investment hedges, the Group uses these to mitigate the foreign exchange risk of the equity investments in NOK and CNY currencies.

In the case of this type of hedge, the ineffectiveness scenarios are considered to be of low probability, given that the hedging instrument is designated considering the determined position and the spot rate at which it is found.

The following table sets out the maturity profile of the hedging instruments used in the Group's non-dynamic hedging strategies:

	EUR Thousands					
	2021					
	Up to 1 month	1-3 months	3-12 months	1-5 years	5+ years	Total
Fair value hedges:	**433,843**	**617,976**	**2,591,528**	**9,533,400**	**1,845,599**	**15,022,347**
Interest rate risk	**230,144**	**540,440**	**1,928,538**	**9,031,990**	**1,845,599**	**13,576,712**
Interest Rate Swap	230,144	540,440	1,928,538	9,031,990	1,845,599	13,576,712
Exchange rate risk	**53,100**	**77,535**	**662,990**	**—**	**—**	**793,625**
Fx Forward	53,100	77,535	662,990	—	—	793,625
Interest rate and exchange rate risk	**150,599**	**—**	**—**	**501,410**	**—**	**652,009**
Currency Swap	150,599	—	—	501,410	—	652,009
Cash flow hedges	**218,100**	**495,346**	**2,741,769**	**2,969,477**	**26**	**6,424,718**
Inherent rate risk	**69,184**	**129,991**	**558,561**	**1,450,962**	**26**	**2,208,724**
Interest Rate Swap	69,184	129,991	558,561	1,450,962	26	2,208,724
Exchange rate risk	**27,020**	**38,677**	**597,335**	**343,872**	**—**	**1,006,904**
Currency swap	27,020	38,677	597,335	343,872	—	1,006,904
Interest rate and exchange rate risk	**121,895**	**326,678**	**1,585,873**	**1,174,643**	**—**	**3,209,090**
Currency swap	121,895	326,678	1,585,873	1,174,643	—	3,209,090
Hedges of net investments in foreign operations	**217,203**	**499,269**	**1,420,495**	**—**	**—**	**2,136,966**
Exchange rate risk	**217,203**	**499,269**	**1,420,495**	**—**	**—**	**2,136,966**
Fx Forward	217,203	499,269	1,420,495	—	—	2,136,966
Collected deposits	—	—	—	—	—	—
	869,145	**1,612,591**	**6,753,792**	**12,502,878**	**1,845,625**	**23,584,030**

	EUR Thousands					
	2020					
	Up to 1 month	1-3 months	3-12 months	1-5 years	5+ years	Total
Fair value hedges:	**308,998**	**589,077**	**2,300,555**	**5,395,998**	**519,395**	**9,114,023**
Interest rate risk	**240,664**	**500,813**	**2,051,763**	**4,744,395**	**519,395**	**8,057,030**
Interest Rate Swap	240,664	500,813	2,051,763	4,744,395	519,395	8,057,030
Exchange rate risk	**68,334**	**88,264**	**248,792**	**—**	**—**	**405,390**
Fx Forward	68,334	88,264	248,792	—	—	405,390
Interest rate and exchange rate risk	**—**	**—**	**—**	**651,603**	**—**	**651,603**
Currency Swap	—	—	—	651,603	—	651,603
						—
Cash flow hedges	**142,706**	**727,989**	**1,424,259**	**2,721,463**	**47,750**	**5,064,167**
Inherent rate risk	**71,360**	**125,452**	**611,844**	**1,480,785**	**—**	**2,289,441**
Interest Rate Swap	71,360	125,452	611,844	1,480,785	—	2,289,441
Exchange rate risk	**11,510**	**92,541**	**111,958**	**814,582**	**47,750**	**1,078,341**
Currency swap	11,510	92,541	111,958	814,582	47,750	1,078,341
Interest rate and exchange rate risk	**59,836**	**509,996**	**700,457**	**426,096**	**—**	**1,696,385**
Currency swap	59,836	509,996	700,457	426,096	—	1,696,385
						—
Hedges of net investments in foreign operations	**206,005**	**500,801**	**1,260,677**	**—**	**—**	**1,967,483**
Exchange rate risk	**206,005**	**500,801**	**1,260,677**	**—**	**—**	**1,967,483**
Fx Forward	206,005	500,801	1,260,677	—	—	1,967,483
	657,709	**1,817,867**	**4,985,491**	**8,117,461**	**567,145**	**16,145,673**

Additionally, for the most significant Group entities, the maturity profile as well as the average interest rate and the average changes in hedging instruments by term of maturity are set out in the table below.

	2021					
	EUR Thousands					
	Up to 1 month	1-3 months	3-12 months	1-5 years	5+ years	Total
Fair value hedges						
Interest rate risk						
Interest rate instruments						
Nominal	230,144	540,440	1,928,538	9,031,990	1,845,599	13,576,712
Average fixed interest rate (%) EUR	(0.018)	(0.023)	(0.036)	(0.047)	(0.009)	
Average fixed interest rate (%) CHF	(0.506)	(0.499)	(0.546)	(0.628)	0	
Average fixed interest rate (%) GBP	0,54	(0.529)	0,504	0,498	0	
Exchange rate risk						
Exchange rate instruments						
Nominal	53,100	77,535	662,990	—	—	793,625
Average exchange rate NOK/EUR	—	—	1.041	—	—	
Average exchange rate CHF/EUR	10.179	—	—	—	—	
Average exchange rate SEK/EUR	0.862	0.848	0.858	—	—	
Average exchange rate CAD/EUR	—	—	9.907	—	—	
Interest and exchange rate risk						
Interest and exchange rate instruments						
Nominal	150,599	—	—	501,410	—	652,009
Average exchange rate DKK/EUR	7.454	—	—	7.454	—	
Average fixed interest rate (%) DKK	0.006	—	—	0.006	—	
Cash Flow hedges						
Interest rate risk						
Interest rate instruments						
Nominal	69,184	129,991	558,561	1,450,962	26	2,208,724
Average fixed interest rate (%) EUR	0.178%	0.189%	0.183%	0.055%	(0.556%)	
Exchange rate risk						
Exchange rate instruments						
Nominal	27,020	38,677	597,335	343,872	—	1,006,904
Average exchange rate NOK/EUR	0.000	—	—	10.59	—	
Average exchange rate CHF/EUR	1.077	1.08	1.131	1.094	—	
Average exchange rate CAD/EUR	1.570	1.51	1.52	1.548	—	
Average exchange rate JPY/EUR	—	—	77.139	121.57	—	
Interest and exchange rate risk						
Interest and exchange rate instruments						
Nominal	121,895	326,678	1,585,873	1,174,643	—	3,209,090
Average exchange rate SEK/EUR	10.200	10.14	10.18	10.18	—	
Average exchange rate NOK/EUR	—	—	9.85	9.95	—	
Average exchange rate CHF/EUR	—	—	—	1.07	—	
Average exchange rate CAD/EUR	—	—	—	1.46	—	
Average exchange rate DKK/EUR	—	—	—	—	—	
Average exchange rate PLN/EUR	—	—	4.63	4.29	—	
Average exchange rate USD/EUR	—	—	—	—	—	
Average exchange rate JPY/EUR	—	—	—	—	—	
Average fixed interest rate (%) EUR	—	0.01%	—	0.89%	—	
Average fixed interest rate (%) CHF	—	—	—	0.15%	—	
Hedges of net investments in foreign operations						
Exchange rate risk						
Exchange rate instruments						
Nominal	217,203	499,269	1,420,495	—	—	2,136,966
Average exchange rate NOK/EUR	10.247	10.235	10.211	—	—	
Average exchange rate CNY/EUR	—	7.548	—	—	—	

	2020					
	EUR Thousands					
	Up to 1 month	1-3 months	3-12 months	1-5 years	5+ years	Total
Fair value hedges						
Interest rate risk						
Interest rate instruments						
Nominal	240,664	500,813	2,051,763	4,744,395	519,395	8,057,030
Average fixed interest rate (%) EUR	—	0.004	(0.009)	(0.045)	(0.005)	
Average fixed interest rate (%) CHF	(0.590)	(0.547)	(0.570)	(0.553)	—	
Exchange rate risk						
Exchange rate instruments						
Nominal	68,334	88,264	248,792	—	—	405,390
Average exchange rate DKK/EUR	—	—	—	—	—	
Average exchange rate PLN/EUR	—	—	—	—	—	
Average exchange rate CHF/EUR	1.075	1.072	1.075	—	—	
Average exchange rate SEK/EUR	10.341	10.429	—	—	—	
Average exchange rate CAD/EUR	—	—	1.582	—	—	
Interest and exchange rate risk						
Interest and exchange rate instruments						
Nominal	—	—	—	651,603	—	651,603
Average fixed interest rate (%) DKK	—	—	—	0.006	—	
Average exchange rate DKK/EUR	—	—	—	7.454	—	
Cash Flow hedges						
Interest rate risk						
Interest rate instruments						
Nominal	—	—	—	—	—	—
Average fixed interest rate (%) EUR	0.135%	0.172%	0.175%	0.181%	—	
Exchange rate risk						
Exchange rate instruments						
Nominal	11,510	92,541	111,958	814,582	47,750	1,078,341
Average exchange rate SEK/EUR	—	—	—	—	—	
Average exchange rate CHF/EUR	—	1.084	1.116	1.123	—	
Average exchange rate CAD/EUR	1.514	—	1.501	1.525	—	
Average exchange rate DKK/EUR	—	—	—	—	—	
Average exchange rate JPY/EUR	—	—	116.990	125.071	—	
Interest and exchange rate risk						
Interest and exchange rate instruments						
Nominal	59,836	509,996	700,457	426,096	—	1,696,385
Average exchange rate SEK/EUR	10.302	10.556	10.381	10.446	—	
Average exchange rate NOK/EUR	—	—	—	9.281	—	
Average exchange rate CHF/EUR	—	1.088	—	1.089	—	
Average exchange rate CAD/EUR	—	—	—	—	—	
Average exchange rate DKK/EUR	—	7.456	7.473	—	—	
Average exchange rate PLN/EUR	—	—	—	4.287	—	
Average exchange rate (%) EUR	—%	0.010%	—%	0.890%	—%	
Average exchange rate (%) CHF	—%	—%	—%	0.150%	—%	
Hedges of net investments in foreign operations						
Exchange rate risk						
Exchange rate instruments						
Nominal	206,005	500,801	1,260,676	—	—	1,967,482
Average exchange rate NOK/EUR	10.141	10.962	10.861	—	—	
Average exchange rate CNY/EUR	—	7.639	—	—	—	

The following table contains details of the hedged exposures covered by the Group's hedging strategies of 31 December 2021:

	EUR Thousands							
	2021							
	Carrying amount of hedged items		Accumulated fair value adjustments to the hedge items		Balance Sheet line item	Changes in the fair value of hedged item for ineffectiveness assessment	Cash flow hedge/currency translation reserve	
	Assets	Liabilities	Assets	Liabilities			Continuing hedges	Discontinued hedges
Fair value hedges	12,609,225	3,815,067	(51,029)	(2,744)	Loans and advances	(44,907)	—	—
Interest rate risk	11,575,330	3,163,058	(51,029)	(1,883)		(50,807)	—	—
Exchange rate risk	1,033,895	—	—	—		—	—	—
Interest rate risk and Exchange rate risk	—	652,009	—	(861)		5,901	—	—
Cash flow hedges	—	—	—	—		16,440	13,644	—
Interest rate risk	—	—	—	—		1,286	9,996	—
Exchange rate risk	—	—	—	—		37,012	1,335	—
Interest rate risk and Exchange rate risk	—	—	—	—		(21,859)	2,313	—
Hedges of net investments in foreign operations	2,041,723	—	—	—	Equity instruments	—	—	—
Exchange rate risk	2,041,723	—	—	—		—	—	—
	14,650,948	3,815,067	(51,029)	(2,744)		(28,467)	13,644	—

The cumulative amount of adjustments to fair value hedging instruments remaining on the balance sheet for hedged items no longer adjusted for hedging gains and losses as of December 31, 2021 is EUR (7) million.

	EUR Thousands							
	2020							
	Carrying amount of hedged items		Accumulated fair value adjustments to the hedge items		Balance Sheet line item	Changes in the fair value of hedged item for ineffectiveness assessment	Cash flow hedge/currency translation reserve	
	Assets	Liabilities	Assets	Liabilities			Continuing hedges	Discontinued hedges
Fair value hedges	9,857,560	3,841,156	16,069	29,648	Loans and advances	(24,407)	—	—
Interest rate risk	9,195,312	3,189,553	16,069	24,611		(21,659)	—	—
Exchange rate risk	662,248	—	—	—		—	—	—
Interest rate risk and Exchange rate risk	—	651,603	—	5,037		(2,748)	—	—
Cash flow hedges	—	—	—	—		44,027	(5,336)	—
Interest rate risk	—	—	—	—		2,597	—	—
Exchange rate risk	—	—	—	—		—	(3,289)	
Interest rate risk and Exchange rate risk	—	—	—	—		41,446	(2,410)	—
Hedges of net investments in foreign operations	1,906,859	—	—	—	Equity instruments	—	—	—
Exchange rate risk	1,906,859	—	—	—		—	—	—
	11,764,419	3,841,156	16,069	29,648		19,620	(5,336)	—

The cumulative amount of adjustments to fair value hedging instruments remaining on the balance sheet for hedged items no longer adjusted for hedging gains and losses at December 31, 2020 is EUR (12) million.

The net impact of the hedges is as follows:

	EUR Thousands				
	2021				
	Gains/(losses) recognised in other comprehensive income	Ineffective coverage recognised in the income statement	Income statement line item that includes the ineffectiveness of cash flows	Amount reclassified to profit or loss due to: Covered transaction affecting the income statement	Amount reclassified to profit or loss due to: Income statement line item including the reclassified items
Fair value hedges	—	9,171	Gains/(losses) financial assets and financial liabilities	—	Net interest income/Assets Gains/(losses)/ Financial Liabilities
Interest rate risk	—	9,528		—	
Interest rate risk and Exchange rate risk	—	(357)			
Cash flow hedges	19,312	1,717	Gains/(losses) financial assets and financial liabilities	(17,996)	Net interest income/Assets Gains/(losses)/ Financial Liabilities
Interest rate risk	9,633	1,911		(2,856)	
Exchange rate risk	4,956	—		(6,751)	
Interest rate risk and Exchange rate risk	4,723	(194)		(8,390)	
Hedges of net investments in foreign operations	—	—	Gains/(losses) financial assets and financial liabilities	—	Net interest income/Assets Gains/(losses)/ Financial Liabilities
Exchange rate risk	—	—		—	
	19,312	10,888		(17,996)	

(*) At 31 December 2021, the detail of the total amount registered under Gains/losses recognised in other comprehensive income includes the amounts corresponding to Non-controlling interests that amount EUR 332 thousand from 2020.

	EUR Thousands				
	2020				
	Gains/(losses) recognised in other comprehensive income	Ineffective coverage recognised in the income statement	Income statement line item that includes the ineffectiveness of cash flows	Amount reclassified to profit or loss due to: Covered transaction affecting the income statement	Amount reclassified to profit or loss due to: Income statement line item including the reclassified items
Fair value hedges	—	825	Gains/(losses) financial assets and financial liabilities		Net interest income/Assets Gains/(losses)/ Financial Liabilities
Interest rate risk	—	3,506		—	
Interest rate risk and Exchange rate risk	—	(2,681)		—	
Cash flow hedges	3,155	(1,742)	Gains/(losses) financial assets and financial liabilities	(14,760)	Net interest income/Assets Gains/(losses)/ Financial Liabilities
Interest rate risk	(90)	(1,742)		(2,092)	
Exchange rate risk	3,159	—		(5,558)	
Interest rate risk and Exchange rate risk	86	3		(7,110)	
	3,155	(914)		(14.760)	

(*) At 31 December 2021, the detail of the total amount registered under Gains/losses recognised in other comprehensive income does not include the amounts corresponding to Non-controlling interests that amount EUR 332 thousand.

The impact in shareholder's equity in 2021 is as follows:

	EUR Thousands
Balance at beginning of period 2020	(5,907)
Cash flow hedges	3,155
Interest rate risk	(90)
Transferred to the income statement	2,092
Other reclassifications	(2,182)
Exchange rate risk	3,159
Transferred to the income statement	5,558
Other reclassifications	(2,399)
Interest rate and exchange rate risk	86
Transferred to the income statement	7,110
Other reclassifications	(7,024)
Taxation	(834)
Balance at end of period 2020	(3,586)
Cash flow hedges	19,312
Interest rate risk	9,633
Changes in equity transferred to the income statement	2,856
Other equity movements	6,777
Exchange rate risk	4,956
Changes in equity transferred to the income statement	6,751
Other equity movements	(1,795)
Interest rate and exchange rate risk	4,723
Changes in equity transferred to the income statement	8,390
Other equity movements	(3,667)
Non-controlling interests	(520)
Taxation	(5,036)
Balance at end of period 2021	10,170

30. Interest income

"Interest Income" in the consolidated income statements for 2021 and 2020 includes the interest accrued in the year on all financial assets whose implicit or explicit return is calculated by applying the effective interest method, irrespective of measurement at fair value, with the exception of trading derivatives; and the rectifications of income as a result of hedge accounting. Interest is recognised gross, without deducting any tax withheld at source.

The detail of the main items of interest income earned by the Group in 2021 and 2020 is as follows:

	EUR Thousands	
	2021	2020
Loans and advances - Central banks	—	81
Loans and advances - Credit institutions	32,110	16,816
Debt instruments	8,290	8,832
Loans and advances - Customers	3,825,903	3,900,712
Non-performing assets	3,514	6,584
Rectification of income as a result of hedging transactions and other interest	151,547	57,071
	4,021,364	3,990,096

Most of the interest income was generated by the Group's financial assets that are measured at amortised cost.

31. Interest expenses

"Interest Expense" in the consolidated income statements for 2021 and 2020 includes the interest accrued in the year on all financial liabilities with an implicit or explicit return, including remuneration in kind, calculated by applying the effective interest method, irrespective of measurement at fair value, with the exception of trading derivatives; the rectifications of cost as a result of hedge accounting; and the interest cost attributable to pension funds.

The detail of the main items of interest expense and similar charges incurred by the Group in 2021 and 2020 is as follows:

	EUR Thousands	
	2021	2020
Deposits from the Bank of Spain and other central banks	41,270	14,668
Deposits from credit institutions	31,834	46,207
Customer deposits	125,637	176,988
Marketable debt securities	201,476	216,713
Subordinated liabilities	14,560	35,542
Provisions for pensions (Notes 2-r, 2-s and 21) (*)	7,395	8,578
Rectification of expenses as a result of hedging transactions	(1,399)	(4,563)
Other interest	42,619	16,062
	463,392	510,195

(*) Includes the interest on post-employment and other long-term benefits of Spanish entities, amounting to EUR 124 thousand and EUR 171 thousand, respectively, in 2021 (EUR 131 thousand and EUR 171 Thousand respectively in 2020) and of foreign entities, amounting to EUR 7,100 thousand (EUR 8,275 thousand in 2020) - see Note 21-.

Most of the interest expense were generated by the Group's financial liabilities that are measured at amortised cost.

32. Income from entities accounted for using the equity method

"Income from entities accounted for using the equity method" in the consolidated income statements for 2021 and 2020 includes the amount of profit or loss attributable to the Group generated during the year by associates and joint ventures.

The detail of this item on 31 December 2021 and 2020 is as follows (see Note 12):

	EUR Thousands	
	2021	2020
Santander Consumer Bank S.A. (Polonia)	9,730	27,954
Fortune Auto Finance Co., Ltd.	28,549	21,173
PSA Insurance Europe, Ltd	12,794	12,605
PSA Life Insurance Europe Ltd	9,867	7,506
Santander Consumer Multirent, S.A.	1,719	1,297
PSA Finance Polska SP. Z O.O.	1,026	1,087
Other	105	845
	63,790	72,467

33. Commission income

The balance of "Commission Income" in the consolidated income statements for 2021 and 2020 comprises the amount of the fees and commissions accrued in the year, except those that form an integral part of the effective interest rate on financial instruments, which are recognised under "Interest Income" in the accompanying consolidated income statements.

The detail of "Commission Income" in the consolidated income statements for 2021 and 2020 is as follows:

	EUR Thousands	
	2021	2020
Collection and payment services:		
Bills	5,078	2,923
Demand accounts	18,916	21,228
Cards	58,539	55,572
Checks and orders	24,183	25,493
	106,716	105,216
Marketing of non-banking financial products:	846,187	791,694
	846,187	791,694
Securities services:		
Securities trading	28,913	18,891
Administration and custody	1,396	4,268
Equity management	6,622	4,326
	36,931	27,485
Other:		
Financial guarantees	6,112	5,846
Commitment fees	4,524	2,921
Other fees and commissions	95,186	99,730
	105,822	108,497
	1,095,656	1,032,892

34. Commission expenses

The balance of “Commission Expense” in the consolidated income statements for 2021 and 2020 comprises the amount of fees and commissions paid or payable by the Group accruing in the year, except those that form an integral part of the effective interest rate on financial instruments, which are recognised under “Interest Expense” in the accompanying consolidated income statements.

The detail of “Commission expenses” in the consolidated income statements for the years ended 31 December 2021 and 2020 is as follows:

	EUR Thousands	
	2021	2020
Brokerage fees on lending and deposit transactions	628	481
Fees and commissions assigned in respect of off-balance-sheet	24,532	31,895
Fees and commissions assigned for collection and return of bills	7,517	7,734
Fees and commissions assigned in other concepts	12,556	12,945
Fees and commissions assigned for cards	5,934	9,827
Fees and commissions assigned for securities	20,575	16,836
Fees and commissions assigned to intermediaries	67,181	58,906
Other fees and commissions for placement of insurance	161,212	142,681
Other fees and commissions	34,047	40,270
	334,182	321,575

35. Gains or losses on financial assets and liabilities

The detail of this item of the consolidated income statements for 2021 and 2020, by nature of the instrument that originates the change, is as follows:

	EUR Thousands	
	2021	2020
	Income / (expenses)	
Gains/(losses) on financial instruments not at fair value through profit or loss, net	(6,654)	312
Financial assets at amortised cost	*(841)*	*258*
Other	*(5,813)*	*54*
Gains/(losses) on financial instruments held for trading, net	1,413	(1,183)
Gains/(losses) on non-trading financial assets mandatorily at fair value through profit or loss, net	7	—
Gains/(losses) on financial instruments at fair value through profit or loss, net	—	884
Gains/(losses) from hedge accounting, net (Note 29)	10,889	(914)
	5,655	(901)

36. Currency translation differences (net)

"Currency translation differences (net)" in the consolidated income statements for 2021 and 2020 includes basically the gains or losses on currency trading, the differences that arise on translating monetary items in foreign currencies to the functional currency, and those disclosed on non-monetary assets in foreign currency at the time of their disposal.

37. Other operating income

The detail of "Other Operating Income" in the consolidated income statements for 2021 and 2020 is as follows:

	EUR Thousands	
	2021	2020
Sales and income from non-financial services (*)	215,027	127,506
Other	168,048	121,967
	383,075	249,473

(*) As of December 31, 2021, primarily to operating lease income in Germany from Allane SE, Santander Consumer Leasing Gmbh and Hyundai Capital Bank Europe GmbH.

38. Other operating expenses

The detail of "Other Operating Expenses" in the consolidated income statements for 2021 and 2020 is as follows:

	EUR Thousands	
	2021	2020
Contributions to deposit guarantee funds and other national resolution funds (Note 1-d)	82,156	63,927
Changes in inventories (*)	23,233	29,535
Other	219,947	145,794
	325,336	239,256

(*) Relates mainly to the expenses related to the vehicle operating lease business in Spain and Germany.

39. Staff costs

"Staff Costs" in the consolidated income statements for 2021 and 2020 includes the remuneration accrued in the year regarding to permanent or temporary employees on the payroll, regardless of their functions or duties.

The detail of "Staff Costs" on 31 December 2021 and 2020 is as follows:

	EUR Thousands	
	2021	2020
Wages and salaries	620,502	586,637
Social security costs	99,850	89,441
Additions to pension provisions (Note 21) (*)	13,932	14,465
Contributions to defined contribution pension funds (Note 21)	39,566	39,804
Contributions to plans - Spanish entities	*2,223*	*448*
Contributions to plans - foreign entities	*37,343*	*39,356*
Share-based payment costs	—	231
Other staff costs	67,332	64,650
Termination benefits	1,448	2,062
	842,630	797,290

(*) Of which:

- In 2021, EUR 333 thousand relate to "current service cost of defined benefit post-employment obligations Spanish entities" (EUR 62 thousand in 2020) (see Notes 2-r and 21).

- In 2021 EUR 10,042 thousand relate to "current service cost of defined benefit post-employment obligations Germany" (EUR 10,132 thousand in 2020) (see Notes 2-r and 21).

- In 2021, EUR 3,032 thousand relate to "current service cost of defined benefit post-employment obligations foreign entities without Germany" (EUR 4,263 thousand in 2020) (see Notes 2-r and 21).

- In 2021, EUR 9 thousand relate to "current service cost of other long-term defined benefit obligations - Spanish entities" (EUR 9 thousand in 2020) (see Notes 2-s and 21).

The average number of employees at the Group in 2021 and 2020, by professional category, was as follows:

	Avg no. of employees	
	2021	2020
The Bank:		
Senior executives	145	94
Middle management	484	246
Clerical staff	371	204
	1,000	544
Other companies	10,281	9,733
	11,281	10,277

The functional breakdown, by gender, of the number of employees at the Group on 31 December 2021 and 2020 is as follows:

	2021			2020		
	Total	Men	Women	Total	Men	Women
Senior executives	87	70	17	87	77	10
Middle management	1,326	823	503	1,087	682	405
Clerical staff and other	9,794	4,651	5,143	8,986	4,280	4,706
	11,207	**5,544**	**5,663**	**10,160**	**5,039**	**5,121**

On 31 December 2021, the Board of Directors of the Bank had 13 members (10 in 2020), of whom 2 were women (2 in 2020).

The work relations between employees and the various Group companies are governed by the related collective agreements or similar regulations.

As of 31 December 2021 and 2020, certain employees of the Group's subsidiaries are beneficiaries of the retribution plans set forth in Note 5.

40. Other administrative expenses

The detail of "Other Administrative Expenses" in the consolidated income statements for 2021 and 2020 is as follows:

	EUR Thousands	
	2021	2020
Property, fixtures and supplies	43,899	46,060
Other administrative expenses	39,119	32,227
Communications	37,731	43,659
Taxes other than income tax	55,730	55,586
Technology and systems	288,043	286,108
Public relations, advertising and publicity	68,723	65,253
Per diems and travel expenses	8,005	7,548
External services	191,455	219,606
Technical reports	79,836	87,210
Insurance premiums	6,089	5,089
Other	2,688	3,639
	821,318	851,985

"Technical reports" in the foregoing table includes the fees paid for the services provided by the auditor of the Bank and of certain Group companies, the detail being as follows:

	EUR Millions	
	2021	2020
Audit fees	14.8	14.4
Other verification services	0.6	1.1
Tax counselling services	0.1	0.3
Other services	0.3	—
Total	15.8	15.8

The heading "Audit fees" includes the fees corresponding to the audit of the individual and consolidated annual accounts of Santander Consumer Finance, SA, as the case may be, of the companies that are part of the Group, the internal control audit (SOx) for the entities of the Group that require so and the mandatory regulatory reports required of the auditor, corresponding to the different locations of the Group.

The main concepts included in Audit-related fees correspond to aspects such as the issuance of Comfort letters, or other reviews required by different regulations in relation to aspects such as, for example, securitizations.

The Audit fees and Other verification services caption includes the fees corresponding to the audit for the year, regardless of the date on which the audit was completed. In the event of subsequent adjustments, which are not significant in any case, and for purposes of comparison, they are presented in this note in the year to which the audit relates. The rest of the services are presented according to their approval by the Audit Committee.

The services commissioned from the Group's auditors meet the independence requirements stipulated by the Audit Law (Law 22/2015, July 20), the US Securities and Exchange Commission (SEC) rules and the Public Company Accounting Oversight Board (PCAOB), applicable to the Group, and they do not include in any case the execution of any work that is incompatible with the audit function.

41. Impairment charges or reversal of non-financial assets

The detail of "Impairment charges or reversal of non-financial assets" for the years 2021 and 2020 is as follows:

	EUR Thousands	
	2021	2020
Tangible assets (*)	(2,701)	(931)
Intangible assets (Note 14 and 15)	11,662	289,332
Other	5,911	(1,059)
	14,872	287,342

(*) As of 31 December 2021and 2020, no impairment charges have been registered in relation with own-use tangible assets – see Note 13.

The amounts registered under "impairment charges or reversal of non-financial assets – intangible assets" for the years ended 31 December 2021and 2020 corresponds mainly to impairment charges derived from the obsolescence of intangible assets and the goodwill of the CGU of Nordics (Scandinavia) – see note 14 and 15.

42. Gains or losses on non-financial assets and investments, net

The detail of "gains or losses on non-financial assets and investments, net" for the years ended 31 December 2021 and 2020 is as follows:

	EUR Thousands	
	2021	2020
	Income / (Expenses)	
Gains		
Property, plant and equipment and intangible assets (Note 13 and 15)	803	514
	803	514
Losses		
Property, plant and equipment and intangible assets (Note 13 and 15)	(567)	(2,526)
	(567)	(2,526)
	236	(2,012)

43. Gains or losses on non-current assets not classified as held for sale from discontinued operations

The detail of this line item in the consolidated income statements for the years ended 31 December 2021 and 2020 is as follows:

	EUR Thousands	
	2021	2020
	Income / (Expenses)	
Net gains/(losses) on disposals:	(2,680)	(552)
Impairment losses (net) (Note 11)	(545)	(277)
	(3,225)	(829)

44. Other information

a) Residual maturity periods and average interest rates

The detail, by maturity, of the balances of certain items in the consolidated balance sheets as of 31 December 2021 and 2020 is as follows:

	2021						
	EUR Thousands						
	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	5+ years	Total
Assets:							
Cash and balances at central banks	18,965,097	—	—	—	—	—	18,965,097
Financial assets at fair value through other comprehensive income	70,162	199,833	278,187	505,578	—	1,000	1,054,760
Debt instruments (Note 7)	70,162	199,833	278,187	505,578	—	1,000	1,054,760
Financial assets at amortised cost	6,449,444	5,411,889	6,614,870	21,730,588	51,757,354	11,699,209	103,663,354
Debt instruments (Note 7)	—	497,492	650,711	1,500,550	823,643	—	3,472,396
Loans and advances	6,449,444	4,914,397	5,964,159	20,230,038	50,933,711	11,699,209	100,190,958
Central banks	—	10,452	—	—	—	—	10,452
Credit institutions (Note 6)	289,216	17,961	99,178	7,237	197,358	10,273	621,223
Customers (Note 10)	6,160,228	4,885,984	5,864,981	20,222,801	50,736,353	11,688,936	99,559,283
	25,484,703	5,611,722	6,893,057	22,236,166	51,757,354	11,700,209	123,683,211
Liabilities:							
Financial assets at amortised cost-Deposits							
Deposits	29,562,819	4,591,332	2,557,760	5,890,881	27,602,970	660,485	70,866,247
Central banks (Note 17)	—	14	72	1,982,035	18,005,278	10,100	19,997,499
Credit institutions (Note 17)	206,869	268,011	1,298,551	2,912,656	6,636,415	457,767	11,780,269
Customers (Note 18)	29,355,950	4,323,307	1,259,137	996,190	2,961,277	192,618	39,088,479
Debt instruments in issue (Note 19)	511,243	3,933,627	1,808,526	6,209,612	20,445,820	7,743,403	40,652,231
Other financial liabilities (Note 20)	251,706	608,107	678,561	32,903	98,891	81,385	1,751,553
	30,325,768	9,133,066	5,044,847	12,133,396	48,147,681	8,485,273	113,270,031
Difference (assets – liabilities)	(4,841,065)	(3,521,344)	1,848,210	10,102,770	3,609,673	3,214,936	10,413,180

	2020						
	EUR Thousands						
	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	5+ years	Total
Assets:							
Cash and balances at central banks	10,316,799	—	—	—	—	—	10,316,799
Financial assets at fair value through other comprehensive income	—	200,651	150,572	402,164	—	1,000	754,387
Debt instruments (Note 7)	—	200,651	150,572	402,164	—	1,000	754,387
Financial assets at amortised cost	6,707,438	5,810,039	6,580,461	20,245,411	54,312,591	8,908,074	102,564,014
Debt instruments (Note 7)	—	100,087	130,146	1,623,847	599,617	1,787,314	4,241,011
Loans and advances	6,707,438	5,709,952	6,450,315	18,621,564	53,712,974	7,120,760	98,323,003
Central banks	—	13,700	—	—	—	—	13,700
Credit institutions (Note 6)	488,792	7,150	229,683	5,142	138,276	—	869,043
Customers (Note 10)	6,218,646	5,689,102	6,220,632	18,616,422	53,574,698	7,120,760	97.440.260
	17,024,237	6,010,690	6,731,033	20,647,575	54,312,591	8,909,074	113,635,200
Liabilities:							
Financial assets at amortised cost-Deposits							
Deposits	26,982,802	4,255,726	4,291,544	5,986,758	22,462,790	684,943	64,664,563
Central banks (Note 17)	—	—	256,122	—	14,306,151	—	14,562,273
Credit institutions (Note 17)	120,113	502,348	1,652,842	4,702,071	5,066,078	557,982	12,601,434
Customers (Note 18)	26,862,689	3,753,378	2,382,580	1,284,687	3,090,561	126,961	37,500,856
Debt instruments in issue (Note 19)	23,153	1,327,312	3,103,479	6,171,818	18,785,348	7,155,238	36,566,348
Other financial liabilities (Note 20)	174,562	658,115	35,891	37,273	111,778	100,442	1,118,061
	27,180,517	6,241,153	7,430,914	12,195,849	41,359,916	7,940,623	102,348,972
Difference (assets – liabilities)	(10,156,280)	(230,463)	(699,881)	8,451,726	12,952,675	968,451	11,286,228

For a proper understanding of the information included in the tables above, it should be noted that the these were prepared taking into consideration the contractual maturities of the financial instruments detailed therein and, therefore, they do not take into account the stability of certain liabilities, such as the current accounts of customers, and the potential for renewal which has historically been a feature of the Group's financial liabilities. Since the tables include only financial instruments at year-end, they do not show the Group's investments or the cash flows generated therefrom, or the cash flows relating to the Bank's results.

b) *Equivalent euro value of assets and liabilities*

The detail of the equivalent euro value of the main foreign currency balances in the accompanying consolidated balance sheets as of 31 December 2021 and 2020, based on the nature of the related items, is as follows:

	Equivalent value in EUR millions			
	2021		2020	
	Assets	Liabilities	Assets	Liabilities
Cash and balances at central banks	766	—	551	—
Financial instruments held for trading	19	20	—	1
Financial assets at fair value through other comprehensive income	2	—	4	—
Derivatives - hedge accounting	16	2	6	2
Assets included in disposal groups	6	—	—	—
Investments in joint ventures and associates	643	—	594	—
Tangible assets	104	—	69	—
Intangible assets	230	—	220	—
Tax assets and liabilities	169	195	129	181
Financial instruments at amortised cost	18,063	12,683	14,426	11,633
Liabilities included in disposal groups classified as held for sale	—	—	—	—
Provisions	—	19	—	36
Others	118	264	94	165
	20,136	13,183	16,093	12,018

(*) Impairment value adjustments in foreign currencies are not included.

c) *Fair value of financial assets and liabilities not measured at fair value*

The financial assets owned by the Group are carried at fair value in the accompanying consolidated balance sheets, except for items included under cash, cash balances at central banks and others deposits on demand, loans and receivables, equity instruments whose market value, if any, cannot be estimated reliably and derivatives that have these instruments as their underlyings and are settled by delivery thereof, if any.

Similarly, the Group's financial liabilities -except for financial liabilities held for trading and derivatives-are carried at amortised cost in the accompanying consolidated balance sheet.

i. Financial assets at other than fair value

Following is a comparison of the carrying amounts on 31 December 2021 and 2020 of the Group's financial assets measured at other than fair value and their respective fair values at the end of 2021 and 2020:

Assets	EUR Thousands									
	2021					2020				
	Carrying amount	Fair Value	Level 1	Level 2	Level 3	Carrying amount	Fair Value	Level 1	Level 2	Level 3
Financial assets at amortised cost										
Loans and advances	100,190,958	101,768,244	—	240,620	101,527,624	98,323,003	100,270,466	—	460,849	99,809,617
Debt instruments	3,472,396	3,501,586	3,501,586	—	—	4,241,011	4,271,209	4,266,765	4,444	—
	103,663,354	105,269,830	3,501,586	240,620	101,527,624	102,564,014	104,541,675	4,266,765	465,293	99,809,617

ii. Financial liabilities at other than fair value

Following is a comparison of the carrying amounts on 31 December 2021 and 2020 of the Group's financial liabilities measured at other than fair value and their respective fair values at the end of 2021 and 2020:

Liabilities	EUR Thousands									
	2021					2020				
	Carrying amount	Fair Value	Level 1	Level 2	Level 3	Carrying amount	Fair Value	Level 1	Level 2	Level 3
Financial liabilities at amortized cost										
Deposits	70,866,247	70,688,225	—	35,495,682	35,192,543	64,664,563	64,754,414	—	32,120,701	32,633,713
Debt securities in issue and other financial liabilities (*)	40,652,231	40,969,477	6,920,769	30,431,583	3,617,125	36,566,348	36,816,118	5,533,786	28,256,501	3,025,831
	111,518,478	111,657,702	6,920,769	65,927,265	38,809,668	101,230,911	101,570,532	5,533,786	60,377,202	35,659,544

(*) Additionally, other financial liabilities are registered amounting to EUR 1,751,553 Thousand at 31 December 2021 and 1,118,061 at 31 December 2020.

iii. Valuation methods and inputs used

The main valuation methods and inputs used in the estimates as of 31 December 2021 and 2020 of the fair values of the financial assets and liabilities in the foregoing tables were as follows:

- Loans and receivables: the fair value was estimated using the present value method. The estimates were made considering factors such as the expected maturity of the portfolio, market interest rates, spreads on newly approved transactions or market spreads -when available-.

- Financial assets at amortized cost:

  i) The fair value of deposits from central banks was taken to be their carrying amount since they are mainly short-term balances.

  ii) Deposits from credit institutions: the fair value was obtained by the present value method using market interest rates and spreads.

iii) Customer deposits: the fair value was estimated using the present value method. The estimates were made considering factors such as the expected maturity of the transactions and the Group's current cost of funding in similar transactions.

iv) Debt securities in issue: the fair value was calculated based on market prices for these instruments when available- or by the present value method using market interest rates and spreads.

45. Geographical and business segment reporting

a) Geographical segments

This primary level of segmentation, which is based on the Group's management structure, comprises six segments relating to six operating areas. The operating areas, which include all the business activities carried on therein by the Group, are Spain, Italy, Germany, Nordics (Scandinavia), France and Other.

The financial statements of each operating segment are prepared by aggregating the figures for the Group's various business units. The basic information used for segment reporting comprises the accounting data of the legal units composing each segment and the data available from the management information systems. All segment financial statements have been prepared on a basis consistent with the accounting policies used by the Group. Consequently, the sum of the figures in the income statements of the various segments is equal to those in the consolidated income statements. With regard to the balance sheet, due to the required segregation of the various business units (included in a single consolidated balance sheet), the amounts lent and borrowed between the units are shown as increases in the assets and liabilities of each business. These amounts relating to intra-Group liquidity are eliminated and are shown in the "Intra-Group Eliminations" column in the table below in order to reconcile the amounts contributed by each business unit to the consolidated Group's balance sheet.

Additionally, for segment presentation purposes, the shareholders' equity shown for each geographical unit is that reflected in the related separate financial statements and is offset as a capital endowment made by the Spain area, which acts as the holding unit for the other businesses; thus, the Group's total shareholders' equity is reflected.

The condensed balance sheets and income statements of the various geographical segments are as follows:

Consolidated balance sheet (Condensed)	EUR Thousands															
	2021								2020							
	Spain	Italy	Germany	Nordics	France	Other	Intra-group eliminations (*)	**Total**	Spain	Italy	Germany	Nordics	France	Other	Intra-group eliminations (*)	**Total**
Financial assets at amortised cost – Customers	13,035,276	8,917,503	35,653,570	17,087,823	14,561,647	7,076,402	3,227,062	99,559,283	13,923,182	8,953,676	35,803,211	16,832,732	14,431,067	7,306,779	189,932	97,440,579
Financial assets held-for-trading	(456)	139	7,649	1,449	—	455	42,240	51,476	16	802	4,059	1,734	596	1,123	8,455	16,786
Debt instruments	(3,675)	674,085	1,681,037	968,561	70,162	1,000	1,138,579	4,529,749	784,742	1,277,170	1,528,340	650,672		51,026	703,448	4,995,398
Financial assets at amortised cost – Central banks and credit institutions	713,698	370,482	276,132	1,866,363	148,170	1,066,920	(3,810,090)	631,675	1,638,089	362,655	209,891	1,370,730	140,708	1,974,877	(4,814,206)	882,743
Tangible and intangible assets	72,481	60,403	2,222,982	149,818	34,479	52,452	1,777,237	4,369,852	92,706	50,295	1,730,691	165,044	31,623	45,024	1,740,172	3,855,554
Cash and other	386,014	926,770	12,061,011	991,718	1,490,685	620,474	5,312,482	21,789,154	826,943	523,687	6,444,246	1,287,133	1,510,875	670,328	1,580,329	12,843,542
Total assets	14,203,338	10,949,382	51,902,381	21,065,732	16,305,143	8,817,703	7,687,510	130,931,189	17,265,677	11,168,284	45,720,437	20,308,046	16,114,869	10,049,158	(591,870)	120,034,602
Customer deposits	576,421	1,358,711	23,497,129	7,340,655	3,467,653	2,993,973	(146,064)	39,088,478	527,905	1,291,967	22,186,372	7,749,016	3,259,149	2,498,193	(11,746)	37,500,856
Debt securities in issued	2,655,633	832,392	7,701,052	5,105,356	5,123,137	506,108	18,728,553	40,652,231	2,882,563	532,742	6,867,047	4,843,076	4,685,421	508,793	16,246,704	36,566,346
Deposits from central banks and credit institutions	8,830,912	7,006,931	13,655,489	5,259,407	4,667,523	4,276,266	(11,918,761)	31,777,767	12,952,868	7,643,739	10,323,486	4,699,077	5,232,838	4,548,621	(18,236,923)	27,163,706
Other liabilities and equity accounting	1,080,610	610,427	2,507,292	486,877	2,098,248	344,553	582,182	7,710,189	957,487	639,352	2,161,575	501,773	2,106,721	352,146	(392,119)	6,326,935
Shareholders' equity	1,059,761	1,140,919	4,541,418	2,873,438	948,582	696,804	441,602	11,702,524	(55,147)	1,060,484	4,181,958	2,515,104	830,740	2,141,404	1,802,215	12,476,758
Total funds under management	14,203,337	10,949,380	51,902,380	21,065,733	16,305,143	8,817,704	7,687,512	130,931,189	17,265,677	11,168,284	45,720,437	20,308,046	16,114,869	10,049,158	(591,870)	120,034,601

Consolidated income statement (Condensed)	2021							2020						
	Spain	Italy	Germany	Nordics	France	Other (*)	Total	Spain	Italy	Germany	Nordics	France	Other (*)	Total
NET INTEREST INCOME	579,292	357,740	1,032,130	697,293	514,898	376,619	3,557,972	633,359	325,355	1,012,186	713,692	478,213	317,096	3,479,901
Income from entities accounted for using the equity method	14,792	3,200	27,172	2,583	10,702	5,341	63,790	16,705	3,224	20,612	2,361	8,250	21,314	72,467
Net commissions	57,620	74,389	432,734	31,252	109,348	56,131	761,474	51,768	71,000	408,914	24,482	104,201	50,952	711,317
Profit/(loss) from financial operations	189	(225)	1,086	3,003	1,655	(4,384)	1,324	7,118	91	9,903	(8,051)	(203)	(16,921)	(8,063)
Other operating income/(expense)	7,321	(11,185)	88,089	(3,483)	(7,115)	(15,613)	58,014	4,024	(5,189)	23,320	(872)	(2,392)	(6,885)	12,006
OPERATING INCOME	659,214	423,919	1,581,211	730,648	629,488	418,094	4,442,574	712,975	394,480	1,474,935	731,612	588,070	365,558	4,267,629
Administrative and general expenses	(222,765)	(129,993)	(681,992)	(269,036)	(190,675)	(169,487)	(1,663,948)	(221,947)	(126,258)	(640,632)	(286,321)	(187,166)	(186,951)	(1,649,275)
Staff costs	(91,862)	(65,484)	(397,702)	(140,352)	(84,249)	(62,981)	(842,630)	(89,558)	(60,859)	(367,599)	(140,860)	(82,638)	(55,776)	(797,290)
Other	(130,903)	(64,509)	(284,290)	(128,684)	(106,426)	(106,506)	(821,318)	(132,389)	(65,398)	(273,034)	(145,460)	(104,528)	(131,175)	(851,985)
Amortisation	(14,503)	(15,250)	(105,050)	(24,423)	(7,341)	(24,753)	(191,320)	(11,976)	(12,731)	(96,421)	(18,525)	(6,809)	(15,621)	(162,083)
Provisions or reversal from provisions and impairment loss charges (net)	(169,313)	(38,016)	(149,045)	(115,206)	(37,164)	(54,630)	(563,374)	(242,261)	(76,642)	(170,575)	(167,177)	(71,311)	(441,291)	(1,169,258)
PROFIT OR LOSS BEFORE TAX	252,633	240,660	645,124	321,983	394,308	169,224	2,023,932	236,790	178,849	567,306	259,589	322,784	(278,305)	1,287,013
PROFIT OR LOSS IN RESPECT OF CONTINUING OPERATIONS	183,724	157,682	438,460	247,299	310,260	153,236	1,490,661	175,291	122,917	389,923	206,256	221,222	(351,909)	763,700
Profit or loss in respect of discontinued operations														
CONSOLIDATED PROFIT OR LOSS	183,724	157,682	438,460	247,299	310,260	153,236	1,490,661	175,291	122,917	389,923	206,256	221,222	(351,909)	763,700
Attributable to the parent	126,381	125,112	404,848	247,299	145,162	125,888	1,174,689	113,250	94,331	359,845	206,256	99,884	(369,512)	504,055

(*) Includes reconciliation between segment information and the consolidated income statements, as well as corporate activities.

Additionally, and in agreement with regulatory requirements applicable to the Bank, below is a detail:

1. By the geographical areas indicated in the aforementioned legislation, of the balance of "Interest and Similar Income" recognised in the consolidated income statements for 2021 and 2020:

	EUR Thousands	
	2021	2020
Spain	776,504	769,692
Abroad:		
European Union	2,525,109	2,503,500
OECD countries	719,751	716,904
Other countries	—	—
	3,244,860	3,220,404
Total	4,021,364	3,990,096

2. A distribution of revenue (interest income, dividend income, commission income, gains/(losses) on financial instruments not at fair value through profit or loss, gains/(losses) on financial assets held for trading, profit or loss form financial assets not intended for trading compulsory valued at fair value with changes in profit or loss or gains/(losses) from hedge accounting, and other operating income) by geographical segment as presented to the Group. For the purposes of arranged in the following table, 2021 and 2020.

	Revenue (EUR Thousands)					
	Revenue from external customers		Inter-segment revenue		Total Revenue	
	2021	2020	2021	2020	2021	2020
Spain and Portugal	959,559	955,282	118,184	217,010	1,077,743	1,172,292
Italy	547,300	506,627	14,548	4,761	561,848	511,388
Germany	2,006,721	1,958,448	448,935	454,367	2,455,656	2,412,815
Scandinavia	799,749	845,312	64,979	62,247	864,728	907,559
France	734,574	685,267	507,853	436,661	1,242,427	1,121,928
Other	458,122	460,608	183,501	60,850	641,623	521,458
Inter-segment revenue adjustments and eliminations	—	—	*(1,338,000)*	*(1,235,896)*	(1,338,000)	(1,235,896)
Total	5,506,025	5,411,544	—	—	5,506,025	5,411,544

b) Business segments

At the secondary level of segment reporting, the Group is structured into two main lines of business and a third segment that includes those less relevant.

The "Automotive" business segment comprises all the businesses related to the financing of new and used vehicles, including operating and finance lease transactions, as well as the contribution to the result consolidation of all the activities carried out by the Group related to the financing granted with collateral received as well as stock credit for vehicles sold by dealers.

The "Consumer Finance" business segment reflects the income from the consumer finance business, the direct finance segment, regardless of the distribution channel – physical and online- and includes all of the products commercialized for these purposes: fixed-term loans, credit cards, etc.

"Other" includes operations not included in any of the aforementioned categories, mainly mortgages and corporate loans.

The condensed consolidated income statements for 2021 and 2020, by business, are as follows:

Consolidated income statement (Condensed)	EUR Thousands			
	2021			
	Vehicles	Consumer Financing	Other (*)	Total
NET INTEREST INCOME	2,289,768	1,024,952	243,252	3,557,972
Income from entities accounted for using the equity method	58,591	9,929	(4,730)	63,790
Net commissions	443,830	258,384	59,260	761,474
Profit/(loss) from financial operations	218	21	1,085	1,324
Other operating income	124,580	(1,416)	(65,150)	58,014
OPERATING INCOME	2,916,987	1,291,870	233,717	4,442,574
Administrative and general expenses	(900,859)	(462,547)	(300,542)	(1,663,948)
Staff cost	(395,416)	(217,623)	(229,591)	(842,630)
Other	(505,443)	(244,924)	(70,951)	(821,318)
Amortisation	(64,372)	(46,430)	(80,518)	(191,320)
Provisions, Impairment losses on financial assets	(211,754)	(285,159)	(66,461)	(563,374)
PROFIT/(LOSS) BEFORE TAX	1,740,002	497,734	(213,804)	2,023,932
PROFIT/(LOSS) IN RESPECT OF CONTINUING OPERATIONS	1,257,492	353,329	(120,161)	1,490,660
Profit(/loss) in respect of discontinued operations	—	—	—	—
CONSOLIDATED PROFIT/(LOSS)	1,266,492	356,329	(132,160)	1,490,661

Consolidated income statement (Condensed)	EUR Thousands			
	2020			
	Vehicles	Consumer Financing	Other (*)	Total
NET INTEREST INCOME	2,186,889	1,103,899	189,113	3,479,901
Income from entities accounted for using the equity method	57,190	9,543	5,733	72,466
Net commissions	432,044	237,021	42,252	711,317
Profit/(loss) from financial operations	7,902	4,036	(20,000)	(8,062)
Other operating income	68,395	(1,123)	(55,266)	12,006
OPERATING INCOME	2,752,420	1,353,376	161,833	4,267,629
Administrative and general expenses	(858,866)	(453,401)	(337,009)	(1,649,276)
Staff cost	(346,014)	(191,668)	(259,609)	(797,291)
Other	(512,852)	(261,733)	(77,400)	(851,985)
Amortisation	(41,875)	(44,233)	(75,974)	(162,082)
Provisions, Impairment losses on financial assets	7,967	1,902	(70,646)	(60,777)
Impairment losses on financial assets (net)	(353,586)	(408,275)	(346,621)	(1,108,482)
PROFIT/(LOSS) BEFORE TAX	1,506,060	449,370	(668,417)	1,287,013
PROFIT/(LOSS) IN RESPECT OF CONTINUING OPERATIONS	1,066,004	319,104	(621,410)	763,698
Profit(/loss) in respect of discontinued operations	—	—	—	—
CONSOLIDATED PROFIT/(LOSS)	1,066,004	319,104	(621,410)	763,698

(*) Includes mainly the results from the deposit and managed asset businesses, which are not individually material for the Group as a whole, and those arising from the Group's financial management activity.

46. Related parties

Following is a detail of the transactions performed by the Group with its related parties on 31 December 2021 and 2020, distinguishing between associates, Santander Group entities, members of the Bank's Board of Directors and the Bank's senior managers, and of the income and expenses arising from the transactions with these related parties in 2021 and 2020. Related party transactions were made on terms equivalent to those prevailing in arm's-length transactions.

	EUR Thousands							
	2021				2020			
	Associates	Santander group entities	Board Members (*)	Senior management (**)	Associates	Santander Group Entities	Board Members (**)	Senior Management (**)
Assets:								
Cash, cash balances at central banks and other deposits on demand	—	810,307	—	—	—	680,554	—	—
Debt instruments	—	—	—	—	—	—	—	—
Loans and advances:	149,421	411,127	—	6	59,527	551,813	—	1,659
Customers	40,597	305,347	—	6	37,624	208,049	—	1,659
Credit institutions	108,824	105,780	—	—	21,903	343,764	—	—
Trading Derivatives (Note 9)	—	29,519	—	—	—	9,578	—	—
Hedging derivatives	—	55,849	—	—	—	24,644	—	—
Other assets	6,431	8,920	—	—	6,435	4,312	—	2
Liabilities:								
Financial liabilities at amortized cost	112,786	9,942,182	—	797	89,527	10,031,819	—	3,086
Deposits from credit institutions (Note 17)	—	9,895,822	—	—	—	9,987,370	—	—
Customer deposits	112,786	46,360	—	797	89,527	44,449	—	3,086
Marketable debt securities	—	5,259,465	—	—	—	2,853,464	—	—
Other financial liabilities	23,206	624,434	—	—	24,522	13,844	—	—
Trading Derivatives (Note 9)	—	35,449	—	—	—	12,970	—	—
Hedging Derivatives	—	69,301	—	—	—	116,459	—	—
Other liabilities	695	33,374	—	—	60	27,495	—	—
Income statement								
Interest income	815	7,483	—	—	2,459	7,093	—	—
Interest expenses	—	(42,673)	—	—	—	(64,774)	—	—
Commission income	137,676	36,547	—	—	133,386	37,593	—	—
Commission expense	(181)	(5,074)	—	—	(136)	(5,892)	—	—
Gains or losses on financial assets and liabilities no measured at fair value through profit or loss, net	—	—	—	—	—	—	—	—
Gains or losses of financial assets and liabilities held for trading, net	—	285	—	—	—	(3,270)	—	—
Gains or losses from hedge accounting, net	—	19,375	—	—	—	27,598	—	—
Exchange differences	—	(160,298)	—	—	—	17,103	—	—
Other operating income	353	4,785	—	—	441	6,371	—	—
Other operating expenses	—	(122)	—	—	—	—	—	—
Administrative expenses	(4,117)	(149,982)	—	—	(3,329)	(137,118)	—	—
Other gains/losses	—	—	—	—	—	—	—	—
Memorandum items								
Contingent commitments	82,964	26,318	—	—	235,212	18,943	—	—
Contingent liabilities	—	—	—	—	—	481,939	—	—
Other commitments	—	737,237	—	—	—	265,508	—	—

(*) Excluding those entities belonging to the Santander Group that were classified as associates in these notes to the consolidated financial statements.

(**) See Notes 5-b and 5-c.

47. Risk management

I. Risk management

Corporate principles

The Santander Group, of which Santander Consumer Finance is part, has defined excellence in risk management as a strategic objective. It has always been a priority area of action throughout more than 150 years of history.

In recent years, the strategy has been accelerated to anticipate and respond to the major challenges of a constantly changing economic, social and regulatory environment.

Therefore, the risk function is more important than ever for the Santander Group to remain a solid, safe and sustainable bank, an example for the entire financial industry and a benchmark for all that aspire to turn risk leadership into a competitive advantage.

Santander Consumer Finance aims to build the future by managing all risks in advance and protecting the present thanks to a robust control environment. The risk function is based on the following pillars, which are aligned with the Santander Group's strategy and business model and take account of the recommendations of supervisory and regulatory bodies, and best market practices:

1. The business strategy is defined within the risk appetite. Santander Consumer Finance's Board determines the amount and type of risk deemed reasonable to assume when implementing its business strategy and development within objective, verifiable limits consistent with the risk appetite for each relevant activity.

2. All risks must be managed by the units that generate them through advanced, integrated business models and tools. Santander Consumer Finance is promoting advanced risk management using innovative models and metrics, combined with a control, reporting and escalation framework that enables risks to be identified and managed from different perspectives.

3. Anticipatory thinking for all types of risks must be integrated into risk identification, assessment and management processes.

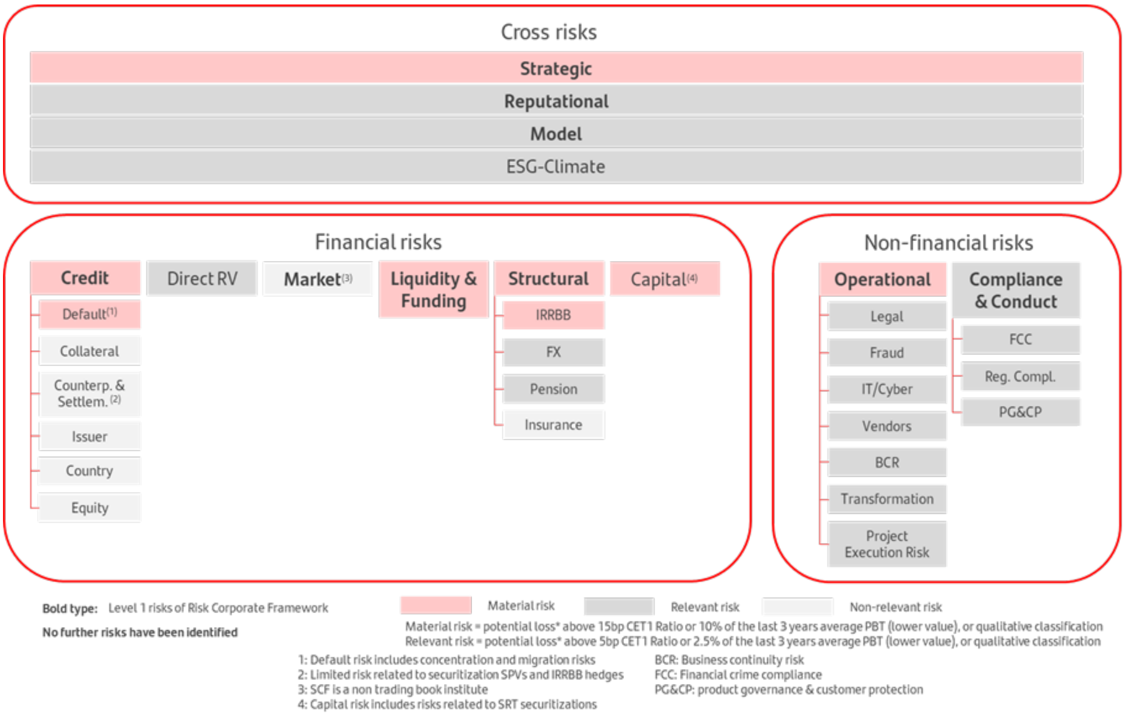
4. The risk function's independence spans all risks and provides adequate separation between risk-generating and risk-controlling units. It implies that it has sufficient authority and direct access to the management and governance bodies responsible for setting and overseeing the risk strategy and policies.

5. Risk management requires the best processes and infrastructures. Santander Consumer Finance aims to be a benchmark in the development of infrastructures and processes to support risk management.

6. A risk culture embedded throughout the organisation, comprising a set of attitudes, values, skills and behavioral patterns for all risks. Santander Consumer Finance understands that advanced risk management cannot be achieved without a strong and stable risk culture being present in each of its activities.

Risks map

Santander Consumer Finance has in place a recurring process for identifying the material risks to which it is or could be exposed, as reflected in the risk map. Material risks must be covered by the risk profile assessment exercise, risk appetite, risk strategy and ICAAP/ILAAP. Below is the latest update of Santander Consumer Finance's risk map.



The first level includes the following risks (General Risks Framework):

- Credit risk is the risk of financial loss arising from a contractual breach or impairment of the credit quality of a customer or other third party that Santander Consumer Finance has financed or in respect of whom a contractual obligation has been assumed.

- Market risk is the risk incurred as a result of changes in market factors that affect the value of positions in trading portfolios. This risk is not considered relevant within Santander Consumer Finance since it is not a trading institution.

- Liquidity risk is the risk that Santander Consumer Finance does not have the liquid financial assets required to meet its obligations when due, or can only obtain them at a high cost.

- Structural risk is the risk arising from the management of balance sheet items, in the banking portfolio and in relation to insurance and pension activities.

- Capital risk is the risk that Santander Group does not have sufficient capital, in quantity or quality, to meet its internal business objectives, regulatory requirements or market expectations.

- Operational risk is defined as the risk of loss due to inadequacy or failure of internal processes, staff and systems or due to external events. This definition includes legal risk.

- Conduct risk: Conduct risk is the risk that arises from practices, processes or behaviors that are inappropriate or fail to comply with internal regulations, legality or supervisory requirements.

- Strategic risk is the risk of loss or detriment arising from strategic decisions, or poor implementation of such decisions, affecting the long-term interests of our main stakeholders; or from an inability to adapt to the changing environment.

- Reputational risk: Reputational risk is defined as the risk of a current or potential adverse economic impact due to a less favorable perception of the bank by employees, customers, shareholders/ investors and society in general.

- Model risk is the risk of loss arising from misuse of a model or inaccurate predictions that may result in sub-optimal decisions by the Bank.

The material risks at Santander Consumer Finance are: credit, default (including concentration and migration), liquidity, structural, structural interest rate, capital, operational and strategic.

The relevant risks in Santander Consumer Finance are: direct residual value, structural exchange rate, pensions, legal, fraud, IT/cyber risk, suppliers, business continuity, transformation, project execution, money laundering and terrorist financing, regulatory compliance, product governance and consumer protection, reputational, model and ESG risks (related to environmental and climate, social and governance factors).

There are two types of risk whose relevance has been increasing in recent times and for which Santander Consumer Finance is bolstering management and control: direct residual value risk and ESG/climate risks.

Direct residual value risk is defined as the risk of loss to which a company may be exposed if, at some point during the life of an automobile agreement (loan, lease, etc.), the customer has the option or obligation to return the vehicle as full and final settlement, due to uncertainty regarding the selling price of the vehicle realised at that time.

ESG factors (environmental and climate, social and governance) can entail traditional types of risk (credit, liquidity, operational, reputational, etc.) due to the physical impacts of a changing climate, the risks of the transition to a new, more sustainable economy and the failure to meet expectations and commitments.

Corporate Governance

The objective of the governance of the risk function is to ensure adequate and efficient decision-making and effective risk control, and to ensure that these functions are managed in accordance with the risk appetite approved by the board of directors of Santander Consumer Finance.

The following principles have been established for this purpose:

- Segregation between risk decisions and control.

- Enhancing the responsibility of risk generating functions in the decision-making process.

- Ensuring that all risk decisions have a formal approval process.

- Ensuring an aggregate overview of all risk types.

- Bolstering risk control committees.

- Maintaining a responsive and efficient committee structure, ensuring:

    - Participation and involvement of the governance bodies and senior management in all risk decisions, and supervision and control.

    - Coordination between the lines of defense in risk-management and control functions.

    - Alignment of objectives, monitoring to ensure they are being achieved and implementing corrective measures when necessary.

    - The existence of an adequate management and control environment for all risks.

To achieve these objectives, the Committee structure in the management model must ensure an adequate:

- Structure, with stratification by levels of relevance, balanced delegation capacity and protocols for escalating incidents.

- Composition, with members of sufficient rank and representation of business and support areas.

- Operations, i.e. frequency, minimum attendance levels and appropriate procedures.

The governance of risk activity must establish and facilitate coordination channels between the units and Santander Consumer Finance, together with alignment of management models and risk control.

The governance bodies of Santander Consumer Finance, S.A. units are set up in accordance with local legal and regulatory requirements, considering the complexity of each unit.

In addition, Santander Consumer Finance maintained measures during the year to monitor and manage the covid-19 crisis:

The Silver Committee at Santander Consumer Finance has continued to be held throughout the 2021 financial year on a monthly basis. As this is such a protracted situation, each new wave of covid-19 has had less impact on the units and has required less focus from the Santander Consumer Finance Silver Committee.

The monitoring function of the Silver Committee has focused on the evolution of the pandemic and the return of employees to the branches (with relevant input from the Banco Santander Silver Committee), business monitoring, risk KPIs and results.

Additionally, the Silver Committee has monitored the microchip/supply chain crisis and its impact on the Santander Consumer Finance business.

Roles and responsibilities

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

- First line of defense

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 defense must ensure at all times:

  - That all risks that might have a material impact are identified.
  - Recurrent assessment of existing risks.
  - The information needed to assess risks is available.
  - The limits established for their activities are observed and respected.

- Second line of defense

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 defense is an independent function within the risk function that complements the management and control functions of the first line of defense, ensuring at all times that:

  - Limits are established and approved by the entity's governance bodies or their delegated bodies.
  - The first line of defense 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 defense must provide a consolidated overview of market, structural and liquidity risks.

- Third line of defense

As the final layer of control in the Group, Internal Audit regularly checks that policies, methods and procedures are adequate and applied effectively in management.

Structure of Risk Committees

The board of directors is ultimately responsible for risk control and management, delegating these powers to commissions and committees. In Santander Consumer Finance, the Board is supported by the Risk, Regulation and Compliance Supervision Commission, which is an independent risk control and monitoring committee. These bylaw-mandated bodies form the highest level of risk governance:

Independent control bodies

- *Risk, Regulation and Compliance Supervision Commission*

  This Committee's role is to assist the Board of Directors in the monitoring and control or risks, defining and assessing risk policies, and determining the risk propensity and strategy.

  It is made up of external or non-executive directors (mostly independent) and is chaired by an independent Board member.

  The main duties of the Risk, Regulation and Compliance Supervision Commission are:

  - To support and advise the Board of Directors in defining and assessing Santander Consumer Finance's risk policies and determining its risk propensity and risk strategy.

  - To ensure that the pricing policy for assets and liabilities offered to customers fully respects the business model and risk strategy.

  - To understand and assess the management tools, ideas for improvement, progress with projects and any other relevant activity relating to risk control.

  - To determine with the Board of Directors the nature, amount, format and frequency of the risk information to be received by the Committee and the Board.

  - To help establish rational and practical remuneration policies. For this purpose, without prejudice to the duties of the Remunerations Committee, the Risk Committee examines whether the incentives policy planned for the remuneration scheme considers risk, capital, liquidity and the likelihood and suitability of profits.

- *Executive Risk Control Committee (ERCC):*

  This collegial body is responsible for overall monitoring and control of Santander Consumer Finance's risks, pursuant to the powers delegated to it by the Board of Directors of Santander Consumer Finance, S.A.
  Its objectives are:

  - To provide a tool for effective risk control, ensuring that risks are managed in accordance with the Bank's risk appetite, as approved by the Board of Directors of Santander Consumer Finance, S.A., providing an overview of all of the risks identified in the risk map in the general risk framework, including identification and monitoring of actual and emerging risks and their impact on the risk profile of the Santander Consumer Finance Group.

  - To ensure the best estimate of provisions and that they are recognized correctly.

This Committee is chaired by the Santander Consumer Finance's Chief Risk Officer (CRO) and is made up of members of its senior management. In addition to the risk function, which chairs the Committee, the compliance, finance and management control functions are also represented. The CROs of local entities can take part on a regular basis to report on the risk profile of the entities and other tasks.

The Executive Risk Control Committee reports to the Risk, Regulation and Compliance Supervision Commission, which it assists in its function of supporting the Board.

Decision-making bodies

– *Executive Risk Committee (ERC):*

  The Executive Risk Committee is the collegiate body responsible for overall risk management pursuant to the powers delegated to it by the Board of Directors of Santander Consumer Finance S.A., monitoring all the risks identified in the Bank that fall within its remit.

  Its objective is to provide a tool for decisions on accepting risks at the highest level, ensuring that risk decisions are within the limits set by the Santander Consumer Finance Group's risk appetite, as well as informing of its activity to the Board or its committees when it is required so.

  This Committee is chaired by the Head of Santander Consumer Finance and is made up of executive directors and other executive of Santander Consumer Finance. The risk, financial, management control and compliance function are also represented, among others. The Bank's CRO is entitled to veto the Committee's decisions.

– *Proposal Sub-committee (RPSc):*

  The Santander Consumer Finance Risk Proposal Sub-committee is a collegiate body in charge of making decisions regarding business and country transactions, credit risk, market, liquidity and structural issues, guaranteeing that the decisions made comply with the limits established in the appetite risk framework of Santander Consumer Finance, as well as informing of its activity to the Risk Executive Committee when it is required so.

  This Committee is chaired by Santander Consumer Finance’s CRO, and it comprises Santander Consumer Finance executive positions including but not limited to the risk, financial, management control and compliance functions.

– *Provisions Committee:*

  The Provisions Committee is the decision-making body responsible for overall management of provisions in accordance with the powers delegated by the Executive Risk Committee of Santander Consumer Finance S.A., and supervises, within its sphere of action and decision, all matters relating to provisions in Santander Consumer Finance. Its purpose is to be the instrument for decision-making, ensuring that decisions are consistent with the governance of provisions established at Santander Consumer Finance, and reporting to the Board of Directors or its committees on its activities when required.

Structural organisation of the risk function

The Group Chief Risk Officer (GCRO) is responsible for the risk function in Santander Consumer Finance and reports to the Head of Santander Consumer Finance, who is a member of the Board.

The GCRO advises and challenges the executive line and also reports independently to the Risk, Regulatory and Compliance Committee and to the Board.

Advanced risk management is based on a holistic, forward-looking approach to risks, based on intensive use of models, to foster a robust control environment that meets the requirements of the regulator and the supervisor.

Santander Consumer Finance's risk management and control model shares certain core principles via its corporate frameworks. These frameworks are established by the Group and Santander Consumer Finance adheres to them through its management bodies. They shape the relationship between the subsidiaries and Santander Consumer Finance, including the role played by the latter in validity.

The Group-Subsidiaries Governance Model and good governance practices for subsidiaries recommend that each subsidiary should have a bylaw-mandated risk committee and an executive risk committee chaired by the Chief Executive Officer (CEO). This is in line with best corporate governance practices and consistent with those already in place in the Group, as set out in the corporate framework, to which Santander Consumer Finance has signed up.

Under the Group's internal governance framework, the management bodies of Santander Consumer Finance have their own model of risk powers (both quantitative and qualitative), which must follow the principles set out in the benchmark models and frameworks developed at the corporate level.

Given its capacity for comprehensive and aggregated oversight of all risks, the corporation exercises a validation and questioning role with regard to the operations and management policies of the units, insofar as they affect the Group's risk profile.

Identifying and evaluating risks is a cornerstone for controlling and managing risk. The main risk types to which the Group is exposed are credit risk, market risk, operational risk and compliance and conduct risk.

Santander Consumer Finance has taken several initiatives to improve the relationship between Santander Consumer Finance and its subsidiaries, and to improve the model of advanced risk management.

II. Credit risk

Credit risk stems from the possibility of losses arising from the failure of clients or counterparties to meet their financial obligations with the Group, in full or in part.

The risk function in Santander Consumer Finance is organised by customer type, distinguishing between individualised and standard customers throughout the risk-management process:

- Individualised customers are those assigned to a risk analyst, mainly because of the risk they entail. This category includes Wholesale Banking companies and some Retail Banking companies. Risk management involves expert analysis, complemented by decision-making support tools based on internal risk assessment models.

- Standard risks are those customers to whom no risk analyst is expressly assigned. They generally include risk with individuals, individual businesspeople and non-individualised retail banking companies. Management of these risks is based on internal-assessment and automatic-decision models, complemented by teams of analysts specialized in specific risk types when the model does not cover the risk or is not sufficiently accurate.

Key figures in 2021

The trend in non-performing assets and the cost of credit reflect the impact of the deterioration of the economic environment mitigated by prudent risk management, which has generally kept these figures lower than those of our competitors in recent years. As a result, Santander Consumer Finance maintains an adequate level of coverage to meet the expected loss from the credit risk portfolios managed.

At December 2021, the NPL ratio was 2.06% thanks to the positive impact of the payment deferrals and measures applied by the business units, and to the alignment of risk performance with Santander Consumer Finance's risk appetite. Non-performing loans (EUR 2,099 million) distributed by unit are as follows: the Nordic countries account for 27% of the total, Spain as a group (including FECI) for 22%, the German group for 20%, France 12%, Italy 7%, Austria 6% and other areas 6%. In terms of portfolio type, Auto represents 42% of the total, Direct 32%, Cards 8%, Stock finance 5%, Mortgages 4%, Durables 2% and other portfolios 7%.

The NPL ratio has shown a downward trend in recent years, reaching a low in December 2019 in the pre-pandemic scenario. However, despite the uncertainty and instability generated by the Covid-19 situation, stable Stage 3 ratios were achieved, standing at 2.06% in December 2021 and 2.04% in December 2020. The slight rise in the NPL ratio occurred in most Santander Consumer Finance countries and mainly in the used car, durables and credit card portfolios.

In terms of cost of credit, this ratio shows a low risk profile thanks to the granularity and predictability of Santander Consumer Finance's portfolios. The 12-month cost of credit at the end of December 2021 was 0.5%. The additional provisions recognised as a model overlay during 2020 for all Santander Consumer Finance Group portfolios in the amount of EUR 185.88 million, as a result of a macroeconomic adjustment to provisions following the ECB's recommendations and in line with the Santander Group's corporate approach, which stipulated that banks should avoid excessively pro-cyclical assumptions in their IFRS 9 models when estimating provisions during the Covid-19 pandemic using long-term macroeconomic forecasts, were fully released in Santander Consumer Finance's various units.

Highlights and trends

The profile of Santander Consumer Finance's credit risk portfolio is characterised by a diversified geographic distribution and the predominance of retail banking.

a) Global Credit Risk Map 2021

The following table details the global map of Santander Consumer Finance's gross credit exposure by geographic area:

SCF Group - Gross credit risk exposure			
	2021 (EUR million)	Change on December 2020	%portfolio
Spain and Portugal (*)	14,602	(7.28 %)	14.36 %
Italy	9,079	(0.48 %)	8.93 %
France	14,734	0.59 %	14.49 %
Germany and Austria	38,774	(0.38 %)	38.13 %
Nordics (Scandinavia)	17,583	1.57 %	17.29 %
United Kingdom (**)	2,974	100 %	2.92 %
Other	3,930	1.11 %	3.87 %
Total	101,676	95.13 %	100 %

(*) The Spanish business, as indicated in note 1, incorporates at December 31, 2021 the branches in the Netherlands, Belgium, Greece and Portugal.

(**) As a result of the acquisition described in note 3, PSA Finance UK Limited has been included in the scope of consolidation.

In 2020 and 2021, Santander Consumer Finance's business was conducted in a challenging economic environment caused by the Covid pandemic. Following the economic revival, higher origination volumes were observed in Santander Consumer Finance's core portfolios (Auto, Direct and Durables). However, as a consequence of the recent semiconductor production crisis and the reorganisation of commercial network agreements in the joint ventures resulting from the merger of PSA and FCA (Stellantis), the Stock Finance portfolio declined.

In terms of outlook by product at December 2021, Auto accounts for 63% of total gross exposure, Direct 11%, Mortgages 4%, Durables 2%, Stock Finance 8% and Other 12%. Germany has the largest share of the portfolio at 38%, together with Austria and its respective JVs. The Nordics (Scandinavia) accounts for 17%, including the units in Norway, Denmark, Sweden and Finland. Spain, Portugal and their respective JVs represent 14% of the total.

Estimation of impairment losses

Calculation of expected credit losses:

The Covid-19 health crisis, which continued in 2021, was unexpected, unpredictable and severe, but is expected to be temporary. Santander Consumer Finance's priority in these circumstances was to look after the health of its employees, customers and shareholders, but also to contribute to alleviating the economic impact of the pandemic, in line with the guidelines issued by the EBA and the Santander Group. This includes offering the best solutions to help customers.

Conceptually, the phases in managing the effects of the pandemic were as follows:

- Identifying customers or groups affected by the pandemic.

- Granting early relief for temporary financial difficulties caused by Covid-19 through measures promoted by governments, central banks, financial institutions and the Santander Group.

- Monitoring our customers’ situation to ensure that they continue to be provided with the best solution and also to assure that any deterioration is correctly reflected in Santander Consumer Finance's risk management and associated accounting. This becomes particularly relevant on expiry of any moratorium or liquidity support measures of which customers may have availed themselves.

- Monitoring is accompanied by recovery management activities where necessary.

These conceptual phases are not sequential but overlap in time. In addition, ongoing interaction and coordination with all Santander Consumer Finance units is proving to be a fundamental asset in managing this crisis. The experience gained while combating the health crisis and its financial consequences in our various geographies, and the different speeds at which it has evolved in each case, allow us to share the best practices identified and to quickly and efficiently implement the concrete strategies and actions that have been most successful, always adapted to the local reality in each market.

Measures to support the economy

In line with our previous comments regarding the alleviation of our customers' temporary financial difficulties caused by the pandemic, Santander Consumer Finance took measures to foster customers' financial resilience during the crisis in all geographies. Highlights included the following:

- Providing liquidity and credit facilities to customers facing difficulties.

- Granting grace periods or moratoria in many of our markets.

- Supporting customers with potential difficulties by being proactive, trying to meet their needs and providing advice through specialised teams.

Santander Consumer Finance implemented measures in all its units to provide liquidity and credit facilities, as well as facilitating payment deferrals for individuals and businesses in difficulties, according to the guidelines established by the EBA and the Santander Group.

As regards specific liquidity measures, grace periods or moratoria, a number of support programmes were implemented following the guidelines issued by the Santander Group, the regulatory and supervisory authorities, and governments, central banks and supranational entities in the markets in which we operate. The main objective was to mitigate the temporary impact on customers’ activities, given that in the absence of appropriate measures and proper prudential and accounting treatment, the economic consequences of the crisis could be aggravated, giving rise to pro-cyclical effects that would lengthen its duration and impact.

The various measures offered can be grouped into the following categories:

- Government liquidity measures: Generally speaking, these are loan facilities granted by Santander Consumer Finance units to customers at the request of government bodies to provide liquidity, although these measures in particular were immaterial to SCF.

- Governmental moratorium measures: In this case, the government authorities define a series of requirements which, if met by the beneficiary, entail the granting of moratoria by the Santander Consumer Finance unit on the payment of principal and/or interest on the different credit operations that customers may have contracted. The general maturity of the moratorium measures is short term. Some governments and institutions are re-extending initial deadlines, especially those that were launched at very short notice in the early stages of the pandemic, when there was less visibility of the potential duration of the crisis, but the re-extensions are also short term.

- The specific features of these programmes vary depending on how they are defined by the national governments of the countries in which Santander Consumer Finance operates. The granting criteria also depend on the requirements established by the authorities of each country in accordance with the legislation in force in each case.

- Internal/sectoral moratorium measures: This involves, broadly speaking, the granting of moratoria by Santander Consumer Finance on the payment of principal and/or interest on the various loans that customers may have obtained. In this case, the specific characteristics of these measures as regards repayment periods, amounts, etc. vary according to each geography, product or customer segment so as to adapt them as far as possible to the reality of the local market and regulations, as well as to the needs of the customer and the product contracted. In many cases, the applicable general conditions have been agreed at the industry level, such as through national associations of credit institutions.

- Other types of internal measures: This category includes all measures not included in the previous sections.

Regarding moratoriums, practically all of them has expired as of December 2021.

The Group estimates impairment losses by calculating the expected loss for 12 months or for the entire life of the transaction, depending on the stage in which each financial asset is classified under IFRS 9.

In the context described in the previous sections, many regulators and supervisors highlighted the uncertainties surrounding the economic impacts of the health crisis. This was also evident in the frequent updates of macroeconomic forecasts, with different perspectives and views on the depth and duration of the crisis. Thus, the general recommendation (including IASB, ESMA, EBA and ECB) at the start of the health crisis was not to mechanistically apply the usual techniques for calculating expected losses under IFRS 9, so as to prevent this variability of economic conditions from causing undesired volatility in results and the resulting potential for pro-cyclical effects on the economy. Over the course of 2021, macroeconomic forecasts regained sufficient stability to allow a return to the calculation of expected losses using multiple scenarios.

Santander Consumer Finance has analysed losses under IFRS 9 on the basis of three types of aspects:

1. Continuous monitoring of customers

Monitoring the credit quality of customers may be more complex in the current circumstances, in the absence of certain contractual payments on transactions subject to moratoria, although the total amount of loans still under these measures decreased considerably during the year.

For such monitoring, internal customer monitoring policies must be supplemented using all available information. The availability and relevance of information differs in the various portfolios in the countries where Santander Consumer Finance operates but, for illustrative purposes, it may include the following:

- The payment of interest in the case of principal-only grace periods.

- Payments for other operations of the same customer in the institution (not subject to moratoria).

- Loan repayment information from other institutions (via credit bureaus).

- Customer’s financial information: average current account balances, availability/utilisation of limits, etc.

– The behavioral elements available (variables that feed behavioral scores, etc.).

– Information gathered from customer contacts (surveys, calls, questionnaires, etc.). Among other data, this may include customers under temporary lay-off measures (ERTE), direct government support, etc.

2. Foresight

As reflected by the IASB, the macroeconomic uncertainty surrounding the Covid-19 pandemic made it difficult to apply the IFRS 9 expected loss calculation models as was customary, but it did not prevent the use of the standard's forward-looking feature. Therefore, the European Central Bank recommended the use of a stable, long-run perspective for macroeconomic forecasts that takes account of the multiple support measures explained previously.

During 2021, this uncertainty declined as vaccination progressed and hospitalisation rates gradually fell, allowing containment measures to be reduced. In parallel, support measures were cut back while assuring sound portfolio performance.

The return to stability of macroeconomic forecasts and the expiration of most of the moratoria in 2021 allowed a return to applying IFRS 9 expected loss calculation models as usual, using multiple scenarios.

3. Additional aspects

Using the information referred to above, the Group assessed customer credit quality trends in each geographic area for the purposes of stage classification and expected loss calculation.

In terms of classification, in 2021 the Group maintained the classification criteria and thresholds applied prior to the onset of the pandemic, eliminating regulatory interpretations of the effect of moratoria on classification as they expired, as well as the collective analyses associated with these loan groups. As regards the moratoria, customer credit quality and payment behavior were rigorously identified and regularly monitored so as to ensure the timely detection of a significant increase in credit risk (SICR) by means of a specific individual or collective assessment.

The Group, as part of its governance processes, rolled out guidelines in all subsidiaries to ensure a consistent and homogeneous approach and governance when managing the new treatment and the specific impacts on provisions arising from the pandemic. Guidance was provided on the calculation of the macroeconomic impact of the crisis through an overlay and possible collective assessments, taking account of the impairment caused by Covid-19. These documents also include a monitoring guide to ensure the adequacy of the overlay and to anticipate any updates that may be necessary. Portfolio monitoring guidelines were drawn up in 2021 to allow an orderly transition to the standard calculation method.

The detail of exposure and impairment losses associated to each stage as of 31 December 2021 is as follows. Additionally, in line with its current credit quality, the exposure is classified in three grades (investment, speculation and default):

Exposure and impairment losses by stage 2021 *(EUR millions)*				
Credit quality (*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	113,018	—	—	113,018
Speculation grade	8,404	3,650	—	12,054
Default	—	—	2,099	2,099
Total Risk (**)	121,422	3,650	2,099	127,171
Impairment losses	551	296	1,307	2,154

Exposure and impairment losses by stage 2020 (EUR millions)				
Credit quality (*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	108,618	—	—	108,618
Speculation grade	8,162	4,262	—	12,424
Default	—	—	2,070	2,070
Total Risk (**)	116,780	4,262	2,070	123,112
Impairment losses	540	289	1,368	2,197

(*) Detail of credit quality rating calculated for Group's management purposes.

(**) Amortised cost assets, Loans and advances - Customers + Loan commitments granted

At 31 December 2021 and 2020, the Group records no significant amounts of impaired assets purchased.

The Group monitors credit risk provisions by means of a sensitivity analysis considering variations in the scenarios that impact the distribution of financial assets in the various stages and the calculation of these provisions. This analysis entails simulating changes of +/- 100 basis points in the main macroeconomic inputs. A set of specific, comprehensive scenarios is employed in which different impacts affecting both the reference input and the other variables are simulated. Sensitivity analyses were carried out in the various units on the most representative macroeconomic variables used in the relevant models. These impacts can originate from productivity factors, taxes, wages or exchange and interest rates. Sensitivity is measured as the average change in expected loss in the above-mentioned scenarios. Applying a conservative approach, negative changes take into account an additional standard deviation to reflect the possible higher variability of losses.

The Group also conducts stress testing and sensitivity analyses on a recurring basis in exercises such as the ICAAP, strategic plans, budgets and recovery and resolution plans. In these exercises, a prospective view is created of the sensitivity of each of the Group's portfolios to a possible deviation from the baseline scenario, considering both the macroeconomic trend in different scenarios and the three-year business trend. These exercises include potentially more adverse scenarios as well as more plausible scenarios.

The classification of transactions in the different IFRS 9 stages follows the risk management policies of the various units, which are consistent with those prepared by the Group. When determining Stage 2 classification, an assessment is conducted to ascertain whether there has been a significant increase in credit risk (SICR) since the initial recognition of the transactions, taking into account a series of common principles throughout the Group to ensure that all financial instruments undergo this assessment, which addresses the specifics of each portfolio and product type based on various quantitative and qualitative indicators. Transactions are also subject to the expert judgement of analysts, implemented in accordance with the approved governance.

The judgements and criteria employed by Santander Consumer Finance, following the guidelines provided by the Santander Group when defining the SICR indicators, are as follows:

- Universality: all financial instruments subject to a credit rating must be assessed in case of a significant increase in risk (SICR).

- Proportionality: the definition of a SICR must take account of the specifics of each portfolio (e.g. product type, amount of exposure, etc.).

- Materiality: the implementation of the SICR definition must also be consistent with the relevance of each portfolio. Local units must ensure that their approach provides an appropriate estimate while avoiding unnecessary costs or efforts.

- Holistic view: the selected approach must combine the most relevant aspects of credit risk (i.e. quantitative, qualitative and backstop) to ensure a comprehensive review of these aspects for each portfolio.

- Compliance with IFRS 9: the approach must consider the characteristics of IFRS 9, focusing on a comparison with credit risk at initial recognition, as well as forward-looking information.

- Risk management integration: the selected approach must be consistent with the metrics employed in daily risk management of the assessed portfolios, based on the definitions used by management (i.e. forbearance, definition, etc.).

- Documentation: complete, suitable documentation must be prepared.

The key aims when considering the ICRS definition are as follows:

- Interaction between quantitative, backstop and qualitative criteria. In relation to the procurement system, two different frameworks must be followed: (1) contracts must be classified in Stage 2, following the order of priority mentioned above (quantitative, backstop and qualitative criteria); (2) other tags are used to identify contracts for parallel reporting, such as the reporting of restructured operations.

- Predictive power: the SICR definition is expected to avoid as far as possible direct migrations from Stage 1 to Stage 3 skipping a prior Stage 2 classification.

- Stage 2 stability: in the absence of significant changes in the portfolio's credit quality, the volume of Stage 2 assets should remain relatively stable overall.

- Economic reasonableness: at the operational level, Stage 2 is expected to be a transitional classification for exposures that could eventually move to credit-impaired status at some point in time or to Stage 3, as well as for exposures that are credit-impaired and whose credit quality is improving.

- Predictive power: the SICR definition is expected to avoid as far as possible direct migrations from Stage 1 to Stage 3 skipping a prior Stage 2 classification.

- Time in Stage 2: Exposures are not expected to remain tagged as Stage 2 for an excessive period of time. The defined limit reference period is 12 months.

The application of several of the above-mentioned techniques results in the setting of one or more thresholds for each portfolio in each geography. These thresholds are also subject to periodic review through calibration testing, which may entail updating threshold types or values.

Quantification of additional provisions for Covid-19

When the health crisis began, numerous international organisations and supervisors pointed out the importance of responsibly adapting and applying accounting and prudential policies to the containment measures put in place to combat the effects of Covid-19, which are temporary and exceptional. Considering these observations, local accounting differences were taken into account on the basis of stable, long-term macroeconomic forecasts through a subsequent adjustment of the model supplemented by a collective and/or individual assessment to reflect a more realistic situation, specifically to recognise expected credit losses on assets that have suffered a significant increase in credit risk (SICR) without the need to identify which individual financial instruments have undergone a SICR. This approach was also maintained throughout 2021 and, finally, by year-end 2021 the long-term view was no longer necessary.

The additional overlay or adjustment to the model output was considered to be the best option when recognising the expected loss increase, since a mechanical application of the expected credit loss (ECL) in the current context could have had unexpected results. The additional provisions associated with different macroeconomic scenarios were calculated using internal models; however, it was treated as an overlay (adjustment) to the monthly IFRS 9 calculation to improve control and monitoring of the accuracy of the estimated expected credit losses.

The scenarios used to calculate the overlay were also based on a long-term approach, in line with the recommendations of many international organisations and supervisors. In 2021, successive recurring reviews of the overlay were applied to adapt it to each point in time and, at year-end 2021, the long-term view approach to the scenarios was discontinued and the estimates were re-estimated on the basis of regulatory expectations using multiple scenarios.

At year-end 2021, the Santander Consumer Finance Group recalibrated the provisioning parameter models and did not recognise an additional impairment charge for financial assets at amortised cost as a result of applying this long-term view in the scenarios.

Nonetheless, additional adjustments to the model output were maintained, totaling EUR 101.6 million at year-end 2021, due primarily to the difficulty of mechanically applying the scenarios, to the normalisation of portfolios to pre-pandemic levels and to adjustments in portfolios where the prevalence of moratoria, even after expiry, is still latent. The Group's geographies most affected by these adjustments are Spain, the Nordics (Scandinavia), Austria, Italy and France.

Detail of the **main geographical areas**

Following is the risk information related to the most relevant geographies in exposure and credit risk allowances**.**

- **Germany**

Information on the estimation of impairment losses

The detail of exposure and impairment losses associated to each stage for Santander Consumer Bank AG and Santander Consumer Leasing GmbH as of 31 December 2021 is as follows. Additionally, in line with its current credit quality, the exposure is classified in three grades (investment, speculation and default):

Exposure and impairment losses by stage 2021 (EUR millions)				
Credit Quality (*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	34,352	—	—	34,352
Speculation grade	—	941	—	941
Default	—	—	509	509
Total exposure (**)	34,352	941	509	35,802
Impairment losses	89	70	360	519

Exposure and impairment losses by stage 2020 (EUR millions)				
Credit Quality (*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	34,427	—	—	34,427
Speculation grade	—	1,021	—	1,021
Default	—	—	487	487
Total exposure (**)	34,427	1,021	487	35,935
Impairment losses	156	71	352	579

(*) Detail of credit quality rating calculated for Group's management purposes.

(**) Amortised cost assets, Loans and advances, Customers + loan commitments granted

The NPL ratio for Germany reached 1.55% at the end of December 2021 (1.66% at the end of 2020).

For the estimation of the expected losses, the prospective information is taken into account. Specifically, for the most significant units in Germany (Santander Consumer Bank AG and Santander Consumer Leasing GmbH) five prospective macroeconomic scenarios are considered, which are updated periodically, during a time horizon of 5 years.

The projected evolution for the next five years of the main macroeconomic indicators used by Santander Consumer Bank AG and Santander Consumer Leasing GmbH for estimating expected losses as of 31 December 2021 is presented below:

Magnitudes	5-year scenario (2022-2026)				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	1.03 %	0.63 %	(0.25 %)	(0.01 %)	0.48 %
Unemployment rate	6.46 %	6.16 %	5.17 %	4.69 %	4.53 %
GDP growth	0.05 %	0.46 %	1.87 %	2.44 %	3.21 %
Housing market price surges	(1.07 %)	(0.64 %)	2.59 %	3.33 %	4.08 %

The projected evolution for the next five years of the main macroeconomic indicators used by Santander Consumer Bank AG and Santander Consumer Leasing GmbH for estimating expected losses as of 31 December 2020 is presented below:

Magnitudes	5-year scenario (2021-2025)				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	(0.01 %)	(0.12 %)	(0.22 %)	0.51 %	1.23 %
Unemployment rate	6.86 %	6.15 %	4.98 %	4.54 %	4.19 %
GDP growth	(0.46 %)	0.17 %	0.98 %	1.53 %	1.85 %
Housing market price surges	(0.86 %)	0.63 %	2.59 %	3.58 %	4.57 %

Each of the macroeconomic scenarios is associated with a specific probability of occurrence. In terms of their assignment, Santander Consumer AG and Santander Consumer Leasing, GmbH associate the highest weighting to the Base Scenario, while they associate the lowest weightings to the most extreme scenarios. The weightings used in fiscal years 2021 and 2020 are as follows:

Worst-case scenario	5 %
Worse-case scenario	20 %
Base-case scenario	50 %
Better-case scenario	20 %
Best-case scenario	5 %

The estimated sensitivity of expected losses for the most relevant portfolios in Germany as of 31 December 2021 is shown below:

	Change in expected loss (IFRS9)			
	Vehicles New	Vehicles Used	Leasing New	Direct
GDP growth:				
(100) b.p.s.	5.27 %	5.41 %	4.43 %	4.38 %
100 b.p.s.	(2.61 %)	(2.57 %)	(2.43 %)	(1.78 %)
Unemployment rate:				
(100) b.p.s.	(4.57 %)	(4.36 %)	(5.53 %)	(3.11 %)
100 b.p.s.	5.24 %	4.98 %	6.97 %	4.59 %

With regards to the determination of classification in stage 2, the quantitative criteria applied by the entity are based on identifying whether any increase in the probability of default (PD) for the entire expected life of the operation is greater than an absolute and relative threshold. This threshold is established for each portfolio and is different depending on the characteristics of the transactions. As an example, in the case of Santander Consumer A.G. and Santander Consumer Leasing GmbH, for its main portfolio (Vehicles) it is considered that an operation is to be classified under stage 2 when the PD for the entire expected life of a transaction at a given moment is greater than the one that it had at the moment of initial recognition by 42.67% in absolute terms or 650% in relative terms.

In addition, for each portfolio, a series of specific qualitative criteria are defined that indicate that the exposure has had a significant increase in credit risk, regardless of the evolution of its PD since the time of initial recognition. The Entity, among other criteria, considers that an operation presents a significant increase in risk when it presents positions past due for more than 30 days. These criteria depend on the risk management practices of each portfolio.

- **Nordics (Scandinavia)**

Information on the estimation of impairment losses

The detail of exposure and impairment losses associated for the most significant Nordics unit (Santander Consumer Bank AS) as of 31 December 2021 is as follows. Additionally, in line with its current credit quality, the exposure is classified in three grades (investment, speculation and default):

Exposure and impairment losses by stage 2021 (EUR millions)				
Credit Quality (*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	5,228	—	—	5,228
Speculation grade	10,983	533	—	11,516
Default	—	—	462	462
Total exposure (**)	16,211	533	462	17,206
Impairment losses	119	58	254	431

Exposure and impairment losses by stage 2020 (EUR millions)				
Credit Quality (*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	14,569	—	—	14,569
Speculation grade	587	670	—	1,257
Default	—	—	422	422
Total exposure (**)	15,156	670	422	16,248
Impairment losses	117	60	661	838

(*) Detail of credit quality rating calculated for Group's management purposes.

(**) Amortised cost assets, Loans and advances, Customers + loan commitments granted

The NPL ratio for Nordics (Scandinavia) has been reduced to 3.18% at the end of December 2021 (3.28% at the end of 2020).

For the estimation of the expected losses, the prospective information is taken into account. Specifically, for Santander Consumer Bank AS five prospective macroeconomic scenarios are considered, which are updated periodically, during a time horizon of 5 years.

Norway

The projected evolution for the next five years of the main macroeconomic indicators used by Santander Consumer Bank AS for estimating expected losses as of 31 December 2021 is presented below:

Magnitudes	5-year scenario (2022-2026)				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	0.62 %	1.53 %	1.52 %	2.39 %	3.52 %
Unemployment rate	4.86 %	4.42 %	3.79 %	3.55 %	3.02 %
Housing market price surges	0.22 %	0.61 %	2.46 %	2.79 %	3.72 %
GDP growth	0.85 %	1.46 %	2.58 %	3.19 %	3.71 %

The projected evolution for the next five years of the main macroeconomic indicators used by Santander Consumer Bank AS for estimating expected losses as of 31 December 2020 is presented below:

Magnitudes	5-year scenario (2021-2025)				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	0.65%	0.89%	1.87%	2.24%	2.59%
Unemployment rate	5.21%	4.62%	3.37%	2.90%	2.74%
Housing market price surges	1.46%	2.11%	3.69%	4.77%	7.11%
GDP growth	1.01%	1.42%	2.11%	2.49%	2.81%

Each one of the macroeconomic scenarios is given a probability of occurrence. As for its allocation, Santander Consumer Bank AS associates the base-case scenario with the highest probability of occurrence, while associating the lower probabilities to the most extreme scenarios. The weightings used are as follows:

Worst-case scenario	5 %
Worse-case scenario	20 %
Base-case scenario	50 %
Better-case scenario	20 %
Best-case scenario	5 %

The estimated sensitivity of expected losses for the most relevant portfolios in Norway is shown below:

	Change in expected loss (IFRS9)
	Auto Individuals
GDP growth	
(100) bps	0.29 %
100 bps	(0.09 %)
Housing market price surges	
(100) bps	0.10 %
100 bps	(0.04 %)

Denmark

The projected evolution for the next five years of the main macroeconomic indicators for estimating expected losses as of 31 December 2021 is presented below:

Magnitudes	5-year scenario (2022-2026)				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	1.42%	1.11%	0.40%	0.51%	0.80%
Unemployment rate	7.68%	6.93%	4.85%	4.32%	3.77%
Housing market price surges	(0.15)%	0.74%	1.57%	2.92%	3.91%
GDP growth	0.91%	1.29%	2.15%	2.46%	2.81%

The projected evolution for the next five years of the main macroeconomic indicators for estimating expected losses as of 31 December 2020 is presented below:

Magnitudes	5-year scenario (2021-2025)				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	(0.79 %)	(0.48 %)	(0.10 %)	0.65 %	0.88 %
Unemployment rate	(6.82 %)	5.98 %	5.01 %	4.49 %	4.01 %
Housing market price surges	0.31 %	1.70 %	2.89 %	4.07 %	5.06 %
GDP growth	0.10 %	0.70 %	1.57 %	1.96 %	2.40 %

Each one of the macroeconomic scenarios is given a probability of occurrence. As for its allocation, Santander Consumer Bank AS associates the base-case scenario with the highest probability of occurrence, while associating the lower probabilities to the most extreme scenarios. The weightings used are as follows:

Worst-case scenario	5 %
Worse-case scenario	20 %
Base-case scenario	50 %
Better-case scenario	20 %
Best-case scenario	5 %

The estimated sensitivity of expected losses for the most relevant portfolios in Denmark is shown below:

	Change in expected loss (IFRS9)
	Auto Individuals
GDP growth:	
(100) bps	2.27 %
100 bps	(1.16 %)
Unemployment rate:	
(100) bps	(2.62 %)
100 bps	4.56 %

<u>Sweden</u>

The projected evolution for the next five years of the main macroeconomic indicators for estimating expected losses as of 31 December 2021 is presented below:

Magnitudes	5-year scenario (2022-2026)				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	1.64 %	1.36 %	0.39 %	0.81 %	1.08 %
Unemployment rate	8.54 %	8.20 %	7.02 %	6.71 %	6.30 %
Housing market price surges	0.82 %	1.59 %	2.35 %	2.94 %	3.99 %
GDP growth	1.40 %	1.72 %	2.46 %	2.81 %	3.11 %

The projected evolution for the next five years of the main macroeconomic indicators for estimating expected losses as of 31 December 2020 is presented below::

Magnitudes	5-year scenario (2021-2025)				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	(0.17 %)	(0.09 %)	0.18 %	0.65 %	1.06 %
Unemployment rate	7.88 %	7.59 %	7.03 %	6.55 %	5.53 %
Housing market price surges	1.05 %	2.03 %	3.42 %	4.09 %	4.80 %
GDP growth	0.21 %	0.90 %	1.92 %	2.19 %	2.83 %

Each one of the macroeconomic scenarios is given a probability of occurrence. As for its allocation, Santander Consumer Bank AS associates the base-case scenario with the highest probability of occurrence, while associating the lower probabilities to the most extreme scenarios. The weightings used are as follows:

Worst-case scenario	5 %
Worse-case scenario	20 %
Base-case scenario	50 %
Better-case scenario	20 %
Best-case scenario	5 %

The estimated sensitivity of expected losses for the most relevant portfolios in Sweden is shown below:

	Change in expected loss (IFRS9)	
	Auto individuals	Direct
GDP growth:		
(100) bps	1.27 %	0.18 %
100 bps	(0.68 %)	(0.10 %)

With regards to the determination of classification in stage 2, the quantitative criteria applied by the entity are based on identifying whether any increase in the probability of default (PD) for the entire expected life of the operation is greater than a relative threshold. This threshold is established for each portfolio and is different depending on the characteristics of the transactions, and a transaction is considered to exceed this threshold when the PD for the entire life of the transaction increases with respect to the PD it had at the time of initial recognition by 10% in relative terms.

In addition, for each portfolio, a series of specific qualitative criteria are defined that indicate that the exposure has had a significant increase in credit risk, regardless of the evolution of its PD since the time of initial recognition. The entity, among other criteria, considers that an operation presents a significant increase in risk when it presents positions past due for more than 30 days. These criteria depend on the risk management practices of each portfolio.

- **Spain**

Information on the estimation of impairment

The detail of exposure and impairment losses associated to each stage for the most significant business units in Spain (Santander Consumer Finance S.A.) as of 31 December 2021 is as follows. Additionally, in line with its current credit quality, the exposure is classified in three grades (investment, speculation and default):

Exposure and impairment losses by stage 2021 (EUR millions)				
Credit Quality (*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	14,959	—	—	14,959
Speculation grade	520	366	—	886
Default	—	—	396	396
Total exposure (**)	15,479	366	396	16,241
Impairment losses	127	61	274	462

(*) Detail of credit quality rating calculated for Group's management purposes.

(**) Amortised cost assets, Loans and advances, Customers + loan commitments granted

Exposure and impairment losses by stage 2020 (EUR millions)				
Credit Quality (*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	4,678	33	—	4,711
Speculation grade	2,841	359	—	3,200
Default	—	—	349	349
Total exposure (**)	7,519	392	349	8,260
Impairment losses	94	46	249	389

(*) Detail of credit quality rating calculated for Group's management purposes.

(**) Amortised cost assets, Loans and advances, Customers + loan commitments granted

The NPL ratio in Spain has been reduced to 3.09% at the end of December 2021 (3.31% at the end of 2020). Despite the pandemic, appropriate Covid management measures have been implemented, resulting in a lower doubtful balance.

For the estimation of the expected losses, the prospective information is taken into account. Specifically, for the most significant units in Santander Consumer Finance, S.A., five prospective macroeconomic scenarios are considered, which are updated periodically, during a time horizon of 5 years.

The projected evolution for the next five years of the main macroeconomic indicators used by Santander Consumer Finance, S.A. for estimating expected losses as of 31 December 2021 is presented below:

Magnitudes	5-year scenario (2022-2026)				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	0.97 %	0.62 %	(0.25 %)	(0.20 %)	(0.01 %)
Unemployment rate	20.89 %	18.28 %	12.96 %	11.18 %	9.46 %
Housing market price surges	0.39 %	1.67 %	2.63 %	3.18 %	4.04 %
GDP growth	0.13 %	1.06 %	2.91 %	3.74 %	4.72 %

The projected evolution for the next five years of the main macroeconomic indicators used by Santander Consumer Finance, S.A. for estimating expected losses as of 31 December 2020 is presented below:

Magnitudes	5-year scenario (2021-2025)				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	(0.26 %)	(0.38 %)	(0.22 %)	0.67 %	1.31 %
Unemployment rate	17.66 %	16.10 %	12.49 %	10.53 %	9.95 %
Housing market price surges	(1.61 %)	(0.45 %)	1.96 %	3.68 %	5.51 %
GDP growth	(0.26 %)	0.53 %	1.48 %	2.17 %	3.00 %

Each one of the macroeconomic scenarios is given a probability of occurrence. As for its allocation, Santander Consumer S.A. associates the base-case scenario with the highest probability of occurrence, while associating the lower probabilities to the most extreme scenarios. The weightings used are as follows:

Worst-case scenario	5 %
Worse-case scenario	20 %
Base-case scenario	50 %
Better-case scenario	20 %
Best-case scenario	5 %

The estimated sensitivity of expected losses for the most relevant portfolios in Spain as of 31 December 2021 is shown below:

	Change in expected loss (IFRS9)		
	Auto New	Auto Used	Mortgages
GDP growth:			
(100) bps	0.78 %	1.14 %	0.10 %
100 bps	(0.53 %)	(0.79 %)	(0.06 %)

With regards to the determination of classification in stage 2, the quantitative criteria applied by the entity for all their main portfolios are based on identifying whether any increase in the probability of default (PD) for the entire expected life of the operation is greater than the absolute and relative thresholds established. This threshold is established for each portfolio and is different depending on the characteristics and risk profile of the transactions included.

As an example, in the case of Santander Consumer Finance, S.A. and Santander Consumer EFC SA for its main portfolios it is considered that a transaction should be classified under stage 2 when the PD for the entire expected life of the transaction at a given moment is greater than the PD that it had at the moment of initial recognition by 1.5-23% in absolute terms and by 0%-1800% in relative terms depending on the sub segment.

In addition, for each portfolio, a series of specific qualitative criteria are defined that indicate that the exposure has had a significant increase in credit risk, regardless of the evolution of its PD since the time of initial recognition. The entity, among other criteria, consider that an operation presents a significant increase in risk when it presents positions past due for more than 30 days. These criteria depend on the risk management practices of each portfolio.

b. Changes in 2021

The development of non-performing assets and the cost of credit reflect the impact of the worsening economic environment, mitigated by prudent risk management, which has generally kept these figures lower than those of our competitors in recent years. As a result, Santander Consumer Finance maintains an adequate level of coverage to face the expected loss of the credit risk portfolios it manages.

Following is a detail, by activity, of the loans and advances to customers at 31 December 2021(*):

	EUR Thousands								
		Secured credit							
		Net exposure		*Loan to Value (***)*					
	Unsecured loans	Property Collateral	Other collateral	Less than or Equal to 40%	40% and Less than or Equal to 60%	60% and Less than or Equal to 80%	80% and Less than or Equal to 100%	More than 100%	Total
Public sector	136,065	—	13,403	12	54	159	4,922	8,256	149,468
Other financial institutions	495,007	1,274	100,504	1,268	2,950	6,605	31,577	59,378	596,785
Non-financial companies and individual traders	11,630,239	172,019	15,762,916	296,442	236,849	2,737,030	9,753,487	2,911,127	27,565,174
Of which:									
Construction and property development	*64,897*	—	*192,209*	*171*	*599*	*2,319*	*185,517*	*3,603*	*257,106*
Civil engineering construction	*420*	—	*5,425*	—	—	—	*5,425*	—	*5,845*
Large companies	*5,434,403*	*61,047*	*4,382,634*	*123,957*	*70,674*	*904,044*	*2,171,636*	*1,173,370*	*9,878,084*
SMEs and individual traders	*6,130,519*	*110,972*	*11,182,648*	*172,314*	*165,576*	*1,830,667*	*7,390,909*	*1,734,154*	*17,424,139*
Other households and non-profit institutions serving households	42,906,366	3,703,787	24,160,981	1,746,186	2,156,561	3,171,538	11,226,033	9,564,450	70,771,134
Of which:									
Residential	*239,188*	*3,617,745*	*2,560*	*1,350,250*	*1,065,075*	*564,540*	*343,168*	*297,272*	*3,859,493*
Consumer loans	*42,512,272*	*4,551*	*24,003,718*	*340,582*	*1,063,311*	*2,577,558*	*10,790,554*	*9,236,264*	*66,520,541*
Other purposes	*154,906*	*81,491*	*154,703*	*55,354*	*28,175*	*29,440*	*92,311*	*30,914*	*391,100*
Total (*)	55,167,677	3,877,080	40,037,804	2,043,908	2,396,414	5,915,332	21,016,019	12,543,211	99,082,561
Memorandum item									
Refinancing, refinanced and restructured transactions (**)	*398,175*	*32,405*	*80,738*	*4,384*	*5,403*	*27,229*	*32,915*	*43,212*	*511,318*

(*) The distribution of credit does not include 477,101 thousand euros corresponding to customer advances.
(**) Included net amount accumulated Impairment or accumulate losses at fair value due to credit risk.
(***) Ratio as a result of dividing the carrying value of the operations as of December 31, 2021 over the last valuation of the collateral.

Following is a detail, by activity, of the loans and advances to customers at 31 December 2020(*):

	EUR Thousands								
		Secured credit							
		Net exposure		*Loan to Value (***)*					
	Unsecured loans	Property Collateral	Other collateral	Less than or Equal to 40%	40% and Less than or Equal to 60%	60% and Less than or Equal to 80%	80% and Less than or Equal to 100%	More than 100%	Total
Public sector	133,837	—	187	8	—	33	53	93	134,024
Other financial institutions	387,166	36,802	99,164	36,655	2,133	5,703	49,395	42,080	523,132
Non-financial companies and individual traders	14,307,053	181,826	14,766,085	458,366	238,736	2,816,311	9,237,852	2,196,646	29,254,964
Of which:									
Construction and property development	*54,209*	—	*14,522*	*4,688*	*304*	*1,089*	*4,194*	*4,247*	*68,731*
Civil engineering construction	*9,609*	—	*18,175*	*18,175*	—	—	—	—	*27,784*
Large companies	*6,241,309*	*41,626*	*4,419,214*	*184,343*	*64,415*	*1,059,581*	*2,490,154*	*662,347*	*10,702,149*
SMEs and individual traders	*8,001,926*	*140,200*	*10,314,174*	*251,160*	*174,017*	*1,755,641*	*6,743,504*	*1,530,052*	*18,456,300*
Other households and non-profit institutions serving households	42,600,883	3,974,046	20,414,217	2,423,264	2,083,726	2,480,209	9,566,778	7,834,286	66,989,146
Of which:									
Residential	*488,675*	*3,595,808*	*2,829*	*1,250,375*	*1,155,985*	*602,792*	*278,871*	*310,614*	*4,087,312*
Consumer loans	*42,009,544*	*260,679*	*20,264,185*	*1,114,027*	*888,655*	*1,856,597*	*9,192,992*	*7,472,593*	*62,534,408*
Other purposes	*102,664*	*117,559*	*147,203*	*58,862*	*39,086*	*20,820*	*94,915*	*51,079*	*367,426*
Total (*)	57,428,939	4,192,674	35,279,653	2,918,293	2,324,595	5,302,256	18,854,078	10,073,105	96,901,266
Memorandum item									
Refinancing, refinanced and restructured transactions (**)	*290,389*	*28,284*	*85,596*	*2,516*	*5,505*	*33,382*	*16,288*	*56,189*	*404,269*

(*) The distribution of credit does not include 539,315thousand euros corresponding to customer advances.
(**) Included net amount accumulated Impairment or accumulate losses at fair value due to credit risk.
(***) Ratio as a result of dividing the carrying value of the operations as of December 31, 2020 over the last valuation of the collateral.

Forborne loan portfolio

The term "forborne loan portfolio" refers, for the purposes of the Group's risk management, to those transactions in which the customer has, or might foreseeably have, financial difficulty in meeting its payment obligations under the terms and conditions of the current agreement and, accordingly, the agreement has been modified or cancelled or even a new transaction has been entered into.

The Santander Group, which Santander Consumer Finance Group belongs to, has a detailed customer debt forbearance policy that serves as a reference for the various local adaptations made for all the financial institutions forming part of the Group. This policy shares the principles laid down in both Bank of Spain Circular 4/2017 of 27 November 2017, which it develops in greater detail based on the level of customer impairment.

This policy establishes strict prudential criteria for the assessment of these loans:

- The use of this practice is restricted, and any actions that might defer the recognition of impairment must be avoided.

- The main aim must be to recover the amounts owed, and any amounts deemed unrecoverable must be recognised as soon as possible.

- Forbearance must always envisage maintaining the existing guarantees and, if possible, enhance them. Not only can effective guarantees serve to mitigate losses given default, but they might also reduce the probability of default.

- This practice must not give rise to the granting of additional funding or be used to refinance debt of other entities or as a cross-selling instrument.

- All the alternatives to forbearance and their impacts must be assessed, making sure that the results of this practice will exceed those which would foreseeably be obtained if it were not performed.

- Forborne transactions are classified using more stringent criteria which prudentially ensure that the customer's ability to pay is restored from the date of forbearance and for an adequate period of time thereafter.

- In addition, in the case of customers that have been assigned a risk analyst, it is particularly important to conduct an individual analysis of each specific case, for both the proper identification of the transaction and its subsequent classification, monitoring and adequate provisioning.

The forbearance policy also sets out various criteria for determining the scope of transactions qualifying as forborne exposures by defining a detailed series of objective indicators that permit identification of situations of financial difficulty.

Accordingly, transactions not classified as non-performing at the date of forbearance are generally considered to be experiencing financial difficulty if at that date, they were more than one month past due. Where no payments have been missed or there are no payments more than one month past due, other indicators of financial difficulty are taken into account, including most notably the following:

- Transactions with customers who are already experiencing difficulties in other transactions.

- Situations where a transaction has to be modified prematurely, and the Group has not yet had a previous satisfactory experience with the customer.

- Cases in which the necessary modifications entail the grant of special conditions, such as the establishment of a grace period, or where these new conditions are deemed to be more favorable for the customer than those which would have been granted for an ordinary loan approval.

- Where a customer submits successive loan modification requests at unreasonable time intervals.

- In any case, if once the modification has been made any payment irregularity arises during a given probation period (as evidenced by back testing), even in the absence of any other symptoms, the transaction will be deemed to be within the scope of forborne exposures.

Once it has been determined that the reasons for the modification of the customer's debt conditions are due to financial difficulties, regardless of whether or not the customer has outstanding payments and the number of days payment has been outstanding, and the customer will be considered to be under monitoring for all purposes and, as such, will be manages in accordance with this policy.

Once forbearance measures have been adopted, transactions that have to remain classified as nonperforming because at the date of forbearance they do not meet the regulatory requirements to be reclassified to a different category must comply with a continuous prudential payment schedule in order to assure reasonable certainty as to the recovery of the ability to pay.

If there is any (non-technical) default in payments during that period, the aforementioned payment schedule starts again.

On successful completion of the period, the duration of which depends on the customer's situation and the transaction features (term and guarantees provided), the transaction is no longer considered to be nonperforming, although it continues to be subject to a probation period during which it undergoes special monitoring.

This monitoring continues until a series of requirements have been met, including most notably: a minimum observation period of 24 months; repayment of a substantial percentage of the outstanding amounts; and settlement of the amounts that were past due at the time of forbearance.

When forbearance is applied to a transaction classified as non-performing, the original default dates continue to be considered for all purposes, irrespective of whether as a result of forbearance the transaction becomes current in its payments. Also, the forbearance of a transaction classified as non-performing does not give rise to any release of the related provisions.

Set forth below is the quantitative information required by Bank of Spain Circular 4/2017 on the restructured transactions in force at 31 December 2021 and 2020, taking into consideration the above criteria:

Current restructuring balances at 31 December 2021:

	TOTAL							Of which: Non-performing/Doubtful							TOTAL				Of which: Non-performing/Doubtful			
	Without real guarantee (a)		With real guarantee				Impairment of accumulated value or accumulated losses in fair value due to credit risk.	Without real guarantee		With real guarantee				Impairment of accumulate d value or accumulated losses in fair value due to credit risk								
					Maximum amount of the actual collateral that can be considered.							Maximum amount of the actual collateral that can be considered.										
	Number of transactions	Gross amount	Number of transactions	Gross amount	Real estate guarantee	Rest of real guarantees		Number of transactions	Gross amount	Number of transactions	Gross amount Real estate guarantee	Real estate guarantee	Rest of real guarantees		Gross amount	Total Guarantees	Impairment of accumulate d value or accumulated losses in fair value due to credit risk	Net Amount	Gross amount	Total Guarantees	Impairment of accumulate d value or accumulated losses in fair value due to credit risk	Net Amount
REFINANCING AND RESTRUCTURING																						
Credit entities	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Public sector	3	74	1	1	—	—	5	1	7	1	1	—	—	2	75	—	5	70	8	—	2	6
Other financial institutions and: individual shareholder	83	988	22	251	—	200	402	22	244	8	97	—	57	247	1,239	200	402	837	341	57	247	94
Non-financial institutions and individual shareholder	12,936	140,827	2,811	55,759	1,990	42,086	47,422	2,710	32,592	1,183	14,482	1,389	5,601	29,687	196,586	44,076	47,422	149,164	47,074	6,990	29,687	17,387
Of which: Financing for constructions and property development	411	4,637	—	—	—	—	1,189	35	344	—	—	—	—	254	4,637	—	1,189	3,448	344	—	254	90
Other warehouses	150,127	487,125	4,668	86,464	24,458	34,896	212,342	91,786	219,914	1,654	37,220	9,130	7,695	181,617	573,589	59,354	212,342	361,247	257,134	16,825	181,617	75,517
Total	163,149	629,014	7,502	142,475	26,448	77,182	260,171	94,519	252,757	2,846	51,800	10,519	13,353	211,553	771,489	103,630	260,171	511,318	304,557	23,872	211,553	93,004
ADDITIONAL INFORMATION	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Financing classified as non-current assets and disposable groups of items that have been classified as held for sale																						
Off balance sheet: value of other guarantees received (not real)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

Current restructuring balances at 31 December 2020

	TOTAL							Of which: Non-performing/Doubtful							TOTAL				Of which: Non-performing/Doubtful			
	Without real guarantee (a)		With real guarantee				Impairment of accumulate d value or accumulate d losses in fair value due to credit risk.	Without real guarantee		With real guarantee				Impairment of accumulate d value or accumulate d losses in fair value due to credit risk								
					Maximum amount of the actual collateral that can be considered.							Maximum amount of the actual collateral that can be considered.										
	Number of transactions	Gross amount	Number of transactions	Gross amount	Real estate guarantee	Rest of real guarantee s		Number of transactions	Gross amount	Number of transactions	Gross amount Real estate guarantee	Real estate guarantee	Rest of real guarantees		Gross amount	Total Guarantees	Impairment of accumulate d value or accumulate d losses in fair value due to credit risk	Net Amount	Gross amount	Total Guarantees	Impairment of accumulate d value or accumulate d losses in fair value due to credit risk	Net Amount
REFINANCING AND RESTRUCTURING																						
Credit entities	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Public sector	3	7	—	—	—	—	1	3	7	—	—	—	—	1	7	—	1	6	7	—	1	6
Other financial institutions and: individual shareholder	33	280	24	275	—	216	198	20	170	10	107	—	93	185	555	216	198	357	277	93	185	92
Non-financial institutions and individual shareholder	5,969	67,321	1,463	53,012	2,332	40,447	37,004	3,661	38,773	202	12,648	1,214	6,861	33,147	120,333	42,779	37,004	83,329	51,421	8,075	33,147	18,274
Of which: Financing for constructions and property development	21	207	—	—	—	—	121	16	153	—	—	—	—	111	207	—	121	86	153	—	111	42
Other warehouses	127,882	436,079	5,021	94,037	25,311	34,924	209,537	81,020	212,115	1,419	41,269	10,444	8,685	183,377	530,116	60,235	209,537	320,579	253,384	19,129	183,377	70,007
Total	133,887	503,687	6,508	147,324	27,643	75,588	246,739	84,704	251,065	1,631	54,024	11,658	15,639	216,710	651,011	103,231	246,739	404,272	305,089	27,297	216,710	88,379
ADDITIONAL INFORMATION	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Financing classified as non-current assets and disposable groups of items that have been classified as held for sale																						
Off balance sheet: value of other guarantees	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

The transactions presented in the foregoing table were classified at 31 December 2021 and 2020 by nature, as follows:

- Non-performing: There will be reclassified to the non-performing category the transactions with an inadequate payment plan, those which include conditions that imply a delay in the reimbursement of the transaction thorough regular payments or have any write-off amounts.

- Normal: they are classified within the category of normal risk, operations are not classified as doubtful or have been reclassified in the category of doubtful risk to meet the criteria that are recognized below:

    a) That a period of one year has elapsed from the date of refinancing or restructuring.

    b) That the holder has paid the accrued installments of the principal interests, reducing the main renegotiation, from the date in which the restructuring or refinancing operation was formalized.

    c) The holder has no other operation with amounts due in more than 90 days on the date of reclassification to the normal risk category.

c) Measurement metrics and tools

Credit rating tools

In keeping with the Santander Group tradition, which has witnessed the use of proprietary rating models since 1993, at Santander Consumer Finance Group the credit quality of customers and transactions is also measured by internal scoring and rating systems. Each credit rating assigned by models relates to a certain probability of default or non-payment, based on the Group's historical experience.

Since the Group focuses mainly on the retail business, assessments are based primarily on scoring models or tables which, combined with other credit policy rules, issue an automatic decision on the loan applications received. These tools have the dual advantage of allocating an objective appraisal of the level of risk and speeding up the response time that would be required for a purely manual analysis.

In addition to the scoring models used for the approval and management of portfolios (rating of the transactions composing the portfolios in order to assess their credit quality and estimate their potential losses), other tools are available to assess existing accounts and customers which are used in the defaulted loan recovery process. The intention is to cover the entire "loan cycle" (approval, monitoring and recovery) by means of statistical rating models based on the Bank's internal historical data.

For individualised corporates and institutions, which at the Group include mainly dealers/retailers, the assessment of the level of credit risk is based on expert rating models that combine in the form of variables the most relevant factors to be taken into account in the assessment, in such a way that the rating process generates appraisals that are consistent and comparable among customers and summarise all the relevant information. In 2018 all the units conducted reviews of the aforementioned portfolios, involving the participation of all areas of the Group. The review meetings covered the largest exposures, companies under special surveillance and the main credit indicators of these portfolios.

Ratings assigned to customers are reviewed periodically to include any new financial information available and the experience in the banking relationship. The frequency of the reviews is increased in the case of customers that reach certain levels in the automatic warning systems and of customers classified as requiring special monitoring. The rating tools themselves are also reviewed in order to progressively fine-tune the ratings they provide.

To a lesser extent, certain exposures are also assessed using the global rating tools which cover the global wholesale banking segment. Management of this segment is centralised at the Risk Division of the Santander Group, for both rating calculation and risk monitoring purposes. These tools assign a rating to each customer, which is obtained from a quantitative or automatic module, based on balance sheet ratios or macroeconomic variables, supplemented by the analyst's expert judgement.

The Group's portfolio of individualised corporates is scarcely representative of the total risks managed, since it relates mainly to vehicle dealer stock financing.

d) Credit risk parameters

The assessment of customers or transactions using rating or scoring systems constitutes a judgement of their credit quality, which is quantified through the probability of default (PD).

In addition to customer assessment, the quantification of credit risk requires the estimation of other parameters, such as exposure at default (EAD) and the percentage of EAD that will not be recovered (loss given default or LGD). Therefore, other relevant aspects are taken into account in estimating the risk involved in transactions, such as the quantification of off-balance-sheet exposures, which depends on the type of product, or the analysis of expected recoveries, which is related to the guarantees provided and other characteristics of the transaction: type of product, term, etc.

These factors are the main credit risk parameters. Their combination facilitates calculation of the probable loss or expected loss (EL). This loss is considered to be an additional cost of the activity which is reflected in the risk premium and must be charged in the transaction price.

These risk parameters also make it possible to calculate regulatory capital in accordance with the regulations deriving from the new Basel Capital Accord (BIS III). Regulatory capital is determined as the difference between unexpected loss and expected loss.

Unexpected loss is the basis for the capital calculation and refers to a very high, albeit scantly probable, level of loss, which is not deemed to be recurring and must be catered for using capital.

Observed loss: measurement of cost of credit

To supplement the predictiveness provided by the advanced models described above, other habitual metrics are used to facilitate prudent and effective management of credit risk based on observed loss.

In terms of recognition of losses, the cost of credit risk in Santander Consumer Finance is measured using different approaches: Change in non-performing loans (new defaults – cures – recovery of assets written off), net loan-loss provisions (gross provisions - recovery of assets written off), net losses (failures - recovery of losses) and expected loss. In order to obtain a monitoring ratio, the first two indicators (in 12 months) are divided by the average of 12 months of the total portfolio to obtain the risk premium and the cost of credit. These gives the manager a full insight into the evolution and future prospects of the portfolio.

It should be noted that unlike default, change in non-performing loans (end doubtful - initial doubtful + failed - recovery of write-offs) refers to the total of the impaired portfolio in a period, regardless of the situation in which it is found (doubtful and failed). This makes metrics a main driver when it comes to establishing measures for portfolio.

The two approaches measure the same reality and, consequently, converge in the long term although they represent successive moments in credit risk cost measurement: flows of non-performing loans (MOV), coverage of non-performing loans (net credit loss provisions), respectively. Although they converge in the long term within the same economic cycle, the three approaches show differences at certain times, which are particularly significant at the start of a change of cycle, as observed in this period. These differences are explained by the different moment of calculation of losses, which is basically determined by accounting regulations (for example, mortgage loans have a coverage calendar and becomes written off "slower" than consumer portfolios). In addition, the analysis can be clouded by changes in the policy of hedging and default, composition of the portfolio, doubtful of acquired entities, changes in accounting regulations (IFRS9), sale of portfolios and adjustments on expected losses calculation parameters, etc.

e) Credit risk cycle

The credit risk management process consists of identifying, measuring analysing, controlling, negotiating and deciding on the risks incurred in the Group's operations. This process involves the areas that take risks, senior management and the Risk function.

As the Group is a member of the Santander Group, the process starts with senior management, through the board of directors and the executive risk committee, which set the risk policies and procedures, the limits and delegation of powers, and approve and supervise the framework for action by the risk function.

The risk cycle has three phases: pre-sale, sale and post-sale. The process is constantly revised, incorporating the results and conclusions of the after-sale phase into the study of risk and pre-sale planning.

e.1) ***Pre-sale***

- **Study of risk and credit rating process**

  Generally speaking, risk study consists of analysing a customer's capacity to meet their contractual commitments with the Group and other creditors. This entails analysing the customer's credit quality, risk operations, solvency and profitability on the basis of the risk assumed.

  With this objective, the Group has used rating models for classifying customer solvency since 1993. These mechanisms are applied in the wholesale segment (sovereign, financial entities, corporate banking) and to SMEs and individuals.

  The rating results from a quantitative model based on balance sheet ratios or macroeconomic variables, complemented by the expert judgement of analysts.

  The ratings given to customers are regularly reviewed, incorporating the latest available financial information and experience in the development of the banking relationship. The regularity of the reviews increases in the case of customers who trigger certain levels in the automatic warning systems and who are classified as special watch. The rating tools are also reviewed in order to adjust the accuracy of the rating.

  While ratings are used in the wholesale sector and for companies and institutions, scoring techniques predominate for individuals and smaller companies. In general, these techniques automatically assign a score to the customer for decision-making purposes, as explained in the Decisions on operations section.

- **Planning and setting limits**

  The purpose of this phase is to limit the levels of risk assumed by the Group, efficiently and comprehensively. The credit risk planning process serves to set the budgets and limits at the portfolio level for subsidiaries. Planning is carried out through a dashboard that ensures that the business plan and lending policy are achieved, and that the resources needed to achieve these are available. This arose as a joint initiative between the Sales area and the Risk function, providing a management tool and a way of working as a team.

  Incorporating the volatility of macroeconomic variables that affect portfolio performance is a key aspect in planning. The Group simulates this performance under a range of adverse and stressed scenarios (stress testing), enabling assessment of the Group's solvency in specific situations.

  Scenario analysis enables senior management to understand the portfolio's evolution in the face of market conditions and changes in the environment. It is a key tool for assessing the sufficiency of provisions in stress scenarios.

  Limits are planned and established using documents agreed between the Business and Risk areas and approved by the Group, setting out the expected business results in terms of risk and return, the limits to which this activity is subject and management of the associated risks, by group or customer.

e.2) *Sales*

- **Decisions on operations**

The sales phase consists of the decision-making process, analysing and deciding on operations. Approval by the risk area is a prior requirement before the contracting of any risk. This process must take into account the policies defined for approving operations, the risk appetite and the elements of the operation that are relevant to the search for the right balance between risk and profitability.

In the sphere of standardised customers (individuals and businesses and SMEs with low turnover), large volumes of credit operations can be managed more easily by using automatic decision models for classifying the customer/transaction pair. The ratings these models give to transactions enable lending to be classified consistently into homogeneous risk groups, based on information on the characteristics of the transaction and its owner.

e.3) After-sales

- **Monitoring**

The Monitoring function is based on a continuous process of ongoing observation, enabling early detection of changes that could affect the credit quality of customers, in order to take measures to correct deviations with a negative impact.

This monitoring is based on customer segmentation, and is carried out by dedicated local and global risk teams, supplemented by internal audit.

The function includes, among other tasks, the identification, monitoring and assignment of policies at customer level to anticipate surprises and manage them in the most appropriate way for their situation, credit policies, rating reviews and continuous monitoring of indicators.

The system called Santander Customer Assessment Notes (SCAN) distinguishes between four levels depending on the level of concern of the circumstances observed (Specialized Follow-up, Intensive Follow-up, Ordinary Follow-up, Do Not Attend). The inclusion of a position in SCAN does not imply that non-compliance has been recorded, but rather the convenience of adopting a specific policy with the same, determining the person responsible and the time frame in which it must be carried out. SCAN qualified clients are reviewed at least semi-annually, being such review quarterly and/or monthly for the most serious grades. The ways in which a firm qualifies in SCAN are the monitoring work itself, the review carried out by the internal audit, the decision of the commercial manager who oversees the firm or the entry into operation of the established system of automatic alarms.

Ratings are reviewed at least every year, but this may be more frequent if weaknesses are detected or based on the rating itself.

The main risk indicators for individual customers, businesses and SMEs with low turnover are monitored to detect changes in the performance of the loan portfolio with respect to the projections in the commercial strategic plans (CSPs).

f) *Measurement and control*

In addition to monitoring the customers' credit quality, the Group puts in place the necessary control procedures to analyse the current credit risk portfolio and its performance throughout the different stages of credit risk.

This function assesses risks from a range of interrelated standpoints. The key vectors of control are geographies, business areas, management models, products, etc. The approach allows for early detection of specific focal points, and the framing of action plans to correct any impairment.

Each control axis supports two types of analysis:

1. Quantitative and qualitative portfolio analysis

Portfolio analysis continuously and systematically monitors changes in risk with respect to budgets, limits and benchmark standards, evaluating the effects with a view to future situations driven by external factors or arising from strategic decisions, so as to establish measures that place the profile and volume of the risk portfolio within the parameters set by the Group.

In the credit risk control phase, the following metrics, among others, are used in addition to the conventional ones:

- **MDV (change in managed NPLs)**

  MDV measures how NPLs change over a period, stripping out write-offs and including recoveries. It is an aggregate metric at the portfolio level that enables us to react to any impairments seen in the behavior of non-performing loans.

- **EL (expected loss) and capital**

  Expected loss is an estimate of the financial loss that will occur over the next year from the portfolio existing at the given time. It is a further cost of business, and must be reflected in the pricing of transactions.

2.- Evaluation of control processes

A systematic scheduled review of procedures and methods, implemented throughout the entire credit risk cycle, to ensure control process effectiveness and validity.

In 2006, within the corporate framework established across the Group for compliance with the Sarbanes Oxley Act, a corporate methodology was created for the documentation and certification of the Control Model, specified in terms of tasks, operating risks and controls. The risk division annually evaluates the efficiency of internal control of its activities.

Moreover, the internal validation function, as part of its mission to supervise the quality of the Group's risk management, ensures that the management and control systems for the different risks inherent in the Group's business comply with the most stringent criteria and best practices seen in the industry and/or required by regulators. In addition, internal audit is responsible for ensuring that policies, methods and procedures are adequate, effectively implemented and regularly reviewed.

g) Recoveries management

Recovery activity is an important function within the Group's risk management area. The area responsible is Collection and Recoveries, which frames a global strategy and a comprehensive approach to recovery management.

The Group combines a global model with local execution, taking account of the specific features of the business in each area.

The main objective of the recovery activity is to recover outstanding debts and obligations by managing our customers, thus contributing to a lesser need for provisions and a lower cost of risk.

The specific targets of the recovery process are guided as follows:

- Achieve collection or regularisation of outstanding balances, so that an account returns to its normal state; if this is not possible, the objective is total or partial recovery of debts, whatever their accounting or management status.

- Maintain and strengthen our relationship with the customer by addressing their behavior with an offer of management tools, such as refinancing products according to their needs, consistently with careful corporate policies of approval and control, as established by the risk areas.

In the recovery activity, Standardised customers and Individually Managed customers are segmented or differentiated with specific and comprehensive management models in each case, according to basic specialisation criteria.

Management is articulated through a multichannel customer relationship strategy. The telephone channel is oriented towards standardised management, with a focus on achieving contact with customers and monitoring payment agreements, prioritising and adapting management actions based on the state of progress of their situation of "in arrears", "doubtful" or "in default", their balance sheet and their payment commitments.

The commercial network of recovery management operates alongside the telephone channel. It is a means of developing a closer relationship with selected customers, and is composed of teams of agents with a highly commercial focus, specific training and strong negotiation skills. They conduct personalised management of their own portfolios of high-impact customers (large balance sheets, special products, customers requiring special management).

Recovery activities at advanced stages of non-performance are guided by a dual judicial and extra judicial management approach. Commercial and follow-up activities by telephone and via agent networks are continued, applying strategies and practices specific to the state of progress.

The management model encourages proactivity and targeted management through continuous recovery campaigns with specific approaches for customer groups and non-performance states, acting with predefined goals through specific strategies and intensive activities via appropriate channels within limited time frames.

Suitable local production and analysis of daily and monthly management information, aligned with corporate models, have been defined as the basis of business intelligence for ongoing decision-making for management guidance and results monitoring.

h) Concentration risk

Concentration risk is a key component of credit risk management. The Santander Group, which Santander Consumer Finance Group belongs, continuously monitors the degree of credit risk concentration, by geographical area/country, economic sector, product and customer group.

The Board of Directors, by reference to the risk appetite, determines the maximum levels of concentration, and the executive risk committee establishes the risk policies and reviews the appropriate exposure limits to ensure the adequate management of credit risk concentration.

Santander Consumer Finance is subject to Bank of Spain regulations on large exposures contained in the fourth part of the CRR (Regulation UE No.575 / 2013), according to which the exposure contracted by an entity with respect to a client or related group of clients will be considered 'great exposure' when its value is equal or greater than 10% of its computable capital. Additionally, to limit large exposures, no entity may assume against a client or group of clients linked to each other an exposure whose value exceeds 25% of its eligible capital, after taking into account the effect of credit risk reduction under rule.

At December closing, after applying risk mitigation techniques, no group reached the aforementioned thresholds.

The Santander Consumer Finance Group’s Risk Division works closely with the Finance Division in the active management of credit portfolios, which includes reducing the concentration of exposures through several techniques, such as the arrangement of credit derivatives for hedging purposes or the performance of securitization transactions, in order to optimise the risk/return ratio of the total portfolio.

The detail, by activity and geographical area of the counterparty, of the concentration of the Group's risk (*) at 31 December 2021 and 2020 is as follows:

2021					
	EUR Thousands				
	Spain	Other EU Countries	Americas	Rest of the world	Total
Credit institutions	5,096,843	15,221,781	3	419,861	20,738,488
Public sector	1,136,219	2,687,032	—	177,194	4,000,445
Of which:					
Central government	*1,135,291*	*2,106,457*	—	*132,741*	*3,374,489*
Other	*928*	*580,575*	—	*44,453*	*625,956*
Other financial institutions	2,706	983,191	206,888	225,043	1,417,828
Non-financial companies and individual traders	1,962,248	23,787,207	—	2,511,404	28,260,859
Of which:					
Construction and property development	—	*257,106*	—	—	*257,106*
Civil engineering construction	—	*5,846*	—	—	*5,846*
Large companies	*698,777*	*8,693,490*	—	*967,906*	*10,360,173*
SMEs and individual traders	*1,263,471*	*14,830,765*	—	*1,543,498*	*17,637,734*
Other households and non-profit institutions serving households	11,112,915	53,012,709	7	6,694,057	70,819,688
Of which:					
Residential	*1,441,332*	*2,418,162*	—	—	*3,859,494*
Consumer loans	*9,575,949*	*50,296,449*	*7*	*6,694,057*	*66,566,462*
Other purposes	*95,634*	*298,098*	—	—	*393,732*
				Total	125,237,308

(*) The definition of risk for the purposes of this table includes the following public consolidated balance sheet items: 'Loans and advances: to credit institutions', 'Loans and advances: to central banks', 'Loans and advances: to customers', 'Debt securities', 'Equity instruments', 'Derivatives', 'Derivatives - Hedge accounting', 'Participating interests and guarantees granted'.

2020					
	EUR Thousands				
	Spain	Other EU Countries	Americas	Rest of the world	Total
Credit institutions	2,612,702	9,496,801	1,375	178,845	12,289,723
Public sector	1,536,095	2,984,518	—	198,890	4,719,503
Of which:					
Central government	*1,485,807*	*2,417,949*	—	*160,462*	*4,064,218*
Other	*50,288*	*566,569*	—	*38,428*	*655,285*
Other financial institutions	230,050	651,730	7,782	176,795	1,066,357
Non-financial companies and individual traders	2,248,064	26,094,026	—	1,618,284	29,960,374
Of which:					
Construction and property development	—	*68,731*	—	—	*68,731*
Civil engineering construction	—	*27,788*	—	—	*27,788*
Large companies	*751,621*	*9,809,590*	—	*463,492*	*11,024,703*
SMEs and individual traders	*1,496,443*	*16,187,917*	—	*1,154,792*	*18,839,152*
Other households and non-profit institutions serving households	11,601,877	51,144,972	22	4,259,661	67,006,532
Of which:					
Residential	*1,508,610*	*2,578,703*	—	—	*4,087,313*
Consumer loans	*10,033,590*	*48,258,481*	*22*	*4,259,661*	*62,551,754*
Other purposes	*59,677*	*307,788*	—	—	*367,465*
				Total	115,042,489

(*) For the purposes of this table, the definition of risk includes the following items in the public consolidated balance sheet: "Cash, cash balances at central banks and others deposits on demand", "Deposits to Credit Institutions", "Loans and Advances to Customers", "Debt Instruments", "Trading Derivatives", "Hedging Derivatives", "Investments", "Equity Instruments" and "Contingent Liabilities",

III. Market, structural and liquidity risk

a. Scope and definitions

The measurement, control and monitoring scope of the Market Risk function encompasses operations where an asset risk is accepted because of changes in market factors.

Such risks are generated through two types of basic activities:

- Trading, which includes both the rendering of financial services on markets for clients, where the bank is the counterparty, and proprietary sales, purchases and positioning, mainly in fixed income, equities and foreign currency products.

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 as needed to fund its business.

- Balance sheet management or ALM, which involves management of inherent risks in the entity's balance sheet, not including the trading portfolio.

The risks generated in these activities are:

- Trading market: Risk resulting from the possibility of changes in market factors affecting the value of positions held by the entity in its trading book.

- Structural: Risk arising from management of different balance sheet items. This risk includes both losses owing to price variations affecting available-for-sale and held-to-maturity portfolios (banking book), and losses arising from the management of the Group's assets and liabilities measured at amortised cost.

- Liquidity: Risk of payment obligations not being met on a timely basis or being met at an excessive cost. The types of losses that this risk triggers include losses on the forced selling of assets or impacts on the margin because of the mismatch of forecast cash outflows and inflows.

Trading market and structural risks, depending on the market variable that triggers them, may be classified as:

- Interest rate risk: Identifies the possibility that interest rate variations may have a negative impact on the value of a financial instrument, a portfolio or the Group as a whole.

- Credit spread risk: Identifies the possibility that variations in credit risk curves associated with issues and specific types of debt may have an adverse effect on a financial instrument, a portfolio or the Group as a whole. The spread is a differential between financial instruments listed at a margin over other benchmark instruments, basically the Internal Rate of Return (IRR) of government securities and interbank interest rates.

- Exchange rate risk: Identifies the possibility that variations in the value of a position in a currency other than the base currency can have an adverse effect on the value of a financial instrument, a portfolio or the Group as a whole.

- Inflation risk: This identifies the possibility that changes in inflation rates could adversely affect the value of a financial instrument, a portfolio or the Group as a whole.

- Volatility risk: Identifies the possibility that variations in the listed volatility of market variables may have an adverse effect on the value of a financial instrument, a portfolio or the Group as a whole.

- Market liquidity risk: Identifies the possibility that an entity or Group as a whole is unable to unwind or close a position on a timely basis without impacting the market price or transaction cost.

- Risk of early payment or cancellation: Identifies the possibility of early cancellation without negotiation on operations where the contractual relationship so allows explicitly or implicitly, generating cash flows that should be reinvested at a potentially lower interest rate.

There are other variables that only impact trading market risk (and not structural risk), meaning that market risk can also be classified as follows:

- Equity risk: Identifies the possibility that changes in the value of prices or dividend expectations from equity instruments can have an adverse effect on the value of a financial instrument, a portfolio or the Group as a whole.

- Commodity price risk: Identifies the possibility that changes in commodity prices may have an adverse effect on the value of a financial instrument, a portfolio or the Group as a whole.

- Correlation risk: Identifies the possibility that changes in the correlation between variables, either of the same or a different type, listed in the market, could adversely affect the value of a financial instrument, a portfolio or the Group as a whole.

- Underwriting risk: Identifies the possibility that placement targets for securities or other types of debt are not reached when the entity participates in underwriting them.

Liquidity risk may also be classified in the following categories:

- Funding risk: Identifies the possibility that the entity is unable to meet its obligations owing to its inability to sell assets or secure funding.

- Mismatch risk: Identifies the possibility that differences between the maturity structures of assets and liabilities will generate an additional cost to the entity.

- Contingency risk: Identifies the possibility that adequate management levers will be unavailable to raise liquidity as a result of an outlier event that entails greater funding needs or more strict collateral requirements to raise funds.

b. Measurement and methods

1. Structural interest-rate risk

The Group analyses the sensitivity of net interest income and of equity to interest rate fluctuations. This sensitivity is determined by mismatches in the maturity and review dates of interest rates of different balance sheet items.

According to the interest rate positioning of the balance sheet, and considering the situation and perspectives of the market, financial measures are adopted to adjust the positioning to that sought by the Bank. These measures may range from taking up positions in markets to the specification of interest rate characteristics of commercial products.

The metrics used to control the interest rate risk in these activities are the interest rate gap, financial margin sensibility and equity in the levels of interest rate.

- Interest rate gap

Analysis of the interest rate gap deals with the mismatch between the timing of re-pricing of on and off-balance aggregates of assets and liabilities and of memorandum accounts (off-balance sheet). It provides a basic profile of the balance sheet structure and can detect concentrations of interest rate risk at different terms. It is also a useful tool for estimates of the potential impact of interest rate movements on net interest income and the equity of the entity.

All on- and off-balance sheet aggregates have to be broken down so that they can be placed in the point of repricing/maturity. For aggregates that do not have a contractual maturity, the Santander Group's internal model for analysis and estimation of their durations and sensitivity is used.

- Sensitivity of Net Interest Income (NII)

The sensitivity of net interest income measures the change in expected accruals for a certain period (12 months) in the event of a shift in the interest rate curve.

– Sensitivity of Economic Value of Equity (EVE)

This measures the implied interest rate risk in the economic value of equity which, for the purposes of interest rate risk, is defined as the difference between the net present value of assets minus the net present value of liabilities, based on the effect of a change in interest rates on such present values.

2. Liquidity risk

Management of structural liquidity aims to fund the recurring activity of the Santander Consumer Finance Group in optimal conditions of term and cost, while avoiding undesired liquidity risks.

The measures used for the control of liquidity risk are the liquidity gap, liquidity ratios, the statement of structural liquidity, liquidity stress tests, the financial plan, the liquidity contingency plan and regulatory reporting.

– Liquidity Gap

The liquidity gap provides information on contractual and expected cash inflows and outflows for a given period in each of the currencies in which the Santander Consumer Finance Group operates. The gap measures the net cash needed or the surplus at a given date and reflects the liquidity level maintained under normal market conditions.

In the contractual liquidity gap, all balance sheet items that generate cash flows are analysed and placed at their point of contractual maturity. For assets and liabilities with no contractual maturity, the Santander Group's internal analysis model is used. It is based on a statistical study of products' time series, and the so-called stable and unstable balance is determined for liquidity purposes.

– Liquidity ratios

The minimum liquidity ratio compares liquid assets available for sale or transfer (after the relevant discounts and adjustments have been applied) and assets at less than 12 months with liabilities of up to 12 months.

The Net Stable Funding Ratio measures the extent to which assets that require structural funding are being funded by structural liabilities.

– Structural liquidity

The purpose of this analysis is to determine the structural liquidity position according to the liquidity profile (greater or lesser stability) of different asset and liability instruments.

– Liquidity stress test

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 securitization considering eligible assets available, in addition to potential growth in customer deposits. This information is used to establish an issue and securitization plan for the year. Throughout the year, regular monitoring is carried out of actual trends in funding requirements, thus giving rise to the revisions of the plan.

- Contingency Funding Plan

The purpose of the Liquidity Contingency Plan is to set out the processes (governance structure) to be followed in the event of a potential or real liquidity crisis, as well as the analysis of contingency actions or levers available to Management should such a situation arise.

The Liquidity Contingency Plan is underpinned by, and must be designed in line with, two key elements: liquidity stress tests and the early warning indicator (EWI) system. Stress tests and different scenarios are used as the basis for analysing available contingency actions and for determining such actions are sufficient. The EWI system monitors and potentially triggers the escalation mechanism for activating the plan and subsequently monitoring the situation.

- Regulatory Reporting

Santander Consumer Finance applies the Liquidity Coverage Ratio (LCR) as required by the European Banking Authority (EBA) for the consolidated sub-group on a monthly basis, and the net stable funding ratio (NSFR) on a quarterly basis.

In addition, Santander Consumer Finance has produced an annual Internal Liquidity Adequacy and Assessment Process (ILAAP) report as part of the consolidated document of the Santander Group, although the supervisor does not require this report at sub-group level.

3. Structural change risk

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

c. Internal Control

The structural and liquidity risk control environment in Santander Consumer Finance Group is based on the framework of the annual limits plan, where the limits for said risks are established, responding to the Group's level of risk appetite.

The limit structure involves a process that considers:

- Efficient and comprehensive identification and delimitation of the main types of market risk incurred, consistently with the management of the business and the strategy defined.

- Quantification and communication of the risk levels and profile considered acceptable by senior management to the business areas, so that undesired risks are not incurred.

- Providing flexibility for the business areas in the acceptance of risks, responding efficiently and appropriately to developments in the market and changes in business strategies, within the risk limits considered acceptable by the entity.

- Enabling business generators to take sufficient prudent risks to achieve their budgeted results.

- Delimiting the range of products and underlying assets in which each Treasury unit can operate, considering characteristics such as the model and assessment systems, the liquidity of the instruments involved, etc.

In the event of exceeding one of these limits or their sub-limits, the risk management officers involved must explain the reasons and facilitate an action plan to correct it.

The main management limits for structural risk at the consolidated Santander Consumer level are:

- One-year net interest income sensitivity limit.

- Equity value sensitivity limit.

The limits are compared to the sensitivity that would result in the largest loss among those calculated under two scenarios (parallel 25 basis point increases and decreases in the interest rate curve). Using a range of scenarios fosters improved control of interest rate risk. The downward scenarios consider negative interest rates.

During 2021, the level of exposure at the consolidated level in SCF Group, both on financial margin and economic value, is low in relation to the budget and the amount of shareholders' equity respectively, being in both cases less than 1% throughout the year, and within the established limits.

With respect to liquidity risk, the main limits at the Santander Consumer Finance Group level include regulatory liquidity metrics such as the LCR and the NSFR (for which there is not yet a regulatory limit in force), as well as the liquidity stress tests under different adverse scenarios mentioned above.

At the end of December 2021, all liquidity metrics are above the internal limits in force, as well as the regulatory requirements. Both the LCR and NSFR at the consolidated Group level were above 115% and 103% throughout the year.

d. Management

Balance sheet management entails the analysis, projection and simulation of structural risks, along with the design, proposal and execution of transactions and strategies to manage this risk. Finance Management is responsible for this process, and it takes a projection-based approach where and when this is applicable or feasible

A high-level description of the main processes and/or responsibilities in managing structural risks is as follows:

- Analysis of the balance sheet and its structural risks.
- Monitoring of movements in the most relevant markets for asset and liability management (ALM) for the Group.
- Planning. Design, maintenance and monitoring of certain planning instruments. Finance Management is responsible for preparing, following and maintaining the financial plan, the funding plan and the liquidity contingency plan.
- Strategy proposals. Design of strategies aimed at funding the SCF sub-group's business by securing the best available market conditions or by managing the balance sheet and its exposure to structural risks, thereby avoiding unnecessary risks, preserving net interest income and safeguarding the market value of equity and capital.
- Execution. To achieve appropriate ALM positioning, Finance Management uses different tools. Chief among these are issues in debt or capital markets, securitization, deposits and interest rate and/or currency hedges, and management of ALCO portfolios and the minimum liquidity buffer.
- Compliance with risk limits and with risk appetite

IV. Operational risk

a) Definition and objectives

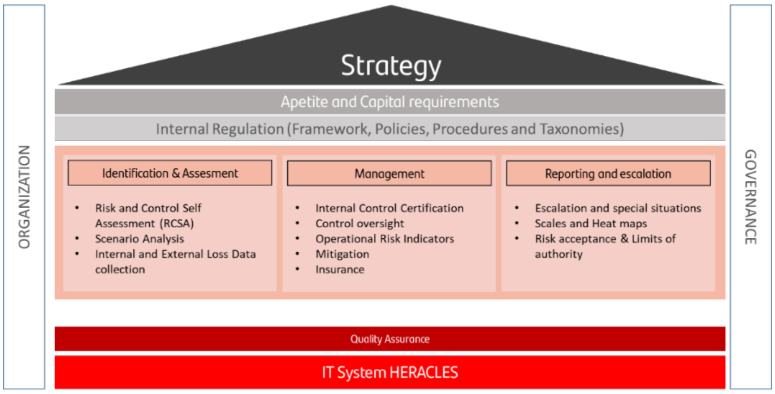
The Group defines operational risk (OR) as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Operational risk is inherent to all products, activities, processes and systems, and is generated in all business and support areas. Accordingly, all employees are responsible for managing and controlling operational risks arising in their area of activity.

The aim pursued by the Group in operational risk control and management is primarily to identify, measure/assess, monitor, control, mitigate and report this risk.

The Group's priority, therefore, is to identify and mitigate focal points of risk, irrespective of whether they have given rise to any losses. Measurement also contributes to the establishment of priorities in the management of operational risk.

To improve and promote adequate operational risk management, Santander Consumer Finance has developed an advanced loss distribution model (LDA) 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 minimize operational risk.

- Preparation of periodic reports on the exposure to operational risk and its level of control for the senior management of the Group and its areas/units, and reporting to the market and the regulatory authorities.

- Definition and implementation of the methodology required for calculating capital in terms of expected and unexpected loss.

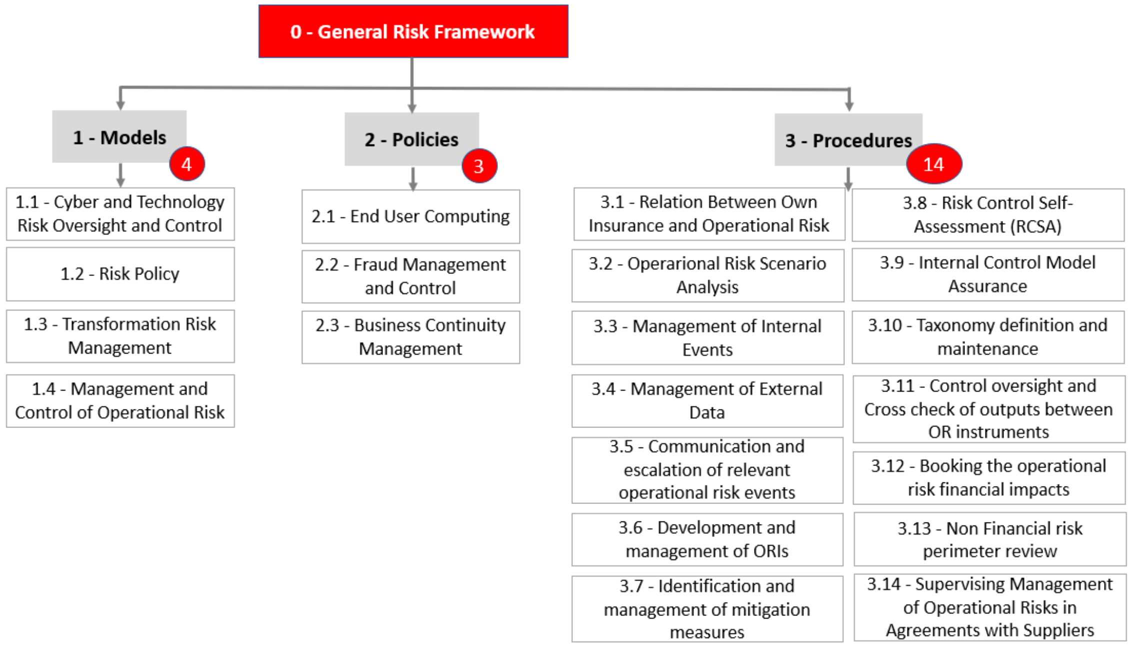
The following is required for each of the key processes indicated above:

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

Towards this end, in 2016 the Group implemented a single tool for management and control of operational risk, compliance and internal control, called Heracles, and which 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 November 2014, the Group adopted the new management system of the Santander Group, in which three lines of defense are defined:

- 1st line of defense: integrated in areas of business or support areas. Its tasks are to identify, measure or assess, control (primary control) mitigate and report the risks inherent to the activity or function for which it is responsible.

Given the complexity and heterogeneous nature of Operational Risk within a large-scale organization with various lines of business, appropriate risk management is carried out in two axes:

(1) Operational Risk Management: each business unit and support function of the Santander Group is responsible for the Operational Risks arising within 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 OR team) in the 1LoD.

(2) Management of specialized Operational Risk controls: there are some functions that tend to manage specialized controls for certain risks where they have greater visibility and specialization. Such functions have a global view of the specific Operational Risk exposure in all areas. We can also refer to them as Subject Matter Experts or SME.

OR 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 ultimate responsibility for Operational Risk in its scope.

OR Coordinators:

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

- Interaction Undertake interaction with the second line of defense in day-to-day operations and communication to Operational Risk Management in their scope.
- Facilitate integration in the management of OR in each scope.
- Support the implementation of qualitative and quantitative methodologies and tools for operations management and control.
- Provide support and advice on Operational Risk within its scope.
- Maintain an overview of risk exposure in scope.
- Ensure the quality and consistency of data and information reported to 2LoD, identifying and monitoring the implementation of relevant controls.
- Review and monitor results provided by business units and support functions related to controls testing.
- Support in sign-off 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 defense: performed by the Non-Financial Risks Department, reporting to the CRO. Its functions are to design, maintain and develop the local adaptation of the Operational Risk Management Framework (BIS), and to control and challenge the first line of defense against operational risk. Main responsibilities include:
  - Design, maintain and develop the Operational Risk management and control model, promoting the development of an operational risk culture across the Group.
  - Safeguard the proper design, maintenance and implementation of Operational Risk regulations.
  - Drive the business units to effectively monitor identified risks.
  - Ensure that each key risk affecting the entity is identified and properly managed by the relevant units.
  - Ensure that the Group has implemented effective OR management processes.

– Prepare Operational Risk appetite tolerance proposals and monitor risk limits in the Group and in the different local units.

– Ensure that Top Management receives an overview of all relevant risks, ensuring adequate communication and reporting to Senior Management and the Board of Directors, through the established governance bodies.

In addition, 2LoD will provide the necessary information for consolidation, together with the remaining risks, to the Risk Supervision and Consolidation function.

To ensure adequate oversight, a sound 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 (BRMs) as commercial knowledge specialists (e.g. Global Corporate Banking) and Specialized Risk Managers (SRMs) as OR control specialists (e.g. IT and cyber risks) perform these functions within OR 2LOD and are positioned as key points of contact for 1LOD business units and operations management support functions.

– 3rd line of defense: Carried out by Internal Audit, which assesses compliance with its policies and procedures by all the entity's activities and units. Main responsibilities include:

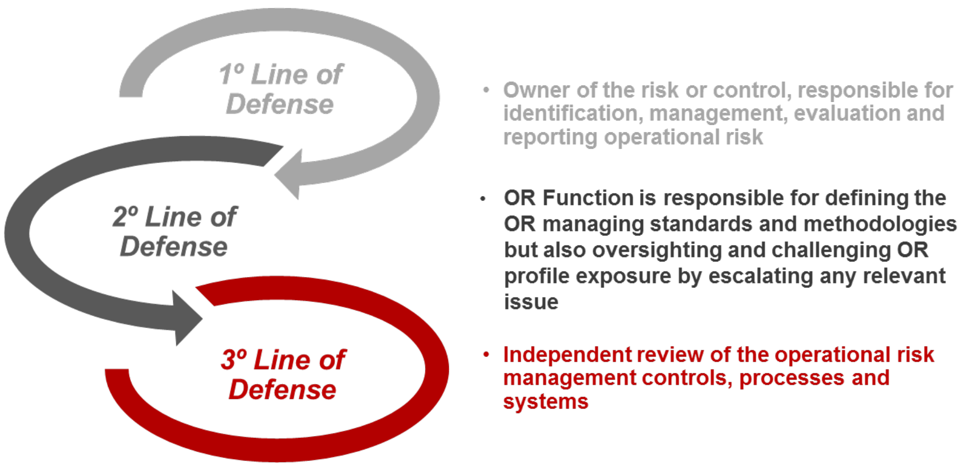
  – Verify that the risks inherent to the Group's activity are sufficiently covered, complying with the policies established by Senior Management and the applicable internal and external procedures and regulations.

  – Supervise the compliance, effectiveness and efficiency of the internal control systems of operations in the Group, as well as the quality of accounting information.

  – Perform an independent review and challenge OR controls, as well as Operational Risk management processes and systems.

  – Evaluate the status of implementation of the OR 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, as the Group, through the Santander Group, takes part in international consortia such as the Operational Risk data exchange Association (ORX). In 2016, the Group started to make increased use of external databases that provide quantitative and qualitative information to enable a more detailed and structured analysis of significant events occurring in the sector.

- OR scenario analysis. Expert opinion is obtained from the business lines and the risk and control managers with the aim of identifying potential events which, although very unlikely to occur, could result in a very high loss for the institution. Their potential effect on the institution is evaluated and additional controls and mitigating measures are identified that reduce the possibility of a high economic impact. In addition, the results of this exercise (which has also been integrated into the HERACLES tool) will be used as one of the inputs for the calculation of economic capital for operational risk based on the advanced model (LDA).

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. Incentivising the responsibility of the first lines of defense: It establishes the first line figures of risk owner and control owner.

ii. Helping identify the most significant risks: Non-predefined risks, but rather risks that arise from the risk-generating areas.

iii. Improved integration of OR tools: Root cause analysis is added.

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

v. Tests with a more forward-looking approach: The financial impact of risk exposure is assessed

– Operational Risk Indicator system (ORIS): continuously-evolving corporate system of operational risk indicators that is coordinated with the corresponding corporate area. These are diverse statistics or parameters that provide information on an entity's exposure to risk. They are revised periodically in order to warn of any changes that could reveal problems vis-à-vis risk.

– Recommendations from regulators, Internal Audit and the external auditor. These provide relevant information on inherent risk arising from internal and external factors, and enable identification of weaknesses in controls.

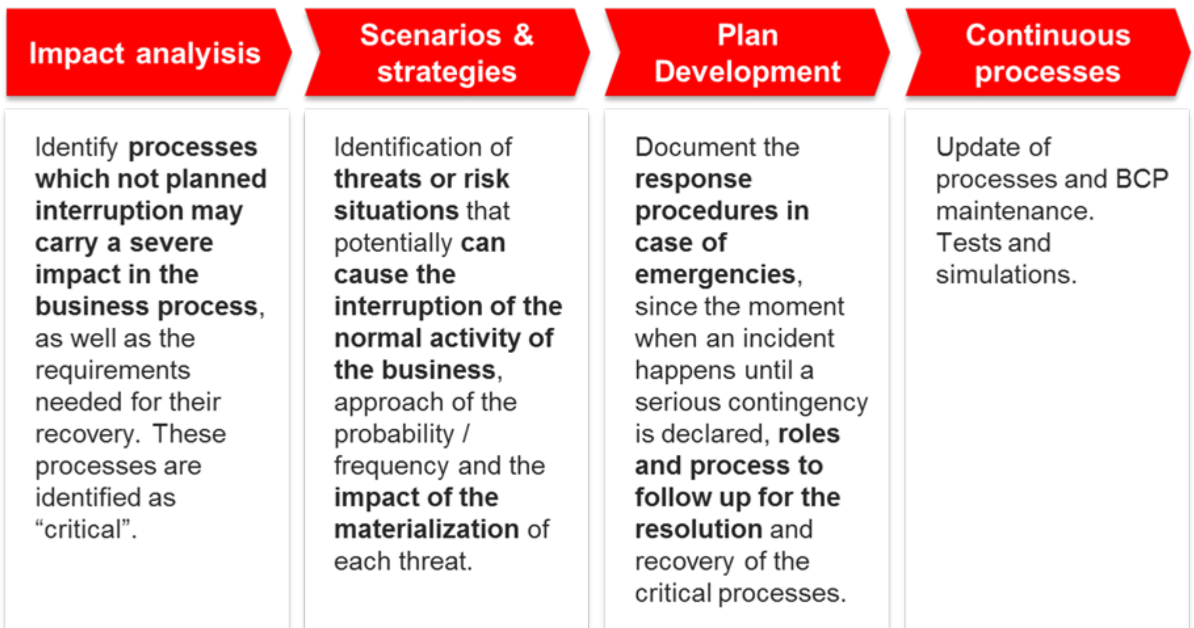
– Other specific instruments that permit a more detailed analysis of technology risk, such as control of critical incidences in systems and cyber-security events.

d) Operational risk information system

HERACLES is the corporate operational risk information system. This system has modules for risk self-assessment, event registration, a risk and assessment map, indicators of both operational risk and of internal control, mitigation and reporting systems and scenario analysis, and it is applied to all entities of the Group.

e) Business Continuity Plan

The Santander Group and, accordingly, the Santander Consumer Finance Group, have a Business Continuity Management System (BCMS) to ensure the continuity of its entities' business processes in the event of a disaster or serious incident.



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.

f) Corporate information

The Santander Group's corporate operational risk control area has an operational risk management information system that provides data on the Group's main risk elements. The information available from each country/unit in the operational risk sphere is consolidated to obtain a global view with the following features:

- Two levels of information: a corporate level, with consolidated information, and an individual level containing information for each country/unit.

- Dissemination of best practices among the Santander Group countries/units, obtained from the combined study of the results of quantitative and qualitative analyses of operational risk.

Specifically, information is prepared on the following subjects:

- The operational risk management model in the Bank and the main units and geographic areas of the Group.

- The scope of operational risk management.

- The monitoring of appetite metrics

- Analysis of internal event database and of significant external events.

- Analysis of most significant risks detected using various information sources, such as operational and technology risk self-assessment processes.

- Evaluation and analysis of risk indicators.

- Mitigation measures/active management.

- Business continuity plans and contingency plans.

This information is used as the basis for meeting reporting requirements to the Executive Risk Committee, the Risk Supervision, Regulation and Compliance Committee, the Operational Risk Committee, senior management, regulators, credit rating agencies, etc.

The role of insurance in operational risk management

The Santander Consumer Finance Group considers insurance to be a key tool in the management of operational risk. Since 2014, common guidelines have been in place for coordination between the different functions involved in the management cycle of operational risk-mitigating insurance, mainly the areas of proprietary insurance and operational risk control, but also different areas of first line risk management.

These guidelines include the following activities:

- Identification of all risks at the Group that could be covered by insurance, as well as new insurance cover for risks already identified in the market.

- Establishment and implementation of criteria for quantifying insurable risk, based on the analysis of losses and in loss scenarios that make it possible to determine the Group's level of exposure to each risk.

- Analysis of the cover available in the insurance market, as well as preliminary design of the terms and conditions that best suit the requirements previously identified and evaluated.

- Technical assessment of the level of protection provided by a policy, the cost and levels of retention that would be assumed by the Group (deductibles and other items borne by the insured) for the purpose of deciding whether to contract it.

- Negotiation with suppliers and contract awards in accordance with the relevant procedures established by the Group.

- Monitoring of claims reported under the policies, as well as those not reported or not recovered due to incorrect reporting.

- Analysis of the appropriateness of the Group's policies for the risks covered, taking the necessary measures to correct any shortcomings detected.

- Close cooperation between local operational risk officers and local insurance coordinators in order to enhance operational risk mitigation.

- Regular meetings to inform on the specific activities, situation and projects of the two areas.

- Active participation of both areas in the global insurance sourcing desk, the Group's highest technical body for the definition of insurance cover and arrangement strategies.

Cyber Risk

Cybersecurity risk (also known as cyber risk) is defined as any risk of financial loss, business interruption or damage to Santander Consumer's reputation arising 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, there would be three main cyber risks for Santander Consumer:

- Unauthorised access to or misuse of information or systems (e.g. theft of business or personal information).

- Theft and financial fraud.

- Business service disruption (e.g. sabotage, extortion, denial of service).

During 2021, Santander Consumer continued to pay full attention to cybersecurity-related risks affecting our units in the various geographies. This situation, which is causing concern among institutions and regulators, is spurring the adoption of preventive measures so as to be prepared for attacks of this kind.

The Group has upgraded its cyber regulations by approving a new cyber security framework and the cyber risk monitoring model, as well as various related policies.

A new organisational structure has also been defined and governance has been bolstered to manage and control this risk. Specific committees have been set up and cybersecurity metrics have been added to the Group's risk appetite. These metrics have been monitored and reported both in the various geographies and at the global level.

The main instruments and processes in place for controlling cybersecurity risk are:

- Compliance with the cyber risk appetite, the purpose of this process being to ensure that the cyber risk profile is in line with the risk appetite. The cyber risk appetite is defined by a set of metrics, risk statements and indicators together with related tolerance thresholds, using the existing governance structures for monitoring and escalation, including risk committees and cyber security committees.

- Cybersecurity risk identification and assessment: The cyber risk identification and assessment process is a key to anticipating and determining the risk factors that could lead to cyber risk and estimating probability 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 methodology includes the approaches used to identify, classify and quantify cyber risks, as well as to assess the controls and corrective actions implemented by the first line of defense function. Cyber risk assessment exercises are the fundamental tool for identifying and assessing cybersecurity risks in the various Consumer companies. The cybersecurity and technology risk assessment will be updated as is reasonably necessary taking into account changes in information systems, confidential or business information, and the company's business transactions.

- Cyber risk control and mitigation: processes undertaken to evaluate the effectiveness of controls and the mitigation of risks. Once the cyber risks have been assessed and mitigation measures have been defined, these measures are set out in Santander Consumer's cybersecurity risk mitigation plan, the residual risks identified being formally accepted. In view of the nature of cyber risks, a regular assessment of risk mitigation plans is carried out. The business continuity plan is a key process should there be a successful cyber security attack. Santander Consumer has put in place mitigation strategies and measures related to business continuity management and disaster recovery plans. These measures are also linked to cyber attacks and backed up by defined policies, methods and procedures.

- Monitoring, supervision and communication of cyber risk: Santander Consumer controls and monitors cyber risk so as to periodically analyse the information available on risks assumed in the Group's activities. This entails controlling and monitoring key risk indicators (KRIs) and key performance indicators (KPIs) to assess whether risk exposure is in line with the agreed risk appetite.

- Escalation and reporting: Proper escalation and communication of cyber threats and cyber attacks is another key process. Santander Consumer has tools and processes in place to detect signs of insider threats and potential compromises in its infrastructure, servers, applications and databases. Communication entails reporting and submitting to the relevant committees the information necessary to evaluate cyber risk exposure and the cyber risk profile before taking the necessary decisions and actions. The cyber risk situation is reported to the management committees. There are also mechanisms for the independent internal escalation of technology and cybersecurity incidents to the bank's management team and, if necessary, to the relevant regulator.

Other emerging risks

In addition to cyber risk, Santander Consumer Group is stepping up the monitoring of new emerging risks arising from 1) supplier management and 2) transformation projects.

- With regard to supplier management risks, the focus is on the quality and continuity of services provided to SCF, but also on ensuring compliance with the new EBA Guidelines by implementing specific risk instruments throughout the various phases of the supplier lifecycle.

- Transformation risk is defined as any risk arising from material changes to SCF's organisation, products, services or processes due to imperfect design, construction, testing, implementation and/or roll-out of projects and initiatives, and transition to business as usual (BAU). Transformation is a root cause that 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 according to the General Corporate Compliance and Conduct Framework (Marco Corporativo General de Cumplimiento y Conducta).

The compliance function promotes the adhesion of Santander Consumer Finance, S.A. ("SCF") to standards, supervisory requirements, and the principles and values of good conduct by setting standards, debating, advising and reporting, in the interest of employees, customers, shareholders and the wider community. In accordance with the current corporate configuration of the Santander Group's three lines of defense, the compliance function is a second-line independent control function that reports directly to the Board of Directors and its committees through the CCO. This configuration is aligned with the requirements of banking regulation and with the expectations of supervisors.

The SCF Group's objective in the area of compliance and conduct risk is to minimise the probability that noncompliance and irregularities occur and that any that should occur are identified, assessed, reported and quickly resolved.

The main tools used by the Compliance function in order to meet their objectives are (among others): establishment and coordination with the Compliance Program, coordination of the Risk Assessments of all the areas of Compliance and Conduct, definition and monitoring of the Compliance Metrics that participate in the SCF Appetite Risk Framework and monitoring of the Norms of Obligatory Compliance.

Climate and environment risk

Santander Consumer Finance's ESG (environmental and climate, social and governance factors) strategy consists of doing business in a responsible and sustainable way, supporting the green transition, building a more inclusive society and doing the right thing, in line with the most rigorous governance standards.

ESG factors may also entail traditional types of risk (e.g. credit, liquidity, operational or reputational) due to the physical impacts of a changing climate, risks associated with the transition to a new, more sustainable economy and the failure to meet expectations and commitments. Therefore, they are included in Santander Consumer Finance's risk map as relevant risk factors.

Climate risks (physical risks and transition risks) are becoming very important, so Santander Consumer Finance is strengthening management and control of these risks in coordination with the Santander Group's corporate teams, within the framework of the Climate Project, some of the priorities being:

a. Availability of relevant data (e.g. CO2 emissions of assets financed, green asset finance ratio, company sector code, energy efficiency certificates and location of collateral, etc.).

b. EWRM (Enterprise-Wide Risk Management) approach, which provides a holistic and proactive view of climate issues as a basis for proper management.

c. Integration of climate risks into day-to-day risk management and control.

Data: Certain data that were not very relevant until recently have become essential for matters such as aligning portfolios with environmental objectives, information disclosure or climate risk management. Therefore, one of the pillars of the Climate Project is the availability of climate data of the required quality.

EWRM approach: Firstly, an essentially qualitative assessment was conducted of the implications and materiality of climate aspects for Santander Consumer Finance, focused especially on the auto portfolio, as summarised in the following paragraphs.

For banking in general, climate is a cross-cutting issue with multiple angles and two primary interrelated dimensions:

1. Banks have a key role to play in climate change mitigation and the transition to a new green economy.

2. Climatic aspects can cause banks to make losses through various transmission mechanisms.

For Santander Consumer Finance in particular, our view is as follows:

1. Our role in sustainable financing: The alignment of our portfolios with the zero net emissions target is happening in a natural, gradual way thanks to EU policies and the short duration of our contracts. In any event, Santander Consumer Finance is itself becoming more sustainable and proactively helping customers to do so. The efforts being made in data and information dissemination are crucial.

2. Potential impacts of climate risks on Santander Consumer Finance: The materiality analysis concluded that the types of risk most affected at SCF are credit, residual value, reputational and strategic (business model) risks. The potential impacts are considerably mitigated by the context (gradual transformation of the automotive industry) and Santander Consumer Finance's business model (mainly retail, good quality, short-term and diversified portfolios). Climate issues could also trigger a general economic crisis, perhaps due to a disorderly transition to the new green economy. We are already managing and controlling these risks, but this approach needs to be further intensified.

Climate risks are being integrated into EWRM processes: top risks, risk map, risk profile assessment, risk appetite, risk strategy, strategic risk, capital risk and stress testing. The stress tests included in Santander Consumer Finance's strategic plans and ICAAP take account of climate risks through idiosyncratic events. The results of these stress tests are part of the company's risk appetite. Scenarios and stress testing methodologies will be more sophisticated as more information becomes available. Santander Consumer Finance is currently participating together with Santander Group teams in the ECB's first 2022 climate risk stress test.

Integration into daily risk management and control: Santander Consumer Finance is working in parallel on the integration of climate risks into all phases of the risk cycle, ensuring compliance with the commitments undertaken and supervisory expectations. One example is the recent implementation of the environmental, social and climate change policy at BCB (corporate banking business in Germany).

g) Compliance with regulatory framework

In 2021, the Santander Consumer Finance Group must maintain a minimum capital ratio of 7.89% CET1 phase-in (4.5% for Pillar I, 0.84% for Pillar II, 2.5% for the capital conservation buffer, and 0.05% for the anticyclical buffer), This requirement includes: (i) the minimum Common Equity Tier 1 requirement to be maintained at all times under Section 92(1)(a) of Regulation (EU) No 575/2013 (ii) the Common Equity Tier 1 requirement to be maintained in excess at all times under Section 16(2)(a) of Regulation (EU) No 1024/2013; and (iii) the capital conservation buffer under Section 129 of Directive 2013/36/EU. In addition, the Santander Consumer Finance Group must maintain a minimum capital ratio of 9.675% of Q1 phase-in as well as a minimum Total Ratio of 12.05% phase-in.

As of December 31, 2021, the Bank meets the minimum capital requirements required by current regulations.

Reconciliation of accounting **capital with regulatory capital (EUR millions)**

	2021	2020
Subscribed capital	5,639	5,639
Share premium account	1,140	1,140
Reserves	3,040	3,994
Other equity instruments	1,200	1,200
Attributable profit	1,175	504
Approved dividend	—	—
Interim dividend	(491)	—
Shareholders' equity on public balance sheet	11,703	12,477
Valuation adjustments	(646)	(702)
Non- controlling interests	2,337	2,132
Total Equity on public balance sheet	13,394	13,907
Goodwill and intangible assets	(1,783)	(1,804)
Accrued dividend	(1,175)	(504)
Eligible preference shares and participating securities	—	—
Other adjustments (*)	143	(1,019)
Tier 1 (Phase-in)	10,579	10,580

(*) The distribution of the result obtained in fiscal year 2021 has not been submitted to the General Shareholders' Meeting for approval, however, a dividend distribution is proposed.

(*) Fundamentally for non-computable non-controlling interests and deductions and reasonable filters in compliance with CRR.

The following table shows the Phase-in capital coefficients and a detail of the eligible internal resources of the Group:

	2021	2020
Capital coefficients		
Level 1 ordinary eligible capital (millions of euros)	9,167	9,202
Level 1 additional eligible capital (millions of euros)	1,412	1,378
Level 2 eligible capital (millions of euros)	1,045	934
Risk-weighted assets (millions of euros)	72,898	69,653
Level 1 ordinary capital coefficient (CET 1)	12.58%	13.21%
Level 1 additional capital coefficient (AT1)	1.93%	1.98%
Level 1 capital coefficient (TIER1)	14.51%	15.19%
Level 2 capital coefficient (TIER 2)	1.44%	1.34%
Total capital coefficient	15.95%	16.53%

Eligible capital (EUR millions)

	2021	2020
Eligible capital		
Common Equity Tier I	9,167	9,202
Capital	5,639	5,639
Share Premium	1,140	1,140
Reserves	3,040	3,989
Other retained earnings	(645)	(702)
Minority interests	1,305	1,142
Profit net of dividends	684	—
Deductions	(1,996)	(2,005)
Goodwill and intangible assets	(1,783)	*(1,672)*
Others	(213)	(333)
Additional Tier I	1,412	1,378
Eligible instruments AT1	1,200	1,200
T1- excesses-subsidiaries	212	178
Residual value of dividends	—	—
Others	—	—
Tier II	1,045	934
Eligible instruments T2	871	807
Gen. funds and surplus loans loss prov. IRB	—	—
T2-excesses- subsidiaries	175	127
Others	—	—
Total eligible capital	11,624	11,513

The Bank is continuing its plan to implement the Basel advanced internal rating-based measurement approach (AIRB). This objective is also conditioned by the acquisition of new entities, as well as by the need for coordination of the validation processes for internal models by supervisors.

The Santander Consumer Finance Group mainly operates in countries within the same legal supervisory framework, as is the case in Europe through the Capital Directive.

Santander Consumer Finance currently has supervisory authorisation to use advanced approaches for calculating regulatory capital requirements for credit risk for its main portfolios in Spain, and some portfolios in Germany, Scandinavia and France.

Santander Consumer Finance Group currently applies the standard approach to calculating regulatory capital for operational risk, as set out in the European Capital Directive.

As for the other risks expressly considered in Basel Pillar I, market risk is not significant in Santander Consumer Finance, as this is not part of its business purpose, and it therefore uses the standard approach.

Leverage ratio

The leverage ratio has been defined within the regulatory framework of Basel III as a measure of the capital required by financial institutions not sensitive to risk. The Group performs the calculation as stipulated in CRD IV and its subsequent amendment in EU Regulation no. 573/2013 of 17 January 2015, which was aimed at harmonising calculation criteria with those specified in the BCBS "Basel III leverage ratio framework and Disclosure requirements" documents.

This ratio is calculated as Tier 1 capital divided by leverage exposure. Exposure is calculated as the sum of the following items:

- Accounting assets, excluding derivatives and items treated as deductions from Tier 1 capital (for example, the balance of loans is included, but not that of goodwill).

- Off-balance-sheet items (mainly guarantees, unused credit limits granted and documentary credits) weighted using credit conversion factors.

- Inclusion of net value of derivatives (gains and losses are netted with the same counterparty, minus collaterals if they comply with certain criteria) plus a charge for the future potential exposure.

- A charge for the potential risk of security funding transactions.

- Lastly, it includes a charge for the risk of credit derivative swaps (CDS).

Santander Consumer Finance maintains a fully loaded leverage ratio of 9.40% at the end of 2021, over a minimum reference ratio of 3%:

EUR Millions	2021	2020
Leverage		
Level 1 Capital	10,579	10,580
Exposure	112,492	118,859
Leverage Ratio	9.40%	8.90%

Economic capital

From the point of view of solvency, in the context of Basel Pillar II Santander Consumer Finance Group uses its economic model for its internal capital adequacy assessment process (ICAAP). For this purpose, business performance and capital needs are planned under a base case scenario and under alternative stress scenarios. In this planning, the Group ensures that its solvency objectives are upheld even in adverse economic scenarios.

Economic capital is the capital required, according to an internally developed model, to support all the risks of our business at a certain level of solvency. In our case, the solvency level is determined by the long-term objective rating of 'A' (two steps above Spain's rating), which means applying a confidence level of 99.95% (above the regulatory 99.90%) to calculate the necessary capital.

The Group's economic capital model includes in its measurement all significant risks incurred by the Group in its operations, and therefore considers risks such as concentration, structural interest rate, business, pensions and others that are outside the scope of "regulatory" Pillar 1. Furthermore, economic capital incorporates the diversification effect, which in the case of the Group is crucial, due to the multinational and multi-business nature of its activity, in order to determine the overall risk and solvency profile.

The Santander Consumer Finance Group uses the RORAC method in its risk management to calculate the economic capital consumption and return on risk-adjusted capital of the Group's business units, segments, portfolios or customers, in order to periodically analyse value creation and facilitate optimal allocation of capital.

The RORAC methodology makes it possible to compare, on a uniform basis, the returns on transactions, customers, portfolios and businesses, identifying those that obtain a risk-adjusted return higher than the Group's cost of capital, and thus aligning risk and business management with the intention of maximising value creation, which is the ultimate objective of Santander Consumer Finance's senior management.

Appendix I

Subsidiaries

Entity	Domicile	Country	Bank's ownership interest (%)		Voting rights (%) (c)		Line of business	EUR Millions		
			Direct	Indirect	2021	2020		Capital and reserves (a)	Net profit (a)	Participation amount (b)
Andaluza de Inversiones, S.A.	Ciudad Grupo Santander, Av. Cantabria, 28660, Boadilla del Monte - Madrid	Spain	100%	—	100%	100%	Holding company	37	—	27
Auto ABS Belgium Loans 2019 SA/NV (d)	-	Belgium	—	(d)	—	—	Securization	—	—	—
Auto ABS DFP Master Compartment France 2013 (d)	-	France	—	(d)	—	—	Securization	—	—	—
Auto ABS French Leases Master Compartiment 2016 (d)	-	France	—	(d)	—	—	Securization	—	—	—
Auto ABS French Loans Master (d)	-	France	—	(d)	—	—	Securization	—	—	—
Auto ABS French LT Leases Master (d)	-	France	—	(d)	—	—	Securization	—	—	—
Auto ABS French Leases 2018 (d)	-	France	—	(d)	—	—	Securization	—	—	—
Auto ABS French Leases 2021 (d)	-	France	—	(d)	—	—	Securization	—	—	—
Auto ABS italian Loans 2018-1 S.R.L. (d)	-	Italy	—	(d)	—	—	Securization	—	—	—
Auto ABS italian Balloon 2019-1 S.R.L. (d)	-	Italy	—	(d)	—	—	Securization	—	—	—
Auto ABS Spanish Loans 2020-1, Fondo de Titulización (d)	-	Spain	—	(d)	—	—	Securization	—	—	—
Auto ABS Spanish Loans 2018-1 FT (d)	-	Spain	—	(d)	—	—	Securization	—	—	—
PBD Germany Auto Lease Master S.A., Compartment 2021-1 (d)	-	Luxembourg	—	(d)	—	—	Securization	—	—	—
AUTO ABS ITALIAN RAINBOW LOANS 2020-1 SRL (d)	-	Italy	—	(d)	—	—	Securization	—	—	—
Auto ABS UK Loans PLC (d)	-	United Kingdom	—	(d)	—	—	Securization	—	—	—
Auto ABS UK Loans 2019 PLC (d)	-	United Kingdom	—	(d)	—	—	Securization	—	—	—
Autodescuento S.L.	Calle Alcalá nº4, 5ª Planta 28014 Madrid, España	Spain	—	94%	94%	94%	Financial	1	1	18
Banca PSA Italia S.p.a.	Via Gallarate 199, 20151 Milano	Italy	—	50%	50%	50%	Banking	320	72	153
Bilkreditt 7 Designated Activity Company (d)	-	Ireland	—	(d)			Securization	—	—	—
Compagnie Generale de Credit Aux Particuliers - Credipar S.A.	9 rue Henri Barbusse 92330 Gennevilliers	France	—	50%	50%	50%	Banking	363	161	855
Compagnie Pour la Location de Vehicules - CLV	9 rue Henri Barbusse 92330 Gennevilliers	France	—	50%	50%	50%	Financial	20	2	52
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Av. António Augusto Aguiar, 31 1069-413 Lisboa	Portugal	—	51%	51%	51%	Financial	8	—	8
Financiera El Corte Inglés, E.F.C., S.A.	C/ Hermosilla 112, 28009, Madrid	Spain	51%	—%	51%	51%	Financial	260	59	140
Fondation Holding Auto ABS Belgium Loans (d)	-	Belgium	—	(d)	—	—	Securization	—	—	—

Entity	Domicile	Country	Bank's ownership interest (%)		Voting rights (%) (c)		Line of business	EUR Millions		
			Direct	Indirect	2021	2020		Capital and reserves (a)	Net profit (a)	Participation amount (b)
Guaranty Car, S.A.	Nacional II, Km 16,500 – 28830 San Fernando de Henares (Madrid)	Spain	—	100%	100%	100%	Auto	2	1	2
Santander Consumer Mobility Services, S.A.	Ciudad Grupo Santander Av. Cantabria s/n, 28660 Boadilla del Monte	Spain	—	100%	100%	100%	Renting	12	—	12
Isar Valley S.A. (d)	-	Luxembourg	—	(d)	—	—	Securization	—	—	—
Pony S.A. (d)	-	Luxembourg	—	(d)	—	—	Securization	—	—	—
Compartment German Auto Loans 2021-1 (d)	-	Luxembourg	—	(d)	—	—	Securization	—	—	—
PBD Germany Auto 2018 UG (Haftungsbeschränkt) (d)	-	Germany	—	(d)	—	—	Securization	—	—	—
PBD Germany Auto Lease Master 2019 (d)	-	Luxembourg	—	(d)	—	—	Securization	—	—	—
PBD Germany Auto Loan 2021 UG (Haftungsbeschränkt) (d)	-	Germany	—	(d)	—	—	Securization	—	—	—
PSA Bank Deutschland GmbH	Siemensstraße 10, 63263 Neu-Isenburg, Hesse	Germany	—	50%	50%	50%	Banking	517	59	229
PSA Banque France	9 rue Henri Barbusse 92330 Gennevilliers	France	—	50%	50%	50%	Banking	1,068	74	463
PSA Finance Belux S.A.	Parc L'Alliance Avenue Finlande 4-8 1420 Braine Làlleud Belgium	Belgium	—	50%	50%	50%	Financial	91	15	104
PSA Financial Services Nederland B.V.	Hoofdweg 256, 3067 GJ Rotterdam	Netherlands	—	50%	50%	50%	Financial	52	17	64
PSA Finance UK Limited	61 London Road - Londres	United Kingdom	—	50%	50%	50%	Financial	368	64	362
PSA FINANCIAL SERVICES, SPAIN, EFC, SA	C/ Eduardo Barreiros Nº 110. 28041, Madrid	Spain	50%	—%	50%	50%	Financial	739	53	363
Santander Consumer Finance Global Services, S.L.	Ciudad Grupo Santander, Av Cantabria, 28660, Boadilla del Monte - Madrid	Spain	100%	—%	99%	99%	Other services	6	2	5
Santander Consumer Finance Schweiz AG	Brandstrasse 24, 8952 Schlieren	Switzerland	100%	—%	100%	100%	Leasing	47	6	60
Santander Consumer Bank AG	Santander Platz I, 41061 (Mönchengladbach)	Germany	—	100%	100%	100%	Banking	2,852	461	5,070
Santander Consumer Bank A.S.	Strandveien 18, 1366 Lysaker, 0219 (Baerum)	Norway	100%	—%	100%	100%	Financial	2,844	199	2,081
Santander Consumer Bank GmbH	Andromeda Tower, Donan City. Strów-Wien	Austria	—	100%	100%	100%	Banking	379	45	363
Santander Consumer Bank S.p.A.	Vía Nizza 262, I-10126 (Turín)	Italy	100%	—	100%	100%	Banking	825	178	603
Santander Consumer Banque, S.A.	12 Avenue André Malraux 92300 Levallois-Perret (France)	France	100%	—	100%	100%	Banking	544	40	492
Santander Consumer Finance Oy	Hermannin Rantatie 10, 00580 (Helsinki)	Finland	—	100%	100%	100%	Financial	314	54	165
Santander Consumer Holding Austria GmbH	Rennweg 17, A 1030 (Wien)	Austria	100%	—	100%	100%	Holding company	364	20	518
Santander Consumer Holding GmbH	Santander Platz I, 41061 (Mönchengladbach)	Germany	100%	—	100%	100%	Holding company	5,564	309	6,077
Santander Consumer Operations Services GmbH	Madrider Strabe, 1D – 41069, Monchengladbach (Alemania)	Germany	—	100%	—	—	Other services	11	1	18

Entity	Domicile	Country	Bank's ownership interest (%)		Voting rights (%) (c)		Line of business	EUR Millions		
			Direct	Indirect	2021	2020		Capital and reserves (a)	Net profit (a)	Participation amount (b)
Santander Consumer Technology Services GmbH	Kaiserstr 74, 41061, Monchengladbach (Alemania)	Germany	—	100%	—	—	Other services	21	3	22
Santander Consumer Leasing GmbH	Santander Platz I, 41061 (Mönchengladbach)	Germany	—	100%	—	—	Leasing	(89)	109	101
Hyundai Capital Bank Europe GmbH	Friedrich-Ebert-Anlage 35-37 · 60327 Frankfurt am Main	Germany	—	51%	—	—	Financial	701	1	391
Santander Consumer Renting, S.L.	Santa Bárbara 1, 28180, Torrelaguna - Madrid	Spain	100%	—	100%	100%	Leasing	37	1	38
Santander Consumer Services GmbH	Thomas Alva Edison Str. I, Eisendstadt	Austria	—	100%	100%	100%	Services	—	—	—
Santander Consumer Services, S.A.	Rua Gregorio Lopez Lote 1596 B-1400 195 Lisboa – Portugal	Portugal	100%	—	—	—	Financial	11	2	6
SC Austria Finance 2020-1 Designated Activity Company (d)	-	Ireland	—	(d)	—	—	Securization	—	—	—
SC Germany Auto 2014-2 UG (haftungsbeschränkt) (d)	-	Germany	—	(d)	—	—	Securization	—	—	—
SC Germany Auto 2016-2 UG (haftungsbeschränkt) (d)	-	Germany	—	(d)	—	—	Securization	—	—	—
SC Germany Auto 2018-1 UG (haftungsbeschränkt) (d)	-	Germany	—	(d)	—	—	Securization	—	—	—
SC Germany Consumer 2018-1 UG (haftungsbeschränkt) (d)	-	Germany	—	(d)	—	—	Securization	—	—	—
SC Germany Mobility 2019-1 UG (haftungsbeschränkt) (d)	-	Germany	—	(d)	—	—	Securization	—	—	—
SC Germany Auto 2019-1 UG (haftungsbeschränkt) (d)	-	Germany	—	(d)	—	—	Securization	—	—	—
SC Germany S.A., Compartment Mobility 2020-1 (d)	-	Luxembourg	—	(d)	—	—	Securization	—	—	—
SC Germany S.A., Compartment Consumer 2020-1 (d)	-	Luxembourg	—	(d)	—	—	Securization	—	—	—
SC Germany S.A. (d)	-	Luxembourg	—	(d)	—	—	Securization	—	—	—
SC Germany S.A. (New Compartment: Consumer 2021-1) (d)	-	Luxembourg	—	(d)	—	—	Securization	—	—	—
SCF Ajoneuvohallinto KIMI VI Limited (d)	-	Ireland	—	(d)	—	—	Securization	—	—	—
SCF Ajoneuvohallinto VII Limited (d)	-	Ireland	—	(d)	—	—	Securization	—	—	—
SCF Ajoneuvohallinto VIII Limited (d)	-	Ireland	—	(d)	—	—	Securization	—	—	—
SCF Ajoneuvohallinto IX Limited (d)	-	Ireland	—	(d)	—	—	Securization	—	—	—
SCF Ajoneuvohallinto X Limited (d)	-	Ireland	—	(d)	—	—	Securization	—	—	—
SCF Rahoituspalvelut KIMI VI DAC (d)	-	Ireland	—	(d)	—	—	Securization	—	—	—
SCF Rahoituspalvelut VII DAC (d)	-	Ireland	—	(d)	—	—	Securization	—	—	—
SCF Rahoituspalvelut VIII DAC (d)	-	Ireland	—	(d)	—	—	Securization	—	—	—

Entity	Domicile	Country	Bank's ownership interest (%)		Voting rights (%) (c)		Line of business	EUR Millions		
			Direct	Indirect	2021	2020		Capital and reserves (a)	Net profit (a)	Participation amount (b)
SCF Rahoituspalvelut IX DAC (d)	-	Ireland	—	(d)	—	—	Securitization	—	—	—
SCF Rahoituspalvelut X DAC (d)	-	Ireland	—	(d)	—	—	Securitization	—	—	—
Silk Finance No. 5 (d)	-	Portugal	—	(d)	—	—	Securitization	—	—	—
Secucor Finance 2021-1, DAC (d)	-	Ireland	—	(d)	—	—	Securitization	—	—	—
Fondo de Titulización de Activos Santander Consumer Spain Auto 2014-1 (d)	-	Spain	—	(d)	—	—	Securitization	—	—	—
Fondo de Titulización Santander Consumer Spain Auto 2016-1 (d)	-	Spain	—	(d)	—	—	Securitization	—	—	—
Fondo de Titulización Santander Consumer Spain Auto 2016-2 (d)	-	Spain	—	(d)	—	—	Securitization	—	—	—
Santander Consumer Spain Auto 2019-1, Fondo de Titulización (d)	-	Spain	—	(d)	—	—	Securitization	—	—	—
Santander Consumer Spain Auto 2020-1, Fondo de Titulización (d)	-	Spain	—	(d)	—	—	Securitization	—	—	—
Santander Consumer Spain Auto 2021-1, Fondo de Titulización (d)	-	Spain	—	(d)	—	—	Securitization	—	—	—
Golden Bar (Securitization) S.r.l. (d)	-	Italy	—	(d)	—	—	Securitization	—	—	—
Golden Bar Stand Alone 2016-1 (CB CQS) (GB 2016-1) (d)	-	Italy	—	(d)	—	—	Securitization	—	—	—
Golden Bar Stand Alone 2018-1 (d)	-	Italy	—	(d)	—	—	Securitization	—	—	—
Golden Bar Stand Alone 2019-1 (d)	-	Italy	—	(d)	—	—	Securitization	—	—	—
Golden Bar Stand Alone 2020-1 (d)	-	Italy	—	(d)	—	—	Securitization	—	—	—
Golden Bar Stand Alone 2020-2 (d)	-	Italy	—	(d)	—	—	Securitization	—	—	—
Golden Bar Stand Alone 2021-1 (d)	-	Italy	—	(d)	—	—	Securitization	—	—	—
Suzuki Servicios Financieros, S.L.	C/Carlos Sainz 35, Pol. Ciudad del Automóvil, Leganés - Madrid	Spain	—	51%	51%	51%	Intermediation	9	3	—
Svensk Autofinans WH 1 Designated Activity Company (d)	-	Ireland	—	(d)	—	—	Securitization	—	—	—
Transolver Finance EFC, S.A.	Av. Aragón 402, Madrid	Spain	51%	—%	51%	51%	Leasing	67	4	17
Allane SE	Dr.-Carl-von-Linde-Str. 2, Pullach i. Isartal – Alemania	Germany	—	47%	47%	47%	Leasing	192	—	343
TIMFin S.p.A.	Corso Massimo D'Azeglio n. 33/E – 20126 Turín	Italy	—	51%	51%	51%	Financial	53	(8)	28
PSA Renting Italia S.P.A.	Vía Nizza 262, I-10126 - Turín	Italy	—	50%	50%	50%	Renting	9	11	6
Allane Schweiz AG	Grossmattstrasse 9-Urdorf – Suiza	Switzerland	—	47%	47%	—	Renting	12	—	—

Entity	Domicile	Country	Bank's ownership interest (%)		Voting rights (%) (c)		Line of business	EUR Millions		
			Direct	Indirect	2021	2020		Capital and reserves (a)	Net profit (a)	Participation amount (b)
Allane Mobility Consulting AG	Grossmattstrasse 9-Urdorf – Suiza	Switzerland	—	47%	47%	—	Consulting	1	—	—
Allane Leasing GmbH	Ortsstraße 18a – Vösendorf – Austria	Austria	—	47%	47%	—	Renting	(2)	—	—
Allane Mobility Consulting GmbH	Dr.-Carl-von-Linde-Str. 2, Pullach i. Isartal – Alemania	Germany	—	47%	47%	—	Consulting	1	1	—
Autohaus24 GmbH	Dr.-Carl-von-Linde-Str. 2, Pullach – Alemania	Germany	—	47%	47%	—	Renting	(2)	—	—
Allane Location Longue Durée S.a.r.l.	1 Rue Francois Jacob - Francia	France	—	47%	47%	—	Renting	10	3	—
Allane Services GmbH & co. KG	Grubenstrasse, 27 - Alemania	Germany	—	47%	47%	—	Services	1	—	—
Allane Mobility Consulting B.V.	Kruisweg 791 - Holanda	Netherlands	—	47%	47%	—	Consulting	(2)	—	—
Allane Services Verwaltungs GmbH	Grubenstraße, 27 - Alemania	Germany	—	47%	47%	—	Portfolio management	—	—	—
Allane Mobility Consulting Österreich GmbH	Tuchlauben 7ª – Austria	Austria	—	47%	47%	—	Consulting	—	—	—
Allane Mobility Consulting S.a.r.l	Rue Francois Jacob – Francia	France	—	47%	47%	—	Consulting	(1)	—	—

(a) Data obtained from the financial statements of each associate and/or jointly controlled entity for 2020. These financial statements have not yet been approved by the respective governing bodies. However, the Bank's directors consider that they will be ratified without any changes.

(b) Amount registered for the stake in each associate, registered in the books of the holding entity, net of impairment, if applicable.

(c) Pursuant to Article 3 of Royal Decree 1159/2010, of 17 September, approving the rules for the preparation of consolidated financial statements, in order to determine voting power, the voting power relating to subsidiaries or to other parties acting in their own name but on behalf of Group companies was added to the voting power directly held by the Parent. Accordingly, the number of votes corresponding to the Parent in relation to companies in which it has an indirect interest is the number corresponding to the company holding a direct ownership interest in such companies.

(d) Vehicles over which effective control is maintained.

Appendix II

Associates and Joint Ventures

Name	Entity	Country	Bank's ownership interest (%)		Voting rights (%) (b)		Line of business	EUR Millions (a)		
			Direct	Indirect	2021	2020		Assets	Capital and reserves	Profit / (loss)
Bank of Beijing Consumer Finance Company	Associate	China	17%	—	17%	17%	Financial	1,437	103	—
Fortune Auto Finance Co., Ltd	JV	China	50%	—	50%	50%	Financial	3,183	363	57
PSA Insurance Europe Limited	JV	Malta	50%	—	50%	50%	Insurance	262	47	26
PSA Life Insurance Europe Limited	JV	Malta	50%	—	50%	50%	Insurance	116	5	20
Santander Consumer Bank S.A.	Associate	Poland	40%	—	40%	40%	Banking	3,952	857	28
Santander Consumer Finanse Sp. z o.o.	Associate	Poland	—	40%	40%	40%	Services	16	13	0
Santander Consumer Multirent Sp. z o.o.	Associate	Poland	—	40%	40%	40%	Leasing	631	30	4
VCFS Germany GmbH	JV	Germany	—	50%	50%	50%	Marketing	1	—	—
PSA Finance Polsja sp.z o.o	Associate	Poland	—	20%	20%	20%	Financial	275	36	5
Payever Gmbh	Associate	Germany	10%	—%	10%	10%	Other services	3	2	1
PSA Consumer Finance Polska sp.zo.o.	Associate	Poland	—	20%	20%	20%	Financial	51	3	1
Santander Consumer Financial Solutions SP. Z O.O.	Associate	Poland	—	40%	40%	40%	Leasing	2	2	—

(a) Data obtained from the financial statements of each associate and/or joint venture for 2021. These financial statements have not yet been approved by the respective governing bodies. However, the Bank's directors consider that they will be ratified without any changes.

(b) Pursuant to Article 3 of Royal Decree 1159/2010, of 17 September, approving the rules for the preparation of consolidated financial statements, in order to determine voting power, the voting power relating to subsidiaries or to other parties acting in their own name but on behalf of Group companies was added to the voting power directly held by the Parent. Accordingly, the number of votes corresponding to the Parent in relation to companies in which it has an indirect interest is the number corresponding to the company holding a direct ownership interest in such companies.

Appendix III

Changes and notifications of acquisitions and disposals of investments in 2021

(Article 155 of the Consolidated Spanish Limited Liability Companies Law and Article 125 of Legislative Royal Decree 4/2015, of 23 October, approving the Consolidated Spanish Securities Market Law).

Investee	Line of business	Net ownership interest(%)		Effective date of the transaction (or date of notification if appropriate)
		Acquired/sold in the year	At year end	
Acquisition in 2021:				
PSA Finance UK Limited	Financial	100%	100%	07-30-2021

Appendix IV

List of agents as required by Article 21 of Royal Decree 84/2015, of 13 February, implementing Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions, on 31 December 2021

Name	Domicile	Post code	Employer/ National identification number	Date of granting powers	Geographical area of activity	Scope of representation
Canovaca Agentes Financieros, S.L.	POL IND. EL GARROTAL _ C/ NARANJA CADENERA Nº 17 , PLANTA 1 _ EDIFICIO SARA DE BENITEZ (14700 PALMA DEL RIO)	14700	B014539290	12-15-2020	Almodóvar del Rio, Fuente Palmera, Palma del Rio, Posadas, Lora del Rio, Peñaflor, Carmona, La Campana, La Puebla de los Infantes, Mairena del Alcor, El Viso del Alcor	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
Gestión Financiera Villalba, S.L.U.	C/ Consuelo Vega, 23 A - A(11600) Ubrique	11600	B011517620	12-15-2020	Ubrique, Alcalá del Valle, Algodonales, Arcos de la Frontera, Benaocaz, Bornos, El Bosque, El Gastor, Espera, Grazalema, Olivera, Prado del Rey, Setenil, Torre Alhaquine, Villanueva del Rosario, Villa Martín, Puerto Serrano	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
Juan Jiménez Gestión Financiera, S.L.	C/ BARTOLOME DE MEDINA , local 18 (41004) Sevilla	41004	B91167973	02-01-2002	Bormujos, Coria del Río, Gelves, Gines, Pilas, Sanlucar la Mayor, Umbrete, Villamanrique de la Condesa, Villanueva del Ariscal.	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
EFINCAR FLEET SERVICES , S.L.	c/Doctor Fleming, 1 41400 Écija (Sevilla)	41440	B91958363	01-01-2012	Écija, Fuentes de Andalucía, La Luisina, Cañada Rosal, La Carlota.	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
Financiaciones Costa del Sol Oriental, SCA	C/ Del Mar, 27 1º-C, Edificio Jaime, 29740 Torre del Mar	29740	F093385102	12-15-2020	Alcaucin, Alfarnate, Algarrobo, Almachar, Archez, Arenas, Benamargosa, El Boger, Canillas de Aceituno, Canillas de Albaida, Comares, Competa, Macharaviaya, Moclinejo, Frigiliana, Nerja, Periana, Riogordo, Salares, Sayalonga, Torre del Mar, Torrox, Velez Málaga, Viñuela.	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
INSEMA INVERSIONES, S.L.	Av. de Andalucía, 11 (14500) Puente Genil	14500	B14840896	12-19-2008	Aguilar de la Frontera, Benameji, Castro del Río, Espejo, Fernan Nuñez, Montalbal de Córdoba, Montemayor, Montilla, Monturque, Moriles, Palenciana, Puente Genil, La Rambla y Santaella	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
Carrasco Agentes, S.L.	C/ BETULA Nº 9 PISO 1º A (23400)ÚBEDA	23700	B023478704	01/02/2004	Jaén.	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
Ramsa Serv. Fin. y Empresariales, S.L.	C/ Blas Infante, 7A (21440) Lepe	21440	B021347190	12-15-2020	Punta Umbría, Cartaya, Lepe, Isla Cristina y Ayamonte	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.

Name	Domicile	Post code	Employer/ National identification number	Date of granting powers	Geographical area of activity	Scope of representation
Martín & Castilla Servicios Financieros, S.L.	C/ Fray Diego de Cádiz, 163 (41530) Morón de la Frontera	41530	B091369231	12-15-2020	Algamitas, Arahal, Caripe, El Coronil, Marchena, Montellano, Morón de la Frontera, Paradas, Pruna, La Puebla de Cazalla, Villanueva de San Juan	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
Fromán Consultores, S.L.U.	Av. Del Mantecado, 21 (41560) Estepa	41560	B041969767	12-15-2020	Aguadulce, Badolatosa, Casariche, Los Corrales, Estepa, Gilena, Herrera, La Lentejuela, Lora de Estepa, Marinaleda, Martin de la Jara, Osuna, Pedrea, La Roda de Andalucía, El Rubio, El Saucejo.	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
Geyba Servicios Financieros, S.L.	Avda. La Libertad nº 2 Local (41980) La Algaba	41980	B091385377	12-15-2020	Arevalillo de Cega, Alacala del Rio, Alcolea del Rio, La Algaba, Almaden de la Plata, Brenes, Burguillos, Cantillana, Castilblanco de los Arroyos, El Castillo de las Guardas, Cazalla de la Sierra, Constantina, El Garrobo, Gerena, El Madroño, Las Navas de la Concepción, El Pedroso, La Roda de Andalucía, La Rinconada	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
Fincar Gestiones Financieras, S.L.	Avda. Buenos Aires, 32 18500 Guadix	18500	B21507751	02-01-2012	Guadix, Baza, Huescar, Cullar, Cuevas del Campo, Iznalloz y Guadahortuna.	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
Hermanos P.Q. Servicios Financieros, S.L.	Pasaje Neptuno, local 7 (Junto a BBVA) Vera (04620).	04620	B004678348	12-15-2020	Vera	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
SERVITAL ASESORES, S.L.	Pza. Nuestro Padre Jesús, 3 (21700) La Palma del Condado	21700	B021261177	12-15-2020	Almonte, Bollullos Par del Condado, Bonares, Chucena, Escacena del Campo, Hinojos, Lucena del Puerto, Manzanilla, Niebla, La Palma del Condado, Paterna del Campo, Rociana del Condado, Villalba del Alcor, Villarrasa	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
FINANCIACEUTA, S.L.U.	C/ Cervantes, galería "La Riojana", 2ª planta, local nº 26 (51001) Ceuta	51001	B051017101	12-15-2020	Ceuta	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
Gª y Trinidad Asesoramiento y Financiación S.L.	C/ Rosario Nº 46(04800) Albox	04800	B004577383	12-15-2020	Albox, Alcontar, Almanzorra, Armuña de Almanzorra, Bacares, Bayarque, Benitagla, Bezalon, Cantoria, Cobrar, Fines, Laroya, Lijar, Lubrin, Lucar, Macael, Olula del Rio, Partaloa, Purchena, Seron, Sierro, Somontin, Tahall, Tijola, Uleila del Campo, Urracal y Zurgena.	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
Antonio Gª Fdez. Servicios Financieros S.L.	C/ Jara, nº1 local, esquina doctor Antonio Cabrera (14400) Pozoblanco	14400	B014771554	12-15-2020	Alcaracejos, Añora, Belalcazar, Belmez, Los Blázquez, Cardenas, Conquista, Dos Torres, Espiel, Fuente La Lancha, Fuente Obejuna, El Guijo, Hinojosa del Duque, Pedroche, Peñarroya-Pueblonuevo, Pozoblanco,.	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
DONAT FINANCE SERVICE, S.L.	Pza. Velazquez, 11 - Bajo (52004) Melilla	52004	B052015435	02-01-2007	Melilla	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.

Name	Domicile	Post code	Employer/ National identification number	Date of granting powers	Geographical area of activity	Scope of representation
ASEDIME SERVICIOS FINANCIEROS, S.L.	C/ Doctor Dorronsoro, 2 (21600) Valverde del Camino	21600	B021380746	04-01-2008	Alajar, Almonaster la Real, Aracena, Aroche, Arroyo Molinos de León, Beas, Berrocal, Cala, Calañas, El Campillo, Campofrío, Cañaveral de León, Castaño de Robledo, Corteconcepción, Cortegana, Cortelazor, Cumbre de En Medio, Cumbres de San Bartolomé, Cumbres Mayores, Encinasola, Fuenteheridos, Galaroza, La Granada de Ríotinto, La Nava, Nerva, Puerto del Moral, Rosal de la Frontera, Santa Ana la Real, Santa Olalla del Cala, Trigueros, Valdelarco, Valverde del Camino, Zalamea la Real y Zufre.	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
SERVICIOS FINANCIEROS JIENENSES, SL.	c/plaza del camping 4 local 10 23740 andujar	23740	B86340767	12-01-2011	Aldeaquemada, Andújar, Arjona, Arjonilla, Bailén, Baños de Quemada, Carboneros, La Carolina, Cazalilla, Espeluy, Higuera de Arjona, Lopera, Marmolejo, Santa Elena, Villanueva de la Reina, Villardonpardo y Villa del Río,	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
FINANRONDA SERVICIOS FINANCIEROS, S.L.	C/ Molino, 82 (29400) Ronda	29400	B92963388	01-02-2009	Agatocin, Alpendeire, Arriate, Atajate, Benalid, Benalauria, Benaojan, Benarraba, El Burgo, Cañete La Real, Cartajima, Cortes de la Frontera, Cuevas del Becerro,Faraja, Gaucin, Genalquacil, Igualeja, Jimera de Libas, Jubrique, Juzcar, Montecorto, Montejaque, Parauta, Pujerra, Ronda y Yunquera.	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
128INNOVA24H, S.L.	c/Oasis, 17 ElEjido Almería	4700	B92999846	03-01-2011	El Ejido, Adta y Berja	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
Finangi Cat	Av. de la Rápita, 33 1º (43870) Amposta	43870	B043571660	12-15-2020	Alcanar, Aldover, Alfara de Carles, Amposta, Arbolí, Arnes, Ascó, Falset, Fix, Freginals, Gandesa, Garcia, Ginestar, Godall, Masdenverge, Miravent, Móra dÉbre, Morá la Nova, Pauls, Poboleda, Porrera, Batea, Bellmunt de Falset, Benicarló, Benifallet, Benissanet, Bot, Cabassers, Camarles, Capcanes, Caseres, Corbera dÉbre, Cormudella del Montsant, Deltebre, El Lloar, El Masroig, El Molar, El Perelló, El Pinell de Bray, Els Guiaments, Gratallops, Horta de Sant Joan, LÁldea, Lámetlla de Mar, LAmpolla, La Fatarella, La Figuera, La Galera, La Morera de Montsant, La Palma dÉbre, La Pobla de Massaluca, La Sénia, La Torre de Fontanbella, La Torre de Léspanyol, La Vilella Alta, La Vilella Baixa, Marca, Margalef de Montsant, Mas de Barberans, Pradell de la Teixeta, Prat de Compte, Rasquera, Riba Roja D´Ebre, Roquetes, Sant Carles Rápita, Sant Jaime Enveja, Santa Barbara, tivissa, Torroja del Priorat, Tortosa, Ulldecona, Ulldemolins, Vilalba dels Arcs, Vinaroz, Vinebre, Xerta.	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
Indastec Asociados, S.L.	C/ Madrid, 20 - bajo (07800) Ibiza	07800	B057150310	12-15-2020	Eivissa, Sant Antoni de Portmany, Santa Eulalia del Rio San Jose Formentera	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.

Name	Domicile	Post code	Employer/ National identification number	Date of granting powers	Geographical area of activity	Scope of representation
Noguer Bau, S.L.	C/ Sant Fidel, 5 - 1º (08500) Vic	08500	B064018179	12-15-2020	Aiguafreda, Alpens, El Brull, Calldetenes, Centelles, Collsuspina, Espinelves, Folgueroles, Gurb, Els Hostalets De Balenya, Lluça, Perafita, Prats De Lluçanes, Roda De Ter, Rupit-Pruit, Santa Cecilia De Voltrega, Santa Eugenia De Berga Santa Eulalia De Riuprimer, Sant Agusti Del Lluçanes, Santa Maria De Corco L'asquirol, Sant Bartomeu Del Grau, Sant Boi De Lluçanes, Sant Hipolit De Voltrega	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
Gestió de Finançament i Inversions de Ponent, S.L.	Avda. Pau, 49 (25230) Mollerusa	25230	B025539123	10-01-2006	Comarcas del Pla D´urgel, la Noguera, L´urgell y La Segarra. Y Lérida, Balafia; Les Basses D'Alpicat, La Bordeta, Camps D'Escorts, Cap Pont, Castel De Gardeny, Clot_Princep de Viana, Gualda; Llivia, Magraners, Mariola, Pardinyes, Raimat, Seca Sant Pere, Sucs, Suquets; Les Torres de Sanui, Abella de la Conca Les Alamus, L'Albages, Albatarrec, L'Albi, Alanco, Alcarras, Alcoletge, Alfes, Alguaire, Almatret, Almenar, Alpicat, Artessa de Lleida, Aspa, Aitona, Benavent de Segria, Bovera, Les Borges, Blanquets, Castelldans, Cervia de Garrigues, Corbins, L'Espluga Calba, La Floresta, Fulleda, La Granja D'Escarp, Gimenells i Pla de la Font, Granyera de les Garrigues, Juncosa, Juneda, Llardecans, Masalcoreig, Maials de Lleida, Els Omellons, La Pobla de Cervoles, Bellaguarda, La Portella, Puiggros, Puigverd,de Lleida; Roselló, Seros, El Soleras, Soses, Tarres, Els TOrms, Torrebesses, Torrefarrera, Torres de Segre, Torre Serona, Vilanova de Segria, El Vilosell, Vilanova de la Barca y Vinaixa.	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
Gestió de Finançament i Inversions de Ponent, S.L.	Avda. Alcalde Porqueras, 10 (25008) Lérida	25230	B025539123	10-01-2006	Comarcas del Pla D´urgel, la Noguera, L´urgell y La Segarra. Y Lérida, Balafia; Les Basses D'Alpicat, La Bordeta, Camps D'Escorts, Cap Pont, Castel De Gardeny, Clot_Princep de Viana, Gualda; Llivia, Magraners, Mariola, Pardinyes, Raimat, Seca Sant Pere, Sucs, Suquets; Les Torres de Sanui, Abella de la Conca Les Alamus, L'Albages, Albatarrec, L'Albi, Alanco, Alcarras, Alcoletge, Alfes, Alguaire, Almatret, Almenar, Alpicat, Artessa de Lleida, Aspa, Aitona, Benavent de Segria, Bovera, Les Borges, Blanquets, Castelldans, Cervia de Garrigues, Corbins, L'Espluga Calba, La Floresta, Fulleda, La Granja D'Escarp, Gimenells i Pla de la Font, Granyera de les Garrigues, Juncosa, Juneda, Llardecans, Masalcoreig, Maials de Lleida, Els Omellons, La Pobla de Cervoles, Bellaguarda, La Portella, Puiggros, Puigverd,de Lleida; Roselló, Seros, El Soleras, Soses, Tarres, Els TOrms, Torrebesses, Torrefarrera, Torres de Segre, Torre Serona, Vilanova de Segria, El Vilosell, Vilanova de la Barca y Vinaixa.	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.

Name	Domicile	Post code	Employer/ National identification number	Date of granting powers	Geographical area of activity	Scope of representation
BERGA GESTIÒ, S.L.	C/ Gran Vía, 46 (08600) Berga	08600	B064396476	12-15-2020	Berga,Navas, Cardona y Nou de La Bergueda.	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
M&G figueres Associats, S.L.	c/Col. Legi nº 54 bajos (17600) Figueres	17600	B17673823	01-01-2011	Agullana, Albanya, Arrentera, Bascara, Biure, Boadella i les Escaudes, Cebanes, Cantallaps, Capmany, Cistella, Escada, Empolla,Figueres, Garniguelia, Jenguera, Lladó, Masarac, Mollet de Peralado, Pont de Mollins y Crespia.	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
Orges-Fin Gestiones 2018, s.l. Unipersonal	SA ROVELLADA DE DALT 38 bajos izq (07702) MAHON-MENORCA (Illes Balears)	7702	B55733471	12-25-2020	Isla de Menorca	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
Consultoría Financiera de la Mancha, S.L.	C/ Ramiro Ledesma, s/n bloque 5 Local 3 (13630) Socuéllamos	13630	B013354303	12-15-2003	Socuéllamos, Tomelloso, Argamasilla de Alba, Pedro Muñoz, Campo de Criptana, Alcázar de San Juan, Las Pedroñeras, Monta del Cuervo, Villanueva de los Infantes	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
Estudios y Análisis de Riesgos, S.L.	Plaza de los carros, 2, 16001 Cuenca.	16004	B016156598	06-30-2007	Cuenca	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
Intermediación y Servicios Junval, S.L.	C/ BEBRICIO , 39, Pasaje Local nº 7 (26500) Calahorra	26500	B026319178	12-15-2020	Calahorra	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
Servicios Financieros Quintanar, S.L.	C/ Vicente Gálvez Villarejo, 12. (45800) Quintanar de la Orden	45800	B045545167	12-15-2020	Quintanar de la Orden, Madridejos	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
Medifirent, S.L.	C/Carretil, 2, 3ºD 26007. Logroño (La Rioja)	26007	B009410572	12-15-2020	Miranda de Ebro y Logroño	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
Soluciones Financieras del Este, S.L.	C/ Mariano Barbacid, 5 - 2ª - 3 (28521) Rivas Vaciamadrid	28521	B084418904	12-15-2020	Arganda del Rey, Rivas – Vaciamadrid	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
Servicios Financieros Sorianos	C/Del Ferial , 4 Oficina 3 B2 4200 Soria	4200	B042180927	12-15-2020	Soria	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.

Name	Domicile	Post code	Employer/ National identification number	Date of granting powers	Geographical area of activity	Scope of representation
Finanduero 2007, S.L.U.	CALLE EL CARRO, 9, 3ºB -09400 ARANDA DE DUERO (BURGOS)	9400	B009480013	11-02-2007	Aranda de Duero, Lerma, Huerta del Rey, Salas de los Infantes y Roa.	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
AUTO CONSUMER ALAVA, S.L.	Avda. de los Huetos, 79 Ed. Azucarera. Vitoria 01010 (Álava)	1010	B26560557	07-18-2007	Álava	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
FINANCESTHER S.L.	AVENIDA CENTRAL NUMERO 1 OFICINA 1 (31500) TUDELA NAVARRA .	31500	B71392179	12-15-2020	Navarra	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
Inversiones Financieras Bilegi, S.L.	Plaza Aita Arrupe 3 Oficina Nº 2 (48100) Mungia_Bizkaia	48100	B95659579	10-01-2012	Eibar, Mondragón, Genika - Lumo	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
PRAGA SERVICES 64, S.L.	C/ Patrimonio Mundial, 7 1ª planta Oficina 13, 28300 Aranjuez	28939	B85464402	03-01-2014	Aranjuez	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
Gestión de Servicios Financieros Artimar	Av. de Canarias, 344 (35110) Vecindario	35110	B035496777	12-15-2020	Agüimes, Santa Lucía de Tirajana, San Bartolomé de Tirajana	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
L´Eliana Finance, S.L.	Av. Cortes Valencianas, 35 L A2 (46183) L ´Eliana	46183	B097639462	10-01-2005	Riba - Roja de Turia, Lliria, Betera, Buñol, Requena, Utiel, L'Eliana, La Pobla de Vallbona	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
CENTRO ASESOR DE TERUEL FINANCIERA, S.L.	La calle es Ronda Ambeles n. 52 (44004) Teruel	44003	B44224947	06-02-2008	Teruel.	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
Lual Soluciones y Gestión, S.L.	C/ Isabel la Catolica Nº 6 03803 Alcoy (Aliacante)	3803	B01612019	12-15-2020	Alicante	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
GESTIÓN FINANCIERA Y DIVERSAS, S.L.	C/Molina de Segura, nº5, bloque 6º, 4ºA (30007) Murcia	30007	B30512446	02-01-2016	Hellin, Jumilla, Albacete	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.

Name	Domicile	Post code	Employer/ National identification number	Date of granting powers	Geographical area of activity	Scope of representation
Alvarez y Garrúes, S.L.	Av. A Coruña, 439 Bajo (27003) Lugo	27003	B027274216	12-15-2020	Lugo.	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
AVILA CONSUMER SERVICES S.L	CALLE RIO TERA Nº 30 1ª PLANTA OFICINA 7 (05004) ÁVILA	5004	B05265764	12-15-2020	Avila	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
Asesoramiento Financiero Zafra, S.L.	Avenida Antonio Chacón nº 17 local. C.P. 06300 Zafra (Badajoz)	06300	B006433973	12-15-2020	Zafra, Villanueva del Fresno, Higuera de Vargas, Zahinos, Oliva de la Frontera, Barcarrota, Valle de Matamoros, Frejenal de la Sierra, Higuera la Real, Burgullos del Cerro, Salvatierra de los Barros, Feria, Santa Marta, Villalba de los Barros, Aceuchal, Fuente del Maestre, Valencia del Ventoso, Segura del León, Calera de León, Monesterlo, Fuente de Cantos, Los Santos de Malmona, Villafranca de los Barros, Ribera del Fresno, Hornachos, Llera, Valencia de las Torres, Usagre, Bienvenida, Llerena, Berlanga, Azuaga, Granja de Torrehermosa, Peraleda de Zauecejo, Campillo de Llerena, Higuera de la Serena, Zalamea de la Serena, Monterrubio de la Serena.	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
Alvarez y Garrúes Dos, S.L.	Av. de Vigo, 65 (36003) Pontevedra	27003	B027380799	08-01-2008	Pontevedra, Villagarcía de Arosa, O Grove, Sanxenxo, Cambados, Lalín, La Estrada, Silleda y Caldas de Rey	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
SOLUCIONES FINANCIERAS GRIGEM S.L.	Cámara de Comercio Gijon-Vivero de Empresas Carretera de Somio 652 Despacho 3.1(33203) GIJON	33202	B05256375	04-01-2017	Asturias	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
Asfinza Badajoz, S.L.	Av. Sinforiano Madroñero, nº 15 edificio Paraíso 3 entreplanta 4 locales A-B 06011 Badajoz – Badajoz.	6001	B06580708	06-01-2010	Badajoz.	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
Álvarez y garrúes Tres, S.L.	c/Salvador Dalí, 12 (32002) Orense	27003	B27412816	11-01-2010	Ourense, Barco de Valdeorras y Rua.	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.

Name	Domicile	Post code	Employer/ National identification number	Date of granting powers	Geographical area of activity	Scope of representation
European Finantial Consumer, S.L	Parc.ET-8 Complejo Quitapesares, Carretera CL-601 Km 7 Edificio Vicam 40194 Palazuelos de Eresma (Segovia)	40006	B86080280	01-03-2011	Segovia.	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
FINZAMORA SERVICES, SL.	C\ Juan II, 23. 1° Dcha. 49011. Zamora.	49011	B49282403	01-01-2015	Zamora	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.

Appendix V

Annual Banking Report

This Annual Banking Report was prepared in compliance with Article 87 of Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions.

Pursuant to the aforementioned Article, from 1 January 2015, credit institutions must send the Bank of Spain and publish annually a report as an appendix to the financial statements audited in accordance with the legislation regulating audits of financial statements, which specifies, by country in which they are established, the following information on a consolidated basis for each year:

a) Name(s), nature of activities and geographical location.

b) Turnover.

c) Number of employees on a full-time equivalent basis.

d) Gross profit or loss before tax.

e) Tax on profit or loss.

f) Public subsidies received.

Following is a detail of the criteria used to prepare the annual banking report for 2021:

a) Name(s), nature of activities and geographical location

The aforementioned information is available in Appendices I and II to the Group's consolidated financial statements, which contain details of the companies operating in each jurisdiction, including, among other information, their name(s), geographical location and the nature of their activities.

As can be seen in the aforementioned Appendices, the main activity carried on by the Group in the various jurisdictions in which it operates is commercial banking. The Group operates mainly in ten markets through a model of subsidiaries that are autonomous in capital and liquidity terms, which has clear strategic and regulatory advantages, since it limits the risk of contagion between Group units, imposes a double layer of global and local oversight and facilitates crisis management and resolution. The Group has 250 branches in total, which provide its customers with all their basic financial requirements.

b) Turnover

For the purposes of this report, turnover is considered to be gross income, as defined and presented in the consolidated income statement that forms part of the Group's consolidated financial statements.

The data on turnover by country were obtained from the statutory accounting records of the Group companies with the corresponding geographical location and translated to euros. Accordingly, this is aggregate information from the separate financial statements of the companies that operate in each jurisdiction, reconciliation of which with the information from the Group's consolidated financial statements requires a series of unifying adjustments and the elimination of transactions between the various Group companies, such as those relating to the distribution of dividends by subsidiaries to their respective parents.

c) Number of employees on a full-time equivalent basis

The data on employees on a full-time equivalent basis were obtained from the average headcount of each jurisdiction.

d) Tax on profit or loss

In the absence of specific criteria, this is the amount of tax effectively paid in respect of the taxes the effect of which is recognised in Income tax in the consolidated income statement.

Taxes effectively paid in the year by each of the companies in each jurisdiction include:

- Supplementary payments relating to income tax returns, normally for prior years.
- Advances, prepayments, withholdings made or borne in respect of tax on profit or loss for the year. Given their scantly representative amount, it was decided that taxes borne abroad would be included in the jurisdiction of the company that bore them.
- Refunds collected in the year with respect to returns for prior years that resulted in a refund.
- Where appropriate, the tax payable arising from tax assessments and litigation relating to these taxes.

The foregoing amounts are part of the statement of cash flows (EUR 414,321 thousand in 2021, which implies an effective tax rate of 20.77%) and, therefore, differ from the income tax expense recognised in the consolidated income statement (EUR 470.139 thousand in 2020, which implies an effective tax rate of 36.5%). Such is the case because the tax legislation of each country establishes:

The time at which taxes must be paid. Normally, there is a timing mismatch between the dates of payment and the date of generation of the income bearing the tax.

Its own criteria for calculating the tax and establishes temporary or permanent restrictions on expense deduction, exemptions, relief or deferrals of certain income, etc., thereby generating the related differences between the accounting profit (or loss) and taxable profit (or tax loss) which is ultimately taxed; tax loss carryforwards from prior years, tax credits and/or relief, etc. must also be added to this. Also, in certain cases special regimes are established, such as the tax consolidation of companies in the same jurisdiction, etc.

e) Public subsidies received

In the context of the disclosures required by current legislation, this term was interpreted to mean any aid or subsidy in line with the European Commission's State Aid Guide and, in such context, the Group companies did not receive public subsidies in 2021.

The detail of the information for 2021 is as follows:

Jurisdiction (EUR millions)	Turnover	No. of employees on a fulltime equivalent basis	Gross profit/ (loss) before tax	Tax on profit / (loss)
Germany	1,521	4,681	623	175
Austria	178	348	86	17
Belgium	75	171	59	3
China	—	—	—	—
Spain	687	1,669	191	43
Denmark	176	218	113	10
Finland	116	166	64	14
France	624	880	393	70
Greece	—	18	(4)	—
Ireland	—	—	(1)	—
Italy	421	890	242	27
Malta	—	—	—	—
Norway	255	523	95	22
Netherlands	94	267	55	3
Portugal	47	220	10	—
Sweden	180	251	58	26
Switzerland	24	68	10	4
Total	**4,398**	**10,370**	**1,994**	**414**

The return on assets (ROA) of the Group for the year ended 31 December 2021 was estimated at 1.14%.

Appendix VI

Disclosures required pursuant to Mortgage Market Law 2/1981, of 25 March, and to Royal Decree 716/2009, of 24 April, implementing certain provisions of the aforementioned Law

Disclosures relating to mortgage-backed bond issues

The detail of the nominal value of the Bank's mortgage-backed bond issues outstanding on 31 December 2021 and 2020, indicating the annual interest rate and the maturity date of each issue, is as follows

Currency of issue	EUR Thousands (*)		Annual interest rate (%)	Maturity date
	2021	2020		
Euros:				
May 2016 issue	—	—	0.125	Mayo 2019
July 2007 issue (Note 18)	150,000	150,000	5.135	Julio 2022
May 2019 issue	450,000	450,000	0.000	Mayo 2022
Balance at end of year	600,000	600,000		

(*) Face value.

On 31 December 2021 and 2020, the detail of the mortgage loans and credits, indicating their eligibility and computability for mortgage market regulatory purposes, was as follows:

	EUR Thousands	
	Face value	
	2021	2020
Total mortgage loans and credits	1,402,190	1,556,269
Mortgage participation certificates issued	—	—
Mortgage transfer certificates issued	—	—
Mortgage loans securing borrowings	—	—
Mortgage loans backing mortgage and mortgage-backed bond issues (*)	1,402,190	1,556,269
i) Non-eligible mortgage loans and credits	448,586	520,645
– Which comply with the requirements to become eligible, except for the limit established in Article 5,1 of Royal Decree 716/2009	448,586	520,645
– Other	—	—
ii) Eligible mortgage loans and credits	953,604	1,035,624
– Non-computable amounts	—	—
– Computable amounts	953,604	1,035,624
a) Mortgage loans and credits covering mortgage bond issues	—	—
b) Mortgage loans and credits eligible to cover mortgage-backed bond issues	953,604	1,035,624

(*) On 31 December 2021 and 2020, the Bank had not issued mortgage bonds and, therefore, all the loans and credits back the mortgage-backed bond issues.

Following is a detail of the nominal value of the outstanding mortgage loans and credits and of the nominal value of the loans and credits that are eligible pursuant to Royal Decree 716/2009, without considering the calculation limits established under Article 12 of Royal Decree 716/2009, by origin, currency, payment status, average residual term to maturity, interest rate, holders and type of collateral as of 31 December 2021 and 2020:

	EUR Thousands			
	2021		2020	
	Mortgage Loans and Credits Backing Mortgage and Mortgage-Backed Bond Issues	Of which: Eligible Loans	Mortgage Loans and Credits Backing Mortgage and Mortgage-Backed Bond Issues	Of which: Eligible Loans
Origin of transactions				
Originated by the Bank	1,402,190	953,604	1,556,269	1,035,624
Subrogation from other entities	—	—	—	—
Other	—	—	—	—
Currency				
Euro	1,402,190	953,604	1,556,269	1,035,624
Other currencies	—	—	—	—
Payment status				
Current	1,334,759	928,321	1,485,064	1,009,623
Past due	67,431	25,283	71,205	26,001
Average term to maturity				
Less than 10 years	163,904	152,795	168,746	153,436
10 to 20 years	652,700	516,434	667,316	534,828
20 to 30 years	542,133	259,157	665,890	316,464
More than 30 years	43,453	25,218	54,317	30,896
Interest rate				
Fixed	26	—	27	—
Floating	1,402,164	953,604	1,556,242	1,035,624
Hybrid	—	—	—	—

(*) Including EUR 405,996 and 453,436 thousand as of 31 December 2021 and 2020, respectively, relating to mortgage participation certificates acquired from Banco Santander, S.A. (see Note 10).

	EUR Thousands			
	2021		2020	
	Mortgage Loans and Credits Backing Mortgage and Mortgage-Backed Bond Issues	Of which: Eligible Loans	Mortgage Loans and Credits Backing Mortgage and Mortgage-Backed Bond Issues	Of which: Eligible Loans
Borrowers				
Legal entities and individual businessmen	16,317	8,419	18,770	7,059
Of which: Property developments				
Other individuals and non-profit institutions serving	1,377,519	937,723	1,537,499	1,028,565
Type of guarantee				
Completed buildings				
– Residential	1,376,692	943,649	1,527,388	1,026,810
Of which: Officially sponsored housing				
– Commercial	25,498	9,955	28,881	8,814
– Other	—	—	—	—
Buildings under construction	—	—	—	—
– Residential	—	—	—	—
Of which: Officially sponsored housing	—	—	—	—
– Commercial	—	—	—	—
– Other	—	—	—	—
Land	—	—	—	—
– Developed	—	—	—	—
– Other	—	—	—	—
	1,402,190	953,604	1,556,269	1,035,624

With regards to the disclosures on guarantees associated with mortgage loans and those loans eligible in accordance with the aforementioned regulations, following is a detail of the nominal value of these mortgage loans and eligible loans, based on the related loan-to-value ratio, as of 31 December 2021 and 2020:

	LTV ranges				
	2021				
	EUR millions				
	<= 40%	>40%, <= 60%	>60%, <=80%	>80%	Total
Mortgage loans and credits eligible for mortgage and mortgage-backed bond issues					
– *Home mortgage*	*329*	*372*	*243*	—	*944*
– *Other mortgages*	*2*	*8*	—	—	*10*

	LTV ranges				
	2020				
	EUR millions				
	<= 40%	>40%, <= 60%	>60%, <=80%	>80%	Total
Mortgage loans and credits eligible for mortgage and mortgage-backed bond issues					
– *Home mortgage*	*335*	*402*	*290*	*—*	*1,027*
– *Other mortgages*	*3*	*6*	*—*	*—*	*9*

Following is a detail of the changes in 2021 and 2020 in the nominal value of eligible and non-eligible mortgage loans and credits pursuant to Royal Decree 716/2009:

	EUR Thousands	
	Eligible Mortgage Loans and Credits	Non-Eligible Mortgage Loans and Credits
Balance on 1 January 2020	1,111,481	588,990
Disposals in the year	(99,163)	(71,441)
Repaid on maturity	—	—
Early repayment	*(12,027)*	*(2,727)*
Subrogation by other entities	—	—
Other	*(87,136)*	*(68,714)*
Additions in the year	23,306	3,096
Originated by the Bank	*710*	*658*
Subrogation from other entities	—	—
Other	*22,596*	*2,438*
Balance on 31 December 2020	1,035,624	520,645
Disposals in the year	109,530	74,161
Repaid on maturity	—	—
Early repayment	4,856	694
Subrogation by other entities	—	—
Other	104,674	73,467
Additions in the year	27,510	2,101
Originated by the Bank	*718*	*1,351*
Subrogation from other entities	—	—
Other	*26,792*	*750*
Balance on 31 December 2021	953,604	448,585

The detail of the nominal value of the Bank's mortgage securities outstanding on 31 December 2021 and 2020 is as follows:

	EUR millions		Average term to maturity
	Face value		
	2021	2020	
Mortgage bonds outstanding			
Mortgage-backed bonds	600	600	—
Of which: Not recognised in liabilities			
i) Debt instruments. Issued through a public offering	600	600	
– Term to maturity of up to 1 year	600	—	—
– Term to maturity of 1 to 2 years	—	600	—
– Term to maturity of 2 to 3 years	—	—	—
– Term to maturity of 3 to 5 years	—	—	—
– Term to maturity of 5 to 10 years	—	—	—
– Term to maturity of more than 10 years	—	—	—
ii. Debt instruments. Other issues	—	—	—
– Term to maturity of up to 1 year	—	—	—
– Term to maturity of 1 to 2 years	—	—	—
– Term to maturity of 2 to 3 years	—	—	—
– Term to maturity of 3 to 5 years	—	—	—
– Term to maturity of 5 to 10 years	—	—	—
– Term to maturity of more than 10 years	—	—	—
iii. Deposits	—	—	—
– Term to maturity of up to 1 year	—	—	—
– Term to maturity of 1 to 2 years	—	—	—
– Term to maturity of 2 to 3 years	—	—	—
– Term to maturity of 3 to 5 years	—	—	—
– Term to maturity of 5 to 10 years	—	—	—
– Term to maturity of more than 10 years	—	—	—
Mortgage participation certificates issued	—	—	—
i) Issued through a public offering	—	—	—
ii) Other issues	—	—	—
Mortgage transfer certificates issued	—	—	—
i) Issued through a public offering	—	—	—
ii) Other issues	—	—	—

Mortgage-backed bond issuers have an early redemption option solely for the purpose of complying with the limits on the volume of outstanding mortgage-backed bonds stipulated by mortgage market regulations.

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

Santander Consumer Finance, S.A. and companies comprising the Santander Consumer Finance Group (Consolidated)

Consolidated Management Report for 2021

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.

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.

RoA ratios have been incorporated, as they are considered to better reflect the underlying business performance.

Ratio	Formula	Relevance of use
RoA (return on assets)	$\frac{\text{Profit/loss for the year}}{\text{Average of total assets}}$	This metric measures the return on the Bank's total assets. It is an indicator that reflects the efficiency in managing the company's total assets to generate profit.
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 %)	2021	2020
RoA	1.14%	0.64%
Profit/loss for the year	1,490,661	763,698
Total assets	130,931,190	120,034,603
Efficiency ratio (cost-to-income)	-41.76%	-42,44%
Operating expenses	-1,855,268	-1,811,358
Administrative expenses	-1,663,948	-1,649,275
Amortization	-191,320	-162,083
Gross margin	4,442,574	4,267,628

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	Formula	Relevance of use
NPL ratio	Doubtful balances of loans and advances to customers, guarantees to customers and commitments granted to customers / Total risk (1)	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

Ratio	Formula	Relevance of use
Cost of credit	Impairment (3) / Financial assets at amortised cost - Loans and advances - Customers	This ratio relates the level of accounting impairments for credit risk in a given period of time that are necessary based on the portfolio of loans granted to customers, and therefore serves to measure the Group's credit quality.

(*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.

(*3) Impairment or (-) reversal of impairment and gains or losses on changes in cash flows of financial assets not measured at fair value through profit or loss and net gains or (-) losses on changes.

Credit risk (thousands of euro and %)	2021	2020
Delinquency rate	2.06%	2.07%
Impaired assets	2,033,052	2,026,916
Commitments and guarantees granted	65,966	42,541
Loans and advances to customers without considering impairment adjustments	101,674,842	99,637,981
Coverage ratio	102.65%	107.80%
Impairment losses on loans and advances to customers at amortized cost and at fair value through other comprehensive income	2,115,180	2,197,400
Impaired assets	2,033,052	2,026,916
Commitments and guarantees granted	65,966	42,541
Cost of credit	0.50%	0.85%
Impairment	-495,060	-825,083
Loans and advances - Customers	99,559,662	97,440,260

General external framework

Economic, regulatory and competitive context

In 2021, Santander conducted business in a context dominated by (i) the implementation of fiscal and monetary policies and initiatives in response to the consequences of the Covid-19 pandemic; (ii) the recovery from the pandemic crisis, still incomplete and above all geographically and sectorally uneven; (iii) the emergence of new variants of Covid-19 and new outbreaks of significant contagion; and (iv) a generalised upturn in inflation in the second half of the year which, in the case of the advanced economies, reached three-decade highs.

Inflationary pressure intensified due to a number of factors, including revived demand for consumer goods, labor shortages, strains in supply chains for chips and other key items, transport issues, and rising prices of energy, certain raw materials and food.

In these circumstances, the reversal of the extraordinarily expansionary fiscal and monetary policies rolled out to address the crisis began, particularly in countries where price pressures were highest.

- **Eurozone** (GDP: 5.2% estimated in 2021). A recovery is under way, driven by the withdrawal of lockdown measures and expansionary monetary and fiscal policies. The ECB has kept interest rates stable despite the rise in inflation to 5.1% in January 2022. However, concern was expressed at the February monetary policy meeting and the tone was less condescending towards inflationary trends. In December 2021, the ECB had already announced that it would reduce the volume of asset purchases from Spring 2022 onwards.

- **Spain** (GDP: 5.0% in 2021). The recovery continued in 2021 at a pace that is likely to allow a return to pre-pandemic GDP levels in 2022. The labor market improved more quickly, with employment exceeding pre-pandemic figures. Inflation reached 6.7% in December, largely due to the energy effect.

- **United Kingdom** (GDP: 7.5% in 2021). Growth was high, in contrast to the sharp fall in 2020. Labor market tensions, in certain sectors in particular, carry further risks that the rise in inflation, which is over 5%, may take hold. This last issue helps to explain the Bank of England's rate hike from 0.1% to 0.25% at the end of the year.

- **Poland** (GDP: 5.7% in 2021). The economy was remarkably buoyant despite a relatively moderate decline in 2020. Inflation ended the year at 8.6%, leading the central bank to raise the official rate to 2.25%.

- **Germany** (GDP: estimated 2.6% in 2021). GDP rebounded strongly in H1 on the back of government spending and a revival in private consumption. The labor market also recovered and part-time work decreased substantially. The jobless rate fell to 5.2% in December (peak of 6.4% in June 2020) and is close to the pre-pandemic level (5%). Supply issues and new pandemic containment measures at the end of the year dampened growth in recent months. Inflation stood at 3.1%, with core inflation at 2.2%.

- **France** (GDP: estimated 6.7% in 2021). Both economic activity and the labor market returned to pre-crisis levels in Q3 thanks to private and public consumption, although the last months of the year saw slower growth due to the advance of the pandemic. Inflation peaked in December (2.7%), driven by the energy component.

- **Norway** (GDP: estimated 4.1% in 2021). Pre-pandemic activity levels were virtually regained thanks to the considerable economic upturn since the summer. Employment returned to early-2020 levels and inflation ended the year at 5.3%. This, together with a low unemployment rate (4.2% in Q3 21), led the central bank to raise interest rates as from September up to 0.50%.

- **Finland** (GDP: estimated 3.5% in 2021). The Finnish economy was recovering from the impact of the pandemic during 2021, albeit at a slower pace in H2 due to the worsening epidemiological situation, supply chain disruptions and higher prices (mainly fuel and electricity). Activity returned to pre-pandemic (Q4 2019) levels in Q2 2021. Harmonised inflation ended the year averaging above 2%, as compared to 0.4% in 2020.

2022 outlook

The management report contains certain forward-looking information reflecting the directors' plans, forecasts or estimates, which are based on assumptions they believe to be reasonable.

However, the user of this report should bear in mind that forward-looking information should not be taken as a guarantee of the company's future performance, in the sense that plans, forecasts or estimates are subject to numerous risks and uncertainties entailing that future performance may not necessarily match the initial expectations. These risks and uncertainties are described in the risk management section of this management report and in note 47 to the consolidated financial statements.

The economic outlook for 2022 is subject to considerable uncertainty due to the resurgence of the pandemic in Europe and the United States towards the end of 2021, coupled with the risk of it spreading to other areas, and doubts as to the more or less temporary nature of the 2021 rise in inflation.

The impact of the omicron variant, future variants or new outbreaks and their effect on activity is difficult to gauge. This will depend to a large extent on the pressure on hospital capacity, which is not easy to predict given the contagiousness and virulence of each Covid-19 variant. Inflation will also have an adverse impact on consumption and on financial terms and conditions.

In our baseline scenario, we assume that the virus containment measures also restrict activity, that inflation eases and returns to target from spring onwards and that, with exceptions, the withdrawal of monetary stimulus is very gradual. In these conditions in a breakdown by geography, the macroeconomic forecast for 2022 is as follows:

Eurozone

The expansion observed in 2021 will continue in 2022, although it may be more hesitant at the start of the year, supported by financial conditions that will remain openly expansionary, fiscal conditions that will not yet be restrictive, a greater weight of European Next Generation EU funds, an improvement in the pandemic and a gradual decline in inflation. The elections to be held in several countries in the area and the reforms and credibility of the countries' fiscal consolidation plans will be relevant, in a year in which the re-establishment of the Stability and Growth Pact may be announced and the monetary and prudential measures rolled out to face the pandemic will be gradually withdrawn.

Spain

The European context, the deployment of European funds (particularly relevant for the country), the likely improvement in international tourism, the time remaining for household consumption to recover and the expected revival of residential construction all point to remarkable growth that would bring us much nearer to the pre-pandemic GDP level. The success of ongoing structural reforms, partly linked to European funds, will be crucial in the short and medium term.

United Kingdom

The outlook is favorable and points to another year of intense recovery. The main unknown is the ability to adapt to Brexit and its implications for the supply side, especially in the labor market, which has shown signs of tension in some segments due to an insufficient labor supply. In general, financial conditions will remain expansionary and inflation will fall, so any reduction in contagion will stimulate confidence and activity.

Poland

GDP growth was surprisingly positive throughout 2021 and the economy appears to be entering the new year with strong momentum, which should allow GDP growth in 2022 to remain close to 5%. The outlook is healthy for the highly competitive and diversified manufacturing and export sector, which will benefit from a still positive growth momentum abroad. To date, high inflation has not hurt business profit margins, but it caused a 165 bps rise in interest rates in Q4 21 (to 1.75%). The upward cycle will continue.

Germany

After overcoming supply shortages from Q2 onwards, the economy will again grow at a good pace, driven by private consumption and particularly by investment and exports, which will be revived by the backlog of orders. The labor market will continue to improve to pre-pandemic levels: hours worked will increase and the jobless rate will fall. Inflation will remain above the ECB's target all year but will gradually decline.

France

In 2022, the previous year's solid growth is expected to continue, driven primarily by household consumption. The year could start weaker due to supply problems and the contribution from net foreign trade is not expected to be positive, since exports are only recovering in some sectors. The public deficit should decrease, as most of the emergency measures expire and the economy will continue to grow at a good pace. Presidential elections will be held in April, when Macron's re-election is the most likely scenario.

Norway

After the strong recovery in 2021, we expect GDP growth to exceed 4% in 2022. The labor market will continue to improve, albeit at a more moderate pace than at the end of 2021, reaching the full employment rate. We also expect labor immigration to increase and ease the pressure on the labor market. Inflation is expected to moderate gradually as high energy prices ease, although the 2% target will not be reached this year. Norges Bank will carry on raising interest rates in view of the tight labor market and high inflation, which is now at 0.5% and could end the year above 1.25%. Higher interest rates and low population growth will slow the increase in house prices.

Finland

The outlook for 2022 is favorable, with robust economic growth anticipated, driven by household consumption and investment. Employment will continue to recover, though at a slower pace than in 2021, and will still be impacted by the difficulty in filling skilled vacancies in some industries. Annual average inflation will be similar to that of 2021 and will follow a downward trend throughout the year. This scenario is not without risks and the evolution of the pandemic is a key aspect, since a significant worsening could mean a new downturn for the economy.

Economic outlook

Financial markets

Inflationary pressures, reduced fiscal and, above all, monetary support and geopolitical risk translate into financial markets that may be more vulnerable in 2022.

Our scenario in which inflation is progressively moderated over the course of the year and economic growth fades following the strong post-Covid recovery, though still above potential, will help equities to accommodate the transition to monetary policy normalisation. However, with the gap between real rates and inflation expectations at record highs and given current high valuations, the adjustment could cause some volatility in stock markets.

In line with our expectations, the ECB will exhaust its pandemic programme before considering a deposit rate hike. This scenario points to a rebound in debt yields, which in any case is expected to be moderate, although peripheral spreads could come under pressure from the ECB's withdrawal.

The banking environment will be shaped by the inflation trend and the response from central banks. In general, a gradual normalisation of monetary policy is not bad for business, but it is important for central banks get the pace and communication of their measures right.

The tightening of monetary policy will be accompanied by the withdrawal of liquidity support measures. However, this is expected to take place gradually, allowing banks to accommodate the new conditions. Finally, the private sector is still vulnerable to an economic downturn, especially in the industries most affected by international distancing and mobility measures. Even so, for the time being, most institutions will tackle such scenarios with a solid solvency position, as revealed by the various stress tests carried out on the main banking systems.

In addition to the economic environment, banks must deal with accelerating business digitalisation while identifying and managing risks associated with climate change.

Financial regulation

In 2022, we expect continuity with respect to the 2021 regulatory agenda, in which sustainability and digital agendas will continue to gain prominence in parallel to the prudential and financial agenda.

Prudential aspects. Discussions on the implementation of the Basel 3 reform will be relevant, particularly the treatment of operational risk, the introduction of a floor on the minimum amount of risk-weighted assets when applying internal models (output floor), and the European specificities, essentially linked to the support factor for SMEs and infrastructures. The standard will apply as from January 2025, irrespective of the regulation approval data.

The authorities will also continue to assess the impact of the crisis and interaction with the regulatory framework on matters such as the current set of capital buffers, which have not been used by banks despite supervisors' recommendations. In this regard, in Europe, the European Commission's review of the macroprudential framework is expected before the end of the year. Finally, the Basel Committee will continue defining the prudential treatment of financial institutions' crypto asset exposures.

Financial aspects. In 2022, Europe intends to initiate the third revision of the resolution directive (BRRD) with the aim, among others, of improving the implementation of the framework, as well as ensuring that there are no incentives for the use of public money in case of a failed bank and that the framework works for small- and medium-sized banks. At the same time, the first review of the Deposit Guarantee Schemes Directive (DGSD) and a new impetus to the negotiations on the creation of a common European Deposit Insurance Scheme (EDIS) are envisaged.

Sustainability agenda. In Europe, the Commission will work on the development of the green taxonomy, progressing with the definition of the four remaining environmental objectives still to be developed, as well as the possible definition of a taxonomy for activities having adverse environmental impacts and another focused on activities that have social objectives. Progress will be made in defining sustainable reporting standards at both the European and international levels and in finalising the details of the ESG (Environmental, Social and Governance) information to be included in the Pillar 3 report as from 2023.

The publication of the legislative proposal on sustainable corporate governance is also pending, the aim being to enhance the way in which companies integrate ESG objectives into corporate strategy. Progress will be made in defining sustainable labels and standards, such as the European Green Bond Standard (EGBS) linked to the Taxonomy. At the international level, Basel is expected to make progress on the recommendations it started to define in 2021 in the area of supervision and management.

Digital agenda. The Digital Markets Act (DMA), which represents a turning point in Europe's digital strategy, is expected to be approved in the first half of the year. The new standard will set out the necessary criteria for a large online platform to be regarded as a gatekeeper and will impose obligations to ensure a fair business environment in which all companies can offer services.

Closely linked to this, the authorities recognise that data will be at the heart of the digital transformation. In this area, further discussions on a regulatory framework (Data Act) for data sharing and a related proposal are expected this year.

The debate on Open Finance, which envisages the possibility that the financial sector, including banks but also insurers and asset managers, will have to share data in addition to those established in the payment services directive (PSD2), will also intensify. As regards payments, the European Commission could launch a proposal to boost cross-border instant payments and discussions will begin on the revision of the payment services directive (PSD2).

Technological innovation. In 2022, the debate on the regulatory proposals presented by the Commission in 2019 to bolster digital operational resilience (DORA) and to regulate crypto-asset markets (MiCA) will continue. These proposed regulations could be approved later in the year. Legislative work will also continue on proposals tabled in 2021 to regulate the use of artificial intelligence and to establish a European digital identity (eIDAs2) that can be used, for example, to access financial services. The European Central Bank is also continuing its analysis of the Digital Euro. In 2021 it initiated an analysis to assess the advisability of issuing a Digital Euro over the next two years. Virtually all the world's central banks are engaged in the digital currency debate.

Retail Banking. Various initiatives are under way with a major focus on improving consumer protection and adapting standards to the digital environment. As regards legislative actions, the adoption of the proposal on the revision of the Consumer Credit Directive and the start of the revision of the Mortgage Credit Directive are expected. In terms of the obligations that will apply from 2022 onwards, those derived from the Taxonomy Regulation (which classifies environmentally sustainable activities) will be particularly relevant, including those relating to the disclosure of the proportion of eligible assets on bank balance sheets.

Strategy

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

- Broad geographic diversification and great commercial strength in key products.
- A better efficiency ratio compared to its main competitors.
- A risk management and recovery system that enables high credit quality.

We also maintain 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 returns and accelerating the Group's transformation through further digitalisation.

The main priorities for 2022 are:

• **Auto**: consolidate our leading position in the auto sector, strengthening our leasing and subscription services in all countries where we operate, while optimising capital consumption and expanding into new markets. Further develop online sales channels.

• **Consumer**: gain leadership in consumer finance by leveraging our current position to grow in e-commerce and checkout lending, and develop Buy Now, Pay later (BNPL) 2.0 to bolster our current position in Europe (Top 3).

• **Retail**: enhance our digital banking business.

• **Cost reduction and simplification**: accelerate digitalisation to transform the business and boost efficiency.

The main drivers are:

a. Organisational simplification: completion of the new legal and operational structure using three hubs to increase competitiveness and obtain benefits of scale.

b. Launch a major global transformation project to entirely redefine the auto, consumer and retail business platform and leverage the rapid growth of the transition to digital. This will enable us to grow our digital customer base to maintain high profitability and industry-leading efficiency.

c. Execute the strategic operations initiated in 2021 (Stellantis Agreement in auto and BNPL business in non-auto) to enable profit growth.

Business trends

The Group's total assets at 31 December 2021 amounted to €130,931 million (9.08% higher than at the previous year-end). Loans to customers grew by 2.2%, gradually recovering from the effects of the pandemic. New production increased by 11% compared to 2020, as reflected in both auto and consumer lending.

On the liabilities side, customer deposits rose by 4.2% compared to December 2020 and deposits at central banks by 37.3%. Wholesale funding totaled €16,402 million via senior issues, securitizations and other long-term issues.

At the end of December 2021, customer deposits, medium- and long-term securitizations and issues placed in the market covered 80% of net customer loans.

As regards the issuance plan, SCF SA's volume issued in 2021 amounted to €3,800 million, comprising €500 million in senior debt, €100 million in subordinated debt and a further €3,200 million in senior non-preferred debt.

Results

In **2021**, Santander Consumer Finance's attributable profit totaled **€1,490 million**, up €727 million on the previous year, once again demonstrating the soundness of our business model. Despite the lockdowns in some months of the year in various countries, profit after tax was +5.7% higher than in the same period of 2019, when it was not affected by the Covid-19 situation. This reflects the resilience of Santander Consumer Finance's business. By heading, the following impacts stand out:

- **Net interest income** improved 2.2% compared to the previous year, despite the impact of government-imposed mobility restrictions and closures, which in some countries were more severe than in the same period of 2020. The liquidity position was sound at all times and there were no additional liquidity constraints thanks to the trend in deposits and drawdowns on wholesale lines. Liquidity metrics remained above the internal limits and in compliance with regulatory levels.

  At the end of December, the SCF Subgroup recorded a consolidated LCR (Liquidity Coverage Ratio) of 319% and an NSFR (Net Stable Funding Ratio) of 115%, maintaining comfortable levels throughout the year.

- Net **fee and commission income** increased 7% compared to the previous year in cumulative terms thanks to the 11.2% rise in new business, reflecting the strong recovery that is taking place and is essentially boosting insurance fees.

- **Other operating income** increased by €47.5 million thanks to improved results in the operating lease business. This line also includes the Single Resolution Fund (SRF) payment, which was €8.2 million higher than in the previous year.

- **Operating costs** amounted to €1,855 million, 2.4% above the 2020 figure due to new business additions to SCF's scope (mainly Allane, Timfin, HCBE Italy...), the expense of which were practically absorbed thanks to the efficiency plans and additional cost-saving measures implemented since the start of the pandemic. The efficiency ratio stood at 41.8% at the year-end, which was an improvement on the 42.4% ratio achieved in 2020, reflecting a generalised trend in all countries.

- **Loan loss provisions** were 40% lower than in the same period of the previous year after improving remarkably due to the excellent portfolio performance. In the first half of the previous year, a qualitative adjustment was made to the expected loss models to add forward-looking macroeconomic data. Credit quality continued to perform well, with cost of credit reaching 0.50% (-35 bps year-on-year) and an NPL ratio of 2.06% (-1 bps).

There were two extraordinary impacts in 2020: the impairment of goodwill allocated to the Nordics CGU in the amount of €277 million and the write-off of tax losses at Santander Consumer, E.F.C., S.A. in the amount of €49 million.

In short, the Santander Consumer Finance Group continued to demonstrate the capacity to generate revenues while maintaining high profitability, sound efficiency and controlled non-performing loans. Expectations for 2022 are positive in all our territories.

Activity

Markets and business activities were still disrupted in 2021, mainly by the consecutive waves of the Covid-19 pandemic and the semiconductor crisis that affected automotive production throughout the year, but particularly in the second half.

Once again, geographic diversification and a diversified product and service offering kept pace with demand and customer needs in all countries.

Our main indicator for Santander Consumer's business showed that the passenger car registrations market fell by 2% at end-December against 2020 (the effect of consecutive falls over the last six months) (ACEA data). Compared to 2019, the same indicator was around 25% lower, as it was not affected by the Covid-19 pandemic and the semiconductor crisis that year.

However, growing demand was observed in the used car market, where Santander Consumer has a leading position on the European continent.

E-commerce is still on the rise, although the lack of production of consumer goods in the electronics sector limited supply despite growing demand, so financing activities were also constrained.

Corporate principles

The Santander Group, of which Santander Consumer Finance is part, has defined excellence in risk management as a strategic objective. It has always been a priority area of action throughout more than 150 years of history.

In recent years, the strategy has been accelerated to anticipate and respond to the major challenges of a constantly changing economic, social and regulatory environment.

Therefore, the risk function is more important than ever for the Santander Group to remain a solid, safe and sustainable bank, an example for the entire financial industry and a benchmark for all that aspire to turn risk leadership into a competitive advantage.

Santander Consumer Finance aims to build the future by managing all risks in advance and protecting the present thanks to a robust control environment. The risk function is based on the following pillars, which are aligned with the Santander Group's strategy and business model and take account of the recommendations of supervisory and regulatory bodies, and best market practices:

1. The business strategy is defined within the risk appetite. Santander Consumer Finance's Board determines the amount and type of risk deemed reasonable to assume when implementing its business strategy and development within objective, verifiable limits consistent with the risk appetite for each relevant activity.

2. All risks must be managed by the units that generate them through advanced, integrated business models and tools. Santander Consumer Finance is promoting advanced risk management using innovative models and metrics, combined with a control, reporting and escalation framework that enables risks to be identified and managed from different perspectives.

3. Anticipatory thinking for all types of risks must be integrated into risk identification, assessment and management processes.

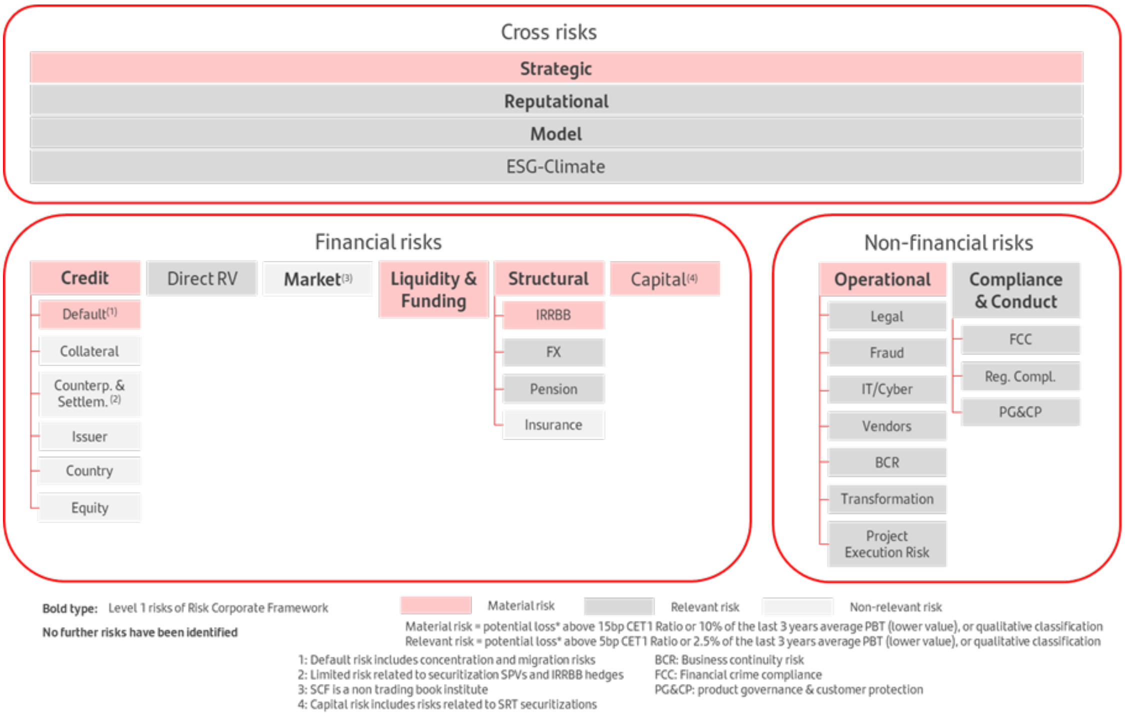
4. The risk function's independence spans all risks and provides adequate separation between risk-generating and risk-controlling units. It implies that it has sufficient authority and direct access to the management and governance bodies responsible for setting and overseeing the risk strategy and policies.

5. Risk management requires the best processes and infrastructures. Santander Consumer Finance aims to be a benchmark in the development of infrastructures and processes to support risk management.

6. A risk culture embedded throughout the organisation, comprising a set of attitudes, values, skills and behavioral patterns for all risks. Santander Consumer Finance understands that advanced risk management cannot be achieved without a strong and stable risk culture being present in each of its activities.

Risks map

Santander Consumer Finance has in place a recurring process for identifying the material risks to which it is or could be exposed, as reflected in the risk map. Material risks must be covered by the risk profile assessment exercise, risk appetite, risk strategy and ICAAP/ILAAP. Below is the latest update of Santander Consumer Finance's risk map.



The first level includes the following risks (General Risks Framework):

- Credit risk is the risk of financial loss arising from a contractual breach or impairment of the credit quality of a customer or other third party that Santander Consumer Finance has financed or in respect of whom a contractual obligation has been assumed.
- Market risk is the risk incurred as a result of changes in market factors that affect the value of positions in trading portfolios. This risk is not considered relevant within Santander Consumer Finance since it is not a trading institution.
- Liquidity risk is the risk that Santander Consumer Finance does not have the liquid financial assets required to meet its obligations when due, or can only obtain them at a high cost.
- Structural risk is the risk arising from the management of balance sheet items, in the banking portfolio and in relation to insurance and pension activities.
- Capital risk is the risk that Santander Group does not have sufficient capital, in quantity or quality, to meet its internal business objectives, regulatory requirements or market expectations.
- Operational risk is defined as the risk of loss due to inadequacy or failure of internal processes, staff and systems or due to external events. This definition includes legal risk.
- Conduct risk: Conduct risk is the risk that arises from practices, processes or behaviors that are inappropriate or fail to comply with internal regulations, legality or supervisory requirements.

- Strategic risk is the risk of loss or detriment arising from strategic decisions, or poor implementation of such decisions, affecting the long-term interests of our main stakeholders; or from an inability to adapt to the changing environment.

- Reputational risk: Reputational risk is defined as the risk of a current or potential adverse economic impact due to a less favorable perception of the bank by employees, customers, shareholders/ investors and society in general.

- Model risk is the risk of loss arising from misuse of a model or inaccurate predictions that may result in sub-optimal decisions by the Bank.

The material risks at Santander Consumer Finance are: credit, default (including concentration and migration), liquidity, structural, structural interest rate, capital, operational and strategic.

The relevant risks in Santander Consumer Finance are: direct residual value, structural exchange rate, pensions, legal, fraud, IT/cyber risk, suppliers, business continuity, transformation, project execution, money laundering and terrorist financing, regulatory compliance, product governance and consumer protection, reputational, model and ESG risks (related to environmental and climate, social and governance factors).

There are two types of risk whose relevance has been increasing in recent times and for which Santander Consumer Finance is bolstering management and control: direct residual value risk and ESG/climate risks.

Direct residual value risk is defined as the risk of loss to which a company may be exposed if, at some point during the life of an automobile agreement (loan, lease, etc.), the customer has the option or obligation to return the vehicle as full and final settlement, due to uncertainty regarding the selling price of the vehicle realised at that time.

ESG factors (environmental and climate, social and governance) can entail traditional types of risk (credit, liquidity, operational, reputational, etc.) due to the physical impacts of a changing climate, the risks of the transition to a new, more sustainable economy and the failure to meet expectations and commitments.

Corporate Governance

The objective of the governance of the risk function is to ensure adequate and efficient decision-making and effective risk control, and to ensure that these functions are managed in accordance with the risk appetite approved by the board of directors of Santander Consumer Finance.

The following principles have been established for this purpose:

- Segregation between risk decisions and control.

- Enhancing the responsibility of risk generating functions in the decision-making process.

- Ensuring that all risk decisions have a formal approval process.

- Ensuring an aggregate overview of all risk types.

- Bolstering risk control committees.

- Maintaining a responsive and efficient committee structure, ensuring:

    - Participation and involvement of the governance bodies and senior management in all risk decisions, and supervision and control.

    - Coordination between the lines of defense in risk-management and control functions.

    - Alignment of objectives, monitoring to ensure they are being achieved and implementing corrective measures when necessary.

    - The existence of an adequate management and control environment for all risks.

To achieve these objectives, the Committee structure in the management model must ensure an adequate:

- Structure, with stratification by levels of relevance, balanced delegation capacity and protocols for escalating incidents.
- Composition, with members of sufficient rank and representation of business and support areas.
- Operations, i.e. frequency, minimum attendance levels and appropriate procedures.

The governance of risk activity must establish and facilitate coordination channels between the units and Santander Consumer Finance, together with alignment of management models and risk control.

The governance bodies of Santander Consumer Finance, S.A. units are set up in accordance with local legal and regulatory requirements, considering the complexity of each unit.

In addition, Santander Consumer Finance maintained measures during the year to monitor and manage the covid-19 crisis:

The Silver Committee at Santander Consumer Finance has continued to be held throughout the 2021 financial year on a monthly basis. As this is such a protracted situation, each new wave of covid-19 has had less impact on the units and has required less focus from the Santander Consumer Finance Silver Committee.

The monitoring function of the Silver Committee has focused on the evolution of the pandemic and the return of employees to the branches (with relevant input from the Banco Santander Silver Committee), business monitoring, risk KPIs and results.

Additionally, the Silver Committee has monitored the microchip/supply chain crisis and its impact on the Santander Consumer Finance business.

Roles and responsibilities

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

- First line of defense

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 defense must ensure at all times:

  - That all risks that might have a material impact are identified.
  - Recurrent assessment of existing risks.
  - The information needed to assess risks is available.
  - The limits established for their activities are observed and respected.

- Second line of defense

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 defense is an independent function within the risk function that complements the management and control functions of the first line of defense, ensuring at all times that:

  - Limits are established and approved by the entity's governance bodies or their delegated bodies.
  - The first line of defense 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 defense must provide a consolidated overview of market, structural and liquidity risks.

- Third line of defense

As the final layer of control in the Group, Internal Audit regularly checks that policies, methods and procedures are adequate and applied effectively in management.

Structure of Risk Committees

The board of directors is ultimately responsible for risk control and management, delegating these powers to commissions and committees. In Santander Consumer Finance, the Board is supported by the Risk, Regulation and Compliance Supervision Commission, which is an independent risk control and monitoring committee. These bylaw-mandated bodies form the highest level of risk governance:

Independent control bodies

- *Risk, Regulation and Compliance Supervision Commission*

  This Committee's role is to assist the Board of Directors in the monitoring and control or risks, defining and assessing risk policies, and determining the risk propensity and strategy.

  It is made up of external or non-executive directors (mostly independent) and is chaired by an independent Board member.

  The main duties of the Risk, Regulation and Compliance Supervision Commission are:

  - To support and advise the Board of Directors in defining and assessing Santander Consumer Finance's risk policies and determining its risk propensity and risk strategy.

  - To ensure that the pricing policy for assets and liabilities offered to customers fully respects the business model and risk strategy.

  - To understand and assess the management tools, ideas for improvement, progress with projects and any other relevant activity relating to risk control.

  - To determine with the Board of Directors the nature, amount, format and frequency of the risk information to be received by the Committee and the Board.

  - To help establish rational and practical remuneration policies. For this purpose, without prejudice to the duties of the Remunerations Committee, the Risk Committee examines whether the incentives policy planned for the remuneration scheme considers risk, capital, liquidity and the likelihood and suitability of profits.

- *Executive Risk Control Committee (ERCC):*

  This collegial body is responsible for overall monitoring and control of Santander Consumer Finance's risks, pursuant to the powers delegated to it by the Board of Directors of Santander Consumer Finance, S.A.
  Its objectives are:

  • To provide a tool for effective risk control, ensuring that risks are managed in accordance with the Bank's risk appetite, as approved by the Board of Directors of Santander Consumer Finance, S.A., providing an overview of all of the risks identified in the risk map in the general risk framework, including identification and monitoring of actual and emerging risks and their impact on the risk profile of the Santander Consumer Finance Group.

- To ensure the best estimate of provisions and that they are recognized correctly.

This Committee is chaired by the Santander Consumer Finance's Chief Risk Officer (CRO) and is made up of members of its senior management. In addition to the risk function, which chairs the Committee, the compliance, finance and management control functions are also represented. The CROs of local entities can take part on a regular basis to report on the risk profile of the entities and other tasks.

The Executive Risk Control Committee reports to the Risk, Regulation and Compliance Supervision Commission, which it assists in its function of supporting the Board.

Decision-making bodies

– *Executive Risk Committee (ERC):*

The Executive Risk Committee is the collegiate body responsible for overall risk management pursuant to the powers delegated to it by the Board of Directors of Santander Consumer Finance S.A., monitoring all the risks identified in the Bank that fall within its remit.

Its objective is to provide a tool for decisions on accepting risks at the highest level, ensuring that risk decisions are within the limits set by the Santander Consumer Finance Group's risk appetite, as well as informing of its activity to the Board or its committees when it is required so.

This Committee is chaired by the Head of Santander Consumer Finance and is made up of executive directors and other executive of Santander Consumer Finance. The risk, financial, management control and compliance function are also represented, among others. The Bank's CRO is entitled to veto the Committee's decisions.

– *Proposal Sub-committee (RPSc):*

The Santander Consumer Finance Risk Proposal Sub-committee is a collegiate body in charge of making decisions regarding business and country transactions, credit risk, market, liquidity and structural issues, guaranteeing that the decisions made comply with the limits established in the appetite risk framework of Santander Consumer Finance, as well as informing of its activity to the Risk Executive Committee when it is required so.

This Committee is chaired by Santander Consumer Finance’s CRO, and it comprises Santander Consumer Finance executive positions including but not limited to the risk, financial, management control and compliance functions.

– *Provisions Committee:*

The Provisions Committee is the decision-making body responsible for overall management of provisions in accordance with the powers delegated by the Executive Risk Committee of Santander Consumer Finance S.A., and supervises, within its sphere of action and decision, all matters relating to provisions in Santander Consumer Finance. Its purpose is to be the instrument for decision-making, ensuring that decisions are consistent with the governance of provisions established at Santander Consumer Finance, and reporting to the Board of Directors or its committees on its activities when required.

Structural organisation of the risk function

The Group Chief Risk Officer (GCRO) is responsible for the risk function in Santander Consumer Finance and reports to the Head of Santander Consumer Finance, who is a member of the Board.

The GCRO advises and challenges the executive line and also reports independently to the Risk, Regulatory and Compliance Committee and to the Board.

Advanced risk management is based on a holistic, forward-looking approach to risks, based on intensive use of models, to foster a robust control environment that meets the requirements of the regulator and the supervisor.

Santander Consumer Finance's risk management and control model shares certain core principles via its corporate frameworks. These frameworks are established by the Group and Santander Consumer Finance adheres to them through its management bodies. They shape the relationship between the subsidiaries and Santander Consumer Finance, including the role played by the latter in validating.

The Group-Subsidiaries Governance Model and good governance practices for subsidiaries recommend that each subsidiary should have a bylaw-mandated risk committee and an executive risk committee chaired by the Chief Executive Officer (CEO). This is in line with best corporate governance practices and consistent with those already in place in the Group, as set out in the corporate framework, to which Santander Consumer Finance has signed up.

Under the Group's internal governance framework, the management bodies of Santander Consumer Finance have their own model of risk powers (both quantitative and qualitative), which must follow the principles set out in the benchmark models and frameworks developed at the corporate level.

Given its capacity for comprehensive and aggregated oversight of all risks, the corporation exercises a validation and questioning role with regard to the operations and management policies of the units, insofar as they affect the Group's risk profile.

Identifying and evaluating risks is a cornerstone for controlling and managing risk. The main risk types to which the Group is exposed are credit risk, market risk, operational risk and compliance and conduct risk.

Santander Consumer Finance has taken several initiatives to improve the relationship between Santander Consumer Finance and its subsidiaries, and to improve the model of advanced risk management.

II. Credit risk

Credit risk stems from the possibility of losses arising from the failure of clients or counterparties to meet their financial obligations with the Group, in full or in part.

The risk function in Santander Consumer Finance is organised by customer type, distinguishing between individualised and standard customers throughout the risk-management process:

- Individualised customers are those assigned to a risk analyst, mainly because of the risk they entail. This category includes Wholesale Banking companies and some Retail Banking companies. Risk management involves expert analysis, complemented by decision-making support tools based on internal risk assessment models.

- Standard risks are those customers to whom no risk analyst is expressly assigned. They generally include risk with individuals, individual businesspeople and non-individualised retail banking companies. Management of these risks is based on internal-assessment and automatic-decision models, complemented by teams of analysts specialized in specific risk types when the model does not cover the risk or is not sufficiently accurate.

Key figures in 2021

The trend in non-performing assets and the cost of credit reflect the impact of the deterioration of the economic environment mitigated by prudent risk management, which has generally kept these figures lower than those of our competitors in recent years. As a result, Santander Consumer Finance maintains an adequate level of coverage to meet the expected loss from the credit risk portfolios managed.

At December 2021, the NPL ratio was 2.06% thanks to the positive impact of the payment deferrals and measures applied by the business units, and to the alignment of risk performance with Santander Consumer Finance's risk appetite. Non-performing loans (EUR 2,099 million) distributed by unit are as follows: the Nordic countries account for 27% of the total, Spain as a group (including FECI) for 22%, the German group for 20%, France 12%, Italy 7%, Austria 6% and other areas 6%. In terms of portfolio type, Auto represents 42% of the total, Direct 32%, Cards 8%, Stock finance 5%, Mortgages 4%, Durables 2% and other portfolios 7%.

The NPL ratio has shown a downward trend in recent years, reaching a low in December 2019 in the pre-pandemic scenario. However, despite the uncertainty and instability generated by the Covid-19 situation, stable Stage 3 ratios were achieved, standing at 2.06% in December 2021 and 2.04% in December 2020. The slight rise in the NPL ratio occurred in most Santander Consumer Finance countries and mainly in the used car, durables and credit card portfolios.

In terms of cost of credit, this ratio shows a low risk profile thanks to the granularity and predictability of Santander Consumer Finance's portfolios. The 12-month cost of credit at the end of December 2021 was 0.5%. The additional provisions recognised as a model overlay during 2020 for all Santander Consumer Finance Group portfolios in the amount of EUR 185.88 million, as a result of a macroeconomic adjustment to provisions following the ECB's recommendations and in line with the Santander Group's corporate approach, which stipulated that banks should avoid excessively pro-cyclical assumptions in their IFRS 9 models when estimating provisions during the Covid-19 pandemic using long-term macroeconomic forecasts, were fully released in Santander Consumer Finance's various units.

Highlights and trends

The profile of Santander Consumer Finance's credit risk portfolio is characterised by a diversified geographic distribution and the predominance of retail banking.

a) Global Credit Risk Map 2021

The following table details the global map of Santander Consumer Finance's gross credit exposure by geographic area:

SCF Group - Gross credit risk exposure			
	2021 (EUR millions)	Change on December 2020	%portfolio
Spain and Portugal (*)	14,602	(7.28 %)	14.36 %
Italy	9,079	(0.48 %)	8.93 %
France	14,734	0.59 %	14.49 %
Germany and Austria	38,774	(0.38 %)	38.13 %
Nordics (Scandinavia)	17,583	1.57 %	17.29 %
United Kingdom (**)	2,974	100 %	2.92 %
Other	3,930	1.11 %	3.87 %
Total	101,676	95.13 %	100 %

(*) The Spanish business, as indicated in note 1, incorporates at December 31, 2021 the branches in the Netherlands, Belgium, Greece and Portugal.

(**) As a result of the acquisition described in note 3, PSA Finance UK Limited has been included in the scope of consolidation.

In 2020 and 2021, Santander Consumer Finance's business was conducted in a challenging economic environment caused by the Covid pandemic. Following the economic revival, higher origination volumes were observed in Santander Consumer Finance's core portfolios (Auto, Direct and Durables). However, as a consequence of the recent semiconductor production crisis and the reorganisation of commercial network agreements in the joint ventures resulting from the merger of PSA and FCA (Stellantis), the Stock Finance portfolio declined.

In terms of outlook by product at December 2021, Auto accounts for 63% of total gross exposure, Direct 11%, Mortgages 4%, Durables 2%, Stock Finance 8% and Other 12%. Germany has the largest share of the portfolio at 38%, together with Austria and its respective JVs. The Nordics (Scandinavia) accounts for 17%, including the units in Norway, Denmark, Sweden and Finland. Spain, Portugal and their respective JVs represent 14% of the total.

Estimation of impairment losses

Calculation of expected credit losses:

The Covid-19 health crisis, which continued in 2021, was unexpected, unpredictable and severe, but is expected to be temporary. Santander Consumer Finance's priority in these circumstances was to look after the health of its employees, customers and shareholders, but also to contribute to alleviating the economic impact of the pandemic, in line with the guidelines issued by the EBA and the Santander Group. This includes offering the best solutions to help customers.

Conceptually, the phases in managing the effects of the pandemic were as follows:

- Identifying customers or groups affected by the pandemic.

- Granting early relief for temporary financial difficulties caused by Covid-19 through measures promoted by governments, central banks, financial institutions and the Santander Group.

- Monitoring our customers' situation to ensure that they continue to be provided with the best solution and also to assure that any deterioration is correctly reflected in Santander Consumer Finance's risk management and associated accounting. This becomes particularly relevant on expiry of any moratorium or liquidity support measures of which customers may have availed themselves.

- Monitoring is accompanied by recovery management activities where necessary.

These conceptual phases are not sequential but overlap in time. In addition, ongoing interaction and coordination with all Santander Consumer Finance units is proving to be a fundamental asset in managing this crisis. The experience gained while combating the health crisis and its financial consequences in our various geographies, and the different speeds at which it has evolved in each case, allow us to share the best practices identified and to quickly and efficiently implement the concrete strategies and actions that have been most successful, always adapted to the local reality in each market.

Measures to support the economy

In line with our previous comments regarding the alleviation of our customers' temporary financial difficulties caused by the pandemic, Santander Consumer Finance took measures to foster customers' financial resilience during the crisis in all geographies. Highlights included the following:

- Providing liquidity and credit facilities to customers facing difficulties.

- Granting grace periods or moratoria in many of our markets.

- Supporting customers with potential difficulties by being proactive, trying to meet their needs and providing advice through specialised teams.

Santander Consumer Finance implemented measures in all its units to provide liquidity and credit facilities, as well as facilitating payment deferrals for individuals and businesses in difficulties, according to the guidelines established by the EBA and the Santander Group.

As regards specific liquidity measures, grace periods or moratoria, a number of support programmes were implemented following the guidelines issued by the Santander Group, the regulatory and supervisory authorities, and governments, central banks and supranational entities in the markets in which we operate. The main objective was to mitigate the temporary impact on customers' activities, given that in the absence of appropriate measures and proper prudential and accounting treatment, the economic consequences of the crisis could be aggravated, giving rise to pro-cyclical effects that would lengthen its duration and impact.

The various measures offered can be grouped into the following categories:

- Government liquidity measures: Generally speaking, these are loan facilities granted by Santander Consumer Finance units to customers at the request of government bodies to provide liquidity, although these measures in particular were immaterial to SCF.

- Governmental moratorium measures: In this case, the government authorities define a series of requirements which, if met by the beneficiary, entail the granting of moratoria by the Santander Consumer Finance unit on the payment of principal and/or interest on the different credit operations that customers may have contracted. The general maturity of the moratorium measures is short term. Some governments and institutions are re-extending initial deadlines, especially those that were launched at very short notice in the early stages of the pandemic, when there was less visibility of the potential duration of the crisis, but the re-extensions are also short term.

- The specific features of these programmes vary depending on how they are defined by the national governments of the countries in which Santander Consumer Finance operates. The granting criteria also depend on the requirements established by the authorities of each country in accordance with the legislation in force in each case.

– Internal/sectoral moratorium measures: This involves, broadly speaking, the granting of moratoria by Santander Consumer Finance on the payment of principal and/or interest on the various loans that customers may have obtained. In this case, the specific characteristics of these measures as regards repayment periods, amounts, etc. vary according to each geography, product or customer segment so as to adapt them as far as possible to the reality of the local market and regulations, as well as to the needs of the customer and the product contracted. In many cases, the applicable general conditions have been agreed at the industry level, such as through national associations of credit institutions.

– Other types of internal measures: This category includes all measures not included in the previous sections.

Regarding moratoriums, practically all of them had expired as of December 2021.

The Group estimates impairment losses by calculating the expected loss for 12 months or for the entire life of the transaction, depending on the stage in which each financial asset is classified under IFRS 9.

In the context described in the previous sections, many regulators and supervisors highlighted the uncertainties surrounding the economic impacts of the health crisis. This was also evident in the frequent updates of macroeconomic forecasts, with different perspectives and views on the depth and duration of the crisis. Thus, the general recommendation (including IASB, ESMA, EBA and ECB) at the start of the health crisis was not to mechanistically apply the usual techniques for calculating expected losses under IFRS 9, so as to prevent this variability of economic conditions from causing undesired volatility in results and the resulting potential for pro-cyclical effects on the economy. Over the course of 2021, macroeconomic forecasts regained sufficient stability to allow a return to the calculation of expected losses using multiple scenarios.

Santander Consumer Finance has analysed losses under IFRS 9 on the basis of three types of aspects:

1. Continuous monitoring of customers

Monitoring the credit quality of customers may be more complex in the current circumstances, in the absence of certain contractual payments on transactions subject to moratoria, although the total amount of loans still under these measures decreased considerably during the year.

For such monitoring, internal customer monitoring policies must be supplemented using all available information. The availability and relevance of information differs in the various portfolios in the countries where Santander Consumer Finance operates but, for illustrative purposes, it may include the following:

– The payment of interest in the case of principal-only grace periods.

– Payments for other operations of the same customer in the institution (not subject to moratoria).

– Loan repayment information from other institutions (via credit bureaus).

– Customer's financial information: average current account balances, availability/utilisation of limits, etc.

– The behavioral elements available (variables that feed behavioral scores, etc.).

– Information gathered from customer contacts (surveys, calls, questionnaires, etc.). Among other data, this may include customers under temporary lay-off measures (ERTE), direct government support, etc.

2. Foresight

As reflected by the IASB, the macroeconomic uncertainty surrounding the Covid-19 pandemic made it difficult to apply the IFRS 9 expected loss calculation models as was customary, but it did not prevent the use of the standard's forward-looking feature. Therefore, the European Central Bank recommended the use of a stable, long-run perspective for macroeconomic forecasts that takes account of the multiple support measures explained previously.

During 2021, this uncertainty declined as vaccination progressed and hospitalisation rates gradually fell, allowing containment measures to be reduced. In parallel, support measures were cut back while assuring sound portfolio performance.

The return to stability of macroeconomic forecasts and the expiration of most of the moratoria in 2021 allowed a return to applying IFRS 9 expected loss calculation models as usual, using multiple scenarios.

3. Additional aspects

Using the information referred to above, the Group assessed customer credit quality trends in each geographic area for the purposes of stage classification and expected loss calculation.

In terms of classification, in 2021 the Group maintained the classification criteria and thresholds applied prior to the onset of the pandemic, eliminating regulatory interpretations of the effect of moratoria on classification as they expired, as well as the collective analyses associated with these loan groups. As regards the moratoria, customer credit quality and payment behavior were rigorously identified and regularly monitored so as to ensure the timely detection of a significant increase in credit risk (SICR) by means of a specific individual or collective assessment.

The Group, as part of its governance processes, rolled out guidelines in all subsidiaries to ensure a consistent and homogeneous approach and governance when managing the new treatment and the specific impacts on provisions arising from the pandemic. Guidance was provided on the calculation of the macroeconomic impact of the crisis through an overlay and possible collective assessments, taking account of the impairment caused by Covid-19. These documents also include a monitoring guide to ensure the adequacy of the overlay and to anticipate any updates that may be necessary. Portfolio monitoring guidelines were drawn up in 2021 to allow an orderly transition to the standard calculation method.

The detail of exposure and impairment losses associated to each stage as of 31 December 2021 is as follows. Additionally, in line with its current credit quality, the exposure is classified in three grades (investment, speculation and default):

Exposure and impairment losses by stage 2021 *(EUR millions)*				
Credit quality (*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	113,018	—	—	113,018
Speculation grade	8,404	3,650	—	12,054
Default	—	—	2,099	2,099
Total Risk (**)	121,422	3,650	2,099	127,171
Impairment losses	551	296	1,307	2,154

Exposure and impairment losses by stage 2020 (EUR millions)				
Credit quality (*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	108.618	—	—	108.618
Speculation grade	8.162	4.262	—	12.424
Default	—	—	2.070	2.070
Total Risk (**)	116.780	4.262	2.070	123.112
Impairment losses	540	289	1.368	2.197

(*) Detail of credit quality rating calculated for Group's management purposes.

(**) Amortised cost assets, Loans and advances - Customers + Loan commitments granted

At 31 December 2021 and 2020, the Group records no significant amounts of impaired assets purchased.

The Group monitors credit risk provisions by means of a sensitivity analysis considering variations in the scenarios that impact the distribution of financial assets in the various stages and the calculation of these provisions. This analysis entails simulating changes of +/- 100 basis points in the main macroeconomic inputs. A set of specific, comprehensive scenarios is employed in which different impacts affecting both the reference input and the other variables are simulated. Sensitivity analyses were carried out in the various units on the most representative macroeconomic variables used in the relevant models. These impacts can originate from productivity factors, taxes, wages or exchange and interest rates. Sensitivity is measured as the average change in expected loss in the above-mentioned scenarios. Applying a conservative approach, negative changes take into account an additional standard deviation to reflect the possible higher variability of losses.

The Group also conducts stress testing and sensitivity analyses on a recurring basis in exercises such as the ICAAP, strategic plans, budgets and recovery and resolution plans. In these exercises, a prospective view is created of the sensitivity of each of the Group's portfolios to a possible deviation from the baseline scenario, considering both the macroeconomic trend in different scenarios and the three-year business trend. These exercises include potentially more adverse scenarios as well as more plausible scenarios.

The classification of transactions in the different IFRS 9 stages follows the risk management policies of the various units, which are consistent with those prepared by the Group. When determining Stage 2 classification, an assessment is conducted to ascertain whether there has been a significant increase in credit risk (SICR) since the initial recognition of the transactions, taking into account a series of common principles throughout the Group to ensure that all financial instruments undergo this assessment, which addresses the specifics of each portfolio and product type based on various quantitative and qualitative indicators. Transactions are also subject to the expert judgement of analysts, implemented in accordance with the approved governance.

The judgements and criteria employed by Santander Consumer Finance, following the guidelines provided by the Santander Group when defining the SICR indicators, are as follows:

- Universality: all financial instruments subject to a credit rating must be assessed in case of a significant increase in risk (SICR).

- Proportionality: the definition of a SICR must take account of the specifics of each portfolio (e.g. product type, amount of exposure, etc.).

- Materiality: the implementation of the SICR definition must also be consistent with the relevance of each portfolio. Local units must ensure that their approach provides an appropriate estimate while avoiding unnecessary costs or efforts.

- Holistic view: the selected approach must combine the most relevant aspects of credit risk (i.e. quantitative, qualitative and backstop) to ensure a comprehensive review of these aspects for each portfolio.

- Compliance with IFRS 9: the approach must consider the characteristics of IFRS 9, focusing on a comparison with credit risk at initial recognition, as well as forward-looking information.

- Risk management integration: the selected approach must be consistent with the metrics employed in daily risk management of the assessed portfolios, based on the definitions used by management (i.e. forbearance, definition, etc.).

- Documentation: complete, suitable documentation must be prepared.

The key aims when considering the ICRS definition are as follows:

- Interaction between quantitative, backstop and qualitative criteria. In relation to the procurement system, two different frameworks must be followed: (1) contracts must be classified in Stage 2, following the order of priority mentioned above (quantitative, backstop and qualitative criteria); (2) other tags are used to identify contracts for parallel reporting, such as the reporting of restructured operations.

- Predictive power: the SICR definition is expected to avoid as far as possible direct migrations from Stage 1 to Stage 3 skipping a prior Stage 2 classification.

- Stage 2 stability: in the absence of significant changes in the portfolio’s credit quality, the volume of Stage 2 assets should remain relatively stable overall.

- Economic reasonableness: at the operational level, Stage 2 is expected to be a transitional classification for exposures that could eventually move to credit-impaired status at some point in time or to Stage 3, as well as for exposures that are credit-impaired and whose credit quality is improving.

- Predictive power: the SICR definition is expected to avoid as far as possible direct migrations from Stage 1 to Stage 3 skipping a prior Stage 2 classification.

- Time in Stage 2: Exposures are not expected to remain tagged as Stage 2 for an excessive period of time. The defined limit reference period is 12 months.

The application of several of the above-mentioned techniques results in the setting of one or more thresholds for each portfolio in each geography. These thresholds are also subject to periodic review through calibration testing, which may entail updating threshold types or values.

Quantification of additional provisions for Covid-19

When the health crisis began, numerous international organisations and supervisors pointed out the importance of responsibly adapting and applying accounting and prudential policies to the containment measures put in place to combat the effects of Covid-19, which are temporary and exceptional. Considering these observations, local accounting differences were taken into account on the basis of stable, long-term macroeconomic forecasts through a subsequent adjustment of the model supplemented by a collective and/or individual assessment to reflect a more realistic situation, specifically to recognise expected credit losses on assets that have suffered a significant increase in credit risk (SICR) without the need to identify which individual financial instruments have undergone a SICR. This approach was also maintained throughout 2021 and, finally, by year-end 2021 the long-term view was no longer necessary.

The additional overlay or adjustment to the model output was considered to be the best option when recognising the expected loss increase, since a mechanical application of the expected credit loss (ECL) in the current context could have had unexpected results. The additional provisions associated with different macroeconomic scenarios were calculated using internal models; however, it was treated as an overlay (adjustment) to the monthly IFRS 9 calculation to improve control and monitoring of the accuracy of the estimated expected credit losses.

The scenarios used to calculate the overlay were also based on a long-term approach, in line with the recommendations of many international organisations and supervisors. In 2021, successive recurring reviews of the overlay were applied to adapt it to each point in time and, at year-end 2021, the long-term view approach to the scenarios was discontinued and the estimates were re-estimated on the basis of regulatory expectations using multiple scenarios.

At year-end 2021, the Santander Consumer Finance Group recalibrated the provisioning parameter models and did not recognise an additional impairment charge for financial assets at amortised cost as a result of applying this long-term view in the scenarios.

Nonetheless, additional adjustments to the model output were maintained, totaling EUR 101.6 million at year-end 2021, due primarily to the difficulty of mechanically applying the scenarios, to the normalisation of portfolios to pre-pandemic levels and to adjustments in portfolios where the prevalence of moratoria, even after expiry, is still latent. The Group's geographies most affected by these adjustments are Spain, the Nordics (Scandinavia), Austria, Italy and France.

Detail of the main geographical areas

Following is the risk information related to the most relevant geographies in exposure and credit risk allowances**.**

- **Germany**

Information on the estimation of impairment losses

The detail of exposure and impairment losses associated to each stage for Santander Consumer Bank AG and Santander Consumer Leasing GmbH as of 31 December 2021 is as follows. Additionally, in line with its current credit quality, the exposure is classified in three grades (investment, speculation and default):

Exposure and impairment losses by stage 2021 (EUR millions)				
Credit Quality (*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	34,352	—	—	34,352
Speculation grade	—	941	—	941
Default	—	—	509	509
Total exposure (**)	34,352	941	509	35,802
Impairment losses	89	70	360	519

Exposure and impairment losses by stage 2020 (EUR millions)				
Credit Quality (*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	34,427	—	—	34,427
Speculation grade	—	1,021	—	1,021
Default	—	—	487	487
Total exposure (**)	34,427	1,021	487	35,935
Impairment losses	156	71	352	579

(*) Detail of credit quality rating calculated for Group's management purposes.

(**) Amortised cost assets, Loans and advances, Customers + loan commitments granted

The NPL ratio for Germany reached 1.55% at the end of December 2021 (1.66% at the end of 2020).

For the estimation of the expected losses, the prospective information is taken into account. Specifically, for the most significant units in Germany (Santander Consumer Bank AG and Santander Consumer Leasing GmbH) five prospective macroeconomic scenarios are considered, which are updated periodically, during a time horizon of 5 years.

The projected evolution for the next five years of the main macroeconomic indicators used by Santander Consumer Bank AG and Santander Consumer Leasing GmbH for estimating expected losses as of 31 December 2021 is presented below:

Magnitudes	5-year scenario (2022-2026)				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	1.03 %	0.63 %	(0.25 %)	(0.01 %)	0.48 %
Unemployment rate	6.46 %	6.16 %	5.17 %	4.69 %	4.53 %
GDP growth	0.05 %	0.46 %	1.87 %	2.44 %	3.21 %
Housing market price surges	(1.07 %)	(0.64 %)	2.59 %	3.33 %	4.08 %

The projected evolution for the next five years of the main macroeconomic indicators used by Santander Consumer Bank AG and Santander Consumer Leasing GmbH for estimating expected losses as of 31 December 2020 is presented below:

Magnitudes	5-year scenario (2021-2025)				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	(0.01 %)	(0.12 %)	(0.22 %)	0.51 %	1.23 %
Unemployment rate	6.86 %	6.15 %	4.98 %	4.54 %	4.19 %
GDP growth	(0.46 %)	0.17 %	0.98 %	1.53 %	1.85 %
Housing market price surges	(0.86 %)	0.63 %	2.59 %	3.58 %	4.57 %

Each of the macroeconomic scenarios is associated with a specific probability of occurrence. In terms of their assignment, Santander Consumer AG and Santander Consumer Leasing, GmbH associate the highest weighting to the Base Scenario, while they associate the lowest weightings to the most extreme scenarios. The weightings used in fiscal years 2021 and 2020 are as follows:

Worst-case scenario	5 %
Worse-case scenario	20 %
Base-case scenario	50 %
Better-case scenario	20 %
Best-case scenario	5 %

The estimated sensitivity of expected losses for the most relevant portfolios in Germany as of 31 December 2021 is shown below:

	Change in expected loss (IFRS9)			
	Vehicles New	Vehicles Used	Leasing New	Direct
GDP growth:				
(100) bps	5.27 %	5.41 %	4.43 %	4.38 %
100 bps	(2.61 %)	(2.57 %)	(2.43 %)	(1.78 %)
Unemployment rate:				
(100) bps	(4.57 %)	(4.36 %)	(5.53 %)	(3.11 %)
100 bps	5.24 %	4.98 %	6.97 %	4.59 %

With regards to the determination of classification in stage 2, the quantitative criteria applied by the entity are based on identifying whether any increase in the probability of default (PD) for the entire expected life of the operation is greater than an absolute and relative threshold. This threshold is established for each portfolio and is different depending on the characteristics of the transactions. As an example, in the case of Santander Consumer A.G. and Santander Consumer Leasing GmbH, for its main portfolio (Vehicles) it is considered that an operation is to be classified under stage 2 when the PD for the entire expected life of a transaction at a given moment is greater than the one that it had at the moment of initial recognition by 42.67% in absolute terms or 650% in relative terms.

In addition, for each portfolio, a series of specific qualitative criteria are defined that indicate that the exposure has had a significant increase in credit risk, regardless of the evolution of its PD since the time of initial recognition. The Entity, among other criteria, considers that an operation presents a significant increase in risk when it presents positions past due for more than 30 days. These criteria depend on the risk management practices of each portfolio.

- **Nordics (Scandinavia)**

Information on the estimation of impairment losses

The detail of exposure and impairment losses associated for the most significant Nordics unit (Santander Consumer Bank AS) as of 31 December 2021 is as follows. Additionally, in line with its current credit quality, the exposure is classified in three grades (investment, speculation and default):

Exposure and impairment losses by stage 2021 (EUR millions)				
Credit Quality (*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	5,228	—	—	5,228
Speculation grade	10,983	533	—	11,516
Default	—	—	462	462
Total exposure (**)	16,211	533	462	17,206
Impairment losses	119	58	254	431

Exposure and impairment losses by stage 2020 (EUR millions)				
Credit Quality (*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	14,569	—	—	14,569
Speculation grade	587	670	—	1,257
Default	—	—	422	422
Total exposure (**)	15,156	670	422	16,248
Impairment losses	117	60	661	838

(*) Detail of credit quality rating calculated for Group's management purposes.

(**) Amortised cost assets, Loans and advances, Customers + loan commitments granted

The NPL ratio for Nordics (Scandinavia) has been reduced to 3.18% at the end of December 2021 (3.28% at the end of 2020).

For the estimation of the expected losses, the prospective information is taken into account. Specifically, for Santander Consumer Bank AS five prospective macroeconomic scenarios are considered, which are updated periodically, during a time horizon of 5 years.

Norway

The projected evolution for the next five years of the main macroeconomic indicators used by Santander Consumer Bank AS for estimating expected losses as of 31 December 2021 is presented below:

Magnitudes	5-year scenario (2022-2026)				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	0.62 %	1.53 %	1.52 %	2.39 %	3.52 %
Unemployment rate	4.86 %	4.42 %	3.79 %	3.55 %	3.02 %
Housing market price surges	0.22 %	0.61 %	2.46 %	2.79 %	3.72 %
GDP growth	0.85 %	1.46 %	2.58 %	3.19 %	3.71 %

The projected evolution for the next five years of the main macroeconomic indicators used by Santander Consumer Bank AS for estimating expected losses as of 31 December 2020 is presented below:

Magnitudes	5-year scenario (2021-2025)				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	0.65%	0.89%	1.87%	2.24%	2.59%
Unemployment rate	5.21%	4.62%	3.37%	2.90%	2.74%
Housing market price surges	1.46%	2.11%	3.69%	4.77%	7.11%
GDP growth	1.01%	1.42%	2.11%	2.49%	2.81%

Each one of the macroeconomic scenarios is given a probability of occurrence. As for its allocation, Santander Consumer Bank AS associates the base-case scenario with the highest probability of occurrence, while associating the lower probabilities to the most extreme scenarios. The weightings used are as follows:

Worst-case scenario	5 %
Worse-case scenario	20 %
Base-case scenario	50 %
Better-case scenario	20 %
Best-case scenario	5 %

The estimated sensitivity of expected losses for the most relevant portfolios in Norway is shown below:

	Change in expected loss (IFRS9)
	Auto Individuals
GDP growth	
(100) bps	0.29 %
100 bps	(0.09 %)
Housing market price surges	
(100) bps	0.10 %
100 bps	(0.04 %)

Denmark

The projected evolution for the next five years of the main macroeconomic indicators for estimating expected losses as of 31 December 2021 is presented below:

Magnitudes	5-year scenario (2022-2026)				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	1.42%	1.11%	0.40%	0.51%	0.80%
Unemployment rate	7.68%	6.93%	4.85%	4.32%	3.77%
Housing market price surges	(0.15)%	0.74%	1.57%	2.92%	3.91%
GDP growth	0.91%	1.29%	2.15%	2.46%	2.81%

The projected evolution for the next five years of the main macroeconomic indicators for estimating expected losses as of 31 December 2020 is presented below:

Magnitudes	5-year scenario (2021-2025)				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	(0.79 %)	(0.48 %)	(0.10 %)	0.65 %	0.88 %
Unemployment rate	(6.82 %)	5.98 %	5.01 %	4.49 %	4.01 %
Housing market price surges	0.31 %	1.70 %	2.89 %	4.07 %	5.06 %
GDP growth	0.10 %	0.70 %	1.57 %	1.96 %	2.40 %

Each one of the macroeconomic scenarios is given a probability of occurrence. As for its allocation, Santander Consumer Bank AS associates the base-case scenario with the highest probability of occurrence, while associating the lower probabilities to the most extreme scenarios. The weightings used are as follows:

Worst-case scenario	5 %
Worse-case scenario	20 %
Base-case scenario	50 %
Better-case scenario	20 %
Best-case scenario	5 %

The estimated sensitivity of expected losses for the most relevant portfolios in Denmark is shown below:

	Change in expected loss (IFRS9)
	Auto Individuals
GDP growth:	
(100) bps	2.27 %
100 bps	(1.16 %)
Unemployment rate:	
(100) bps	(2.62 %)
100 bps	4.56 %

Sweden

The projected evolution for the next five years of the main macroeconomic indicators for estimating expected losses as of 31 December 2021 is presented below:

Magnitudes	5-year scenario (2022-2026)				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	1.64 %	1.36 %	0.39 %	0.81 %	1.08 %
Unemployment rate	8.54 %	8.20 %	7.02 %	6.71 %	6.30 %
Housing market price surges	0.82 %	1.59 %	2.35 %	2.94 %	3.99 %
GDP growth	1.40 %	1.72 %	2.46 %	2.81 %	3.11 %

The projected evolution for the next five years of the main macroeconomic indicators for estimating expected losses as of 31 December 2020 is presented below:

Magnitudes	5-year scenario (2021-2025)				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	(0.17 %)	(0.09 %)	0.18 %	0.65 %	1.06 %
Unemployment rate	7.88 %	7.59 %	7.03 %	6.55 %	5.53 %
Housing market price surges	1.05 %	2.03 %	3.42 %	4.09 %	4.80 %
GDP growth	0.21 %	0.90 %	1.92 %	2.19 %	2.83 %

Each one of the macroeconomic scenarios is given a probability of occurrence. As for its allocation, Santander Consumer Bank AS associates the base-case scenario with the highest probability of occurrence, while associating the lower probabilities to the most extreme scenarios. The weightings used are as follows:

Worst-case scenario	5 %
Worse-case scenario	20 %
Base-case scenario	50 %
Better-case scenario	20 %
Best-case scenario	5 %

The estimated sensitivity of expected losses for the most relevant portfolios in Sweden is shown below:

	Change in expected loss (IFRS9)	
	Auto individuals	Direct
GDP growth:		
(100) bps	1.27 %	0.18 %
100 bps	(0.68 %)	(0.10 %)

With regards to the determination of classification in stage 2, the quantitative criteria applied by the entity are based on identifying whether any increase in the probability of default (PD) for the entire expected life of the operation is greater than a relative threshold. This threshold is established for each portfolio and is different depending on the characteristics of the transactions, and a transaction is considered to exceed this threshold when the PD for the entire life of the transaction increases with respect to the PD it had at the time of initial recognition by 10% in relative terms.

In addition, for each portfolio, a series of specific qualitative criteria are defined that indicate that the exposure has had a significant increase in credit risk, regardless of the evolution of its PD since the time of initial recognition. The entity, among other criteria, considers that an operation presents a significant increase in risk when it presents positions past due for more than 30 days. These criteria depend on the risk management practices of each portfolio.

- **Spain**

Information on the estimation of impairment

The detail of exposure and impairment losses associated to each stage for the most significant business units in Spain (Santander Consumer Finance S.A.) as of 31 December 2021 is as follows. Additionally, in line with its current credit quality, the exposure is classified in three grades (investment, speculation and default):

Exposure and impairment losses by stage 2021 (EUR millions)				
Credit Quality (*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	14,959	—	—	14,959
Speculation grade	520	366	—	886
Default	—	—	396	396
Total exposure (**)	15,479	366	396	16,241
Impairment losses	127	61	274	462

(*) Detail of credit quality rating calculated for Group's management purposes.

(**) Amortised cost assets, Loans and advances, Customers + loan commitments granted

Exposure and impairment losses by stage 2020 (EUR millions)				
Credit Quality (*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	4,678	33	—	4,711
Speculation grade	2,841	359	—	3,200
Default	—	—	349	349
Total exposure (**)	7,519	392	349	8,260
Impairment losses	94	46	249	389

(*) Detail of credit quality rating calculated for Group's management purposes.

(**) Amortised cost assets, Loans and advances, Customers

The NPL ratio in Spain has been reduced to 3.09% at the end of December 2021 (3.31% at the end of 2020). Despite the pandemic, appropriate Covid management measures have been implemented, resulting in a lower doubtful balance.

For the estimation of the expected losses, the prospective information is taken into account. Specifically, for the most significant units in Santander Consumer Finance, S.A., five prospective macroeconomic scenarios are considered, which are updated periodically, during a time horizon of 5 years.

The projected evolution for the next five years of the main macroeconomic indicators used by Santander Consumer Finance, S.A. for estimating expected losses as of 31 December 2021 is presented below:

Magnitudes	5-year scenario (2022-2026)				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	0.97 %	0.62 %	(0.25 %)	(0.20 %)	(0.01 %)
Unemployment rate	20.89 %	18.28 %	12.96 %	11.18 %	9.46 %
Housing market price surges	0.39 %	1.67 %	2.63 %	3.18 %	4.04 %
GDP growth	0.13 %	1.06 %	2.91 %	3.74 %	4.72 %

The projected evolution for the next five years of the main macroeconomic indicators used by Santander Consumer Finance, S.A. for estimating expected losses as of 31 December 2020 is presented below:

Magnitudes	5-year scenario (2021-2025)				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	(0.26 %)	(0.38 %)	(0.22 %)	0.67 %	1.31 %
Unemployment rate	17.66 %	16.10 %	12.49 %	10.53 %	9.95 %
Housing market price surges	(1.61 %)	(0.45 %)	1.96 %	3.68 %	5.51 %
GDP growth	(0.26 %)	0.53 %	1.48 %	2.17 %	3.00 %

Each one of the macroeconomic scenarios is given a probability of occurrence. As for its allocation, Santander Consumer Finance S.A. associates the base-case scenario with the highest probability of occurrence, while associating the lower probabilities to the most extreme scenarios. The weightings used are as follows:

Worst-case scenario	5 %
Worse-case scenario	20 %
Base-case scenario	50 %
Better-case scenario	20 %
Best-case scenario	5 %

The estimated sensitivity of expected losses for the most relevant portfolios in Spain as of 31 December 2021 is shown below:

	Change in expected loss (IFRS9)		
	Auto New	Auto Used	Mortgages
GDP growth:			
(100) bps	0.78 %	1.14 %	0.10 %
100 bps	(0.53 %)	(0.79 %)	(0.06 %)

With regards to the determination of classification in stage 2, the quantitative criteria applied by the entity for all their main portfolios are based on identifying whether any increase in the probability of default (PD) for the entire expected life of the operation is greater than the absolute and relative thresholds established. This threshold is established for each portfolio and is different depending on the characteristics and risk profile of the transactions included.

As an example, in the case of Santander Consumer Finance, S.A. and Santander Consumer EFC SA for its main portfolios it is considered that a transaction should be classified under stage 2 when the PD for the entire expected life of the transaction at a given moment is greater than the PD that it had at the moment of initial recognition by 1.5-23% in absolute terms and by 0%-1800% in relative terms depending on the sub segment.

In addition, for each portfolio, a series of specific qualitative criteria are defined that indicate that the exposure has had a significant increase in credit risk, regardless of the evolution of its PD since the time of initial recognition. The entity, among other criteria, consider that an operation presents a significant increase in risk when it presents positions past due for more than 30 days. These criteria depend on the risk management practices of each portfolio.

Changes in 2021

The development of non-performing assets and the cost of credit reflect the impact of the worsening economic environment, mitigated by prudent risk management, which has generally kept these figures lower than those of our competitors in recent years. As a result, Santander Consumer Finance maintains an adequate level of coverage to face the expected loss of the credit risk portfolios it manages.

Forborne loan portfolio

The term “forborne loan portfolio” refers, for the purposes of the Group's risk management, to those transactions in which the customer has, or might foreseeably have, financial difficulty in meeting its payment obligations under the terms and conditions of the current agreement and, accordingly, the agreement has been modified or cancelled or even a new transaction has been entered into.

The Santander Group, which Santander Consumer Finance Group belongs to, has a detailed customer debt forbearance policy that serves as a reference for the various local adaptations made for all the financial institutions forming part of the Group. This policy shares the principles laid down in both Bank of Spain Circular 4/2017 of 27 November 2017, which it develops in greater detail based on the level of customer impairment.

This policy establishes strict prudential criteria for the assessment of these loans:

- The use of this practice is restricted, and any actions that might defer the recognition of impairment must be avoided.

- The main aim must be to recover the amounts owed, and any amounts deemed unrecoverable must be recognised as soon as possible.

- Forbearance must always envisage maintaining the existing guarantees and, if possible, enhance them. Not only can effective guarantees serve to mitigate losses given default, but they might also reduce the probability of default.

- This practice must not give rise to the granting of additional funding or be used to refinance debt of other entities or as a cross-selling instrument.

- All the alternatives to forbearance and their impacts must be assessed, making sure that the results of this practice will exceed those which would foreseeably be obtained if it were not performed.

- Forborne transactions are classified using more stringent criteria which prudentially ensure that the customer's ability to pay is restored from the date of forbearance and for an adequate period of time thereafter.

- In addition, in the case of customers that have been assigned a risk analyst, it is particularly important to conduct an individual analysis of each specific case, for both the proper identification of the transaction and its subsequent classification, monitoring and adequate provisioning.

The forbearance policy also sets out various criteria for determining the scope of transactions qualifying as forborne exposures by defining a detailed series of objective indicators that permit identification of situations of financial difficulty.

Accordingly, transactions not classified as non-performing at the date of forbearance are generally considered to be experiencing financial difficulty if at that date, they were more than one month past due. Where no payments have been missed or there are no payments more than one month past due, other indicators of financial difficulty are taken into account, including most notably the following:

- Transactions with customers who are already experiencing difficulties in other transactions.

- Situations where a transaction has to be modified prematurely, and the Group has not yet had a previous satisfactory experience with the customer.

- Cases in which the necessary modifications entail the grant of special conditions, such as the establishment of a grace period, or where these new conditions are deemed to be more favorable for the customer than those which would have been granted for an ordinary loan approval.

- Where a customer submits successive loan modification requests at unreasonable time intervals.

- In any case, if once the modification has been made any payment irregularity arises during a given probation period (as evidenced by back testing), even in the absence of any other symptoms, the transaction will be deemed to be within the scope of forborne exposures.

Once it has been determined that the reasons for the modification of the customer's debt conditions are due to financial difficulties, regardless of whether or not the customer has outstanding payments and the number of days payment has been outstanding, and the customer will be considered to be under monitoring for all purposes and, as such, will be manages in accordance with this policy.

Once forbearance measures have been adopted, transactions that have to remain classified as nonperforming because at the date of forbearance they do not meet the regulatory requirements to be reclassified to a different category must comply with a continuous prudential payment schedule in order to assure reasonable certainty as to the recovery of the ability to pay.

If there is any (non-technical) default in payments during that period, the aforementioned payment schedule starts again.

On successful completion of the period, the duration of which depends on the customer's situation and the transaction features (term and guarantees provided), the transaction is no longer considered to be nonperforming, although it continues to be subject to a probation period during which it undergoes special monitoring.

This monitoring continues until a series of requirements have been met, including most notably: a minimum observation period of 24 months; repayment of a substantial percentage of the outstanding amounts; and settlement of the amounts that were past due at the time of forbearance.

When forbearance is applied to a transaction classified as non-performing, the original default dates continue to be considered for all purposes, irrespective of whether as a result of forbearance the transaction becomes current in its payments. Also, the forbearance of a transaction classified as non-performing does not give rise to any release of the related provisions.

Set forth below is the quantitative information required by Bank of Spain Circular 4/2017 on the restructured transactions in force at 31 December 2021 and 2020, taking into consideration the above criteria.

c) Measurement metrics and tools

Credit rating tools

In keeping with the Santander Group tradition, which has witnessed the use of proprietary rating models since 1993, at Santander Consumer Finance Group the credit quality of customers and transactions is also measured by internal scoring and rating systems. Each credit rating assigned by models relates to a certain probability of default or non-payment, based on the Group's historical experience.

Since the Group focuses mainly on the retail business, assessments are based primarily on scoring models or tables which, combined with other credit policy rules, issue an automatic decision on the loan applications received. These tools have the dual advantage of allocating an objective appraisal of the level of risk and speeding up the response time that would be required for a purely manual analysis.

In addition to the scoring models used for the approval and management of portfolios (rating of the transactions composing the portfolios in order to assess their credit quality and estimate their potential losses), other tools are available to assess existing accounts and customers which are used in the defaulted loan recovery process. The intention is to cover the entire "loan cycle" (approval, monitoring and recovery) by means of statistical rating models based on the Bank's internal historical data.

For individualised corporates and institutions, which at the Group include mainly dealers/retailers, the assessment of the level of credit risk is based on expert rating models that combine in the form of variables the most relevant factors to be taken into account in the assessment, in such a way that the rating process generates appraisals that are consistent and comparable among customers and summarise all the relevant information. In 2019 all the units conducted reviews of the aforementioned portfolios, involving the participation of all areas of the Group. The review meetings covered the largest exposures, companies under special surveillance and the main credit indicators of these portfolios.

Ratings assigned to customers are reviewed periodically to include any new financial information available and the experience in the banking relationship. The frequency of the reviews is increased in the case of customers that reach certain levels in the automatic warning systems and of customers classified as requiring special monitoring. The rating tools themselves are also reviewed in order to progressively fine-tune the ratings they provide.

To a lesser extent, certain exposures are also assessed using the global rating tools which cover the global wholesale banking segment. Management of this segment is centralised at the Risk Division of the Santander Group, for both rating calculation and risk monitoring purposes. These tools assign a rating to each customer, which is obtained from a quantitative or automatic module, based on balance sheet ratios or macroeconomic variables, supplemented by the analyst's expert judgement.

The Group's portfolio of individualised corporates is scarcely representative of the total risks managed, since it relates mainly to vehicle dealer stock financing.

d) Credit risk parameters

The assessment of customers or transactions using rating or scoring systems constitutes a judgement of their credit quality, which is quantified through the probability of default (PD).

In addition to customer assessment, the quantification of credit risk requires the estimation of other parameters, such as exposure at default (EAD) and the percentage of EAD that will not be recovered (loss given default or LGD). Therefore, other relevant aspects are taken into account in estimating the risk involved in transactions, such as the quantification of off-balance-sheet exposures, which depends on the type of product, or the analysis of expected recoveries, which is related to the guarantees provided and other characteristics of the transaction: type of product, term, etc.

These factors are the main credit risk parameters. Their combination facilitates calculation of the probable loss or expected loss (EL). This loss is considered to be an additional cost of the activity which is reflected in the risk premium and must be charged in the transaction price.

These risk parameters also make it possible to calculate regulatory capital in accordance with the regulations deriving from the new Basel Capital Accord (BIS III). Regulatory capital is determined as the difference between unexpected loss and expected loss.

Unexpected loss is the basis for the capital calculation and refers to a very high, albeit scantly probable, level of loss, which is not deemed to be recurring and must be catered for using capital.

Observed loss: measurement of cost of credit

To supplement the predictiveness provided by the advanced models described above, other habitual metrics are used to facilitate prudent and effective management of credit risk based on observed loss.

In terms of recognition of losses, the cost of credit risk in Santander Consumer Finance is measured using different approaches: Change in non-performing loans (new defaults – cures – recovery of assets written off), net loan-loss provisions (gross provisions - recovery of assets written off), net losses (failures - recovery of losses) and expected loss. In order to obtain a monitoring ratio, the first two indicators (in 12 months) are divided by the average of 12 months of the total portfolio to obtain the risk premium and the cost of credit. These gives the manager ta full insight into the evolution and future prospects of the portfolio.

It should be noted that unlike default, change in non-performing loans (dubious end - initial doubtful + failed - recovery of failures) refers to the total of the impaired portfolio in a period, regardless of the situation in which it is found (doubtful and failed). This makes metrics a main driver when it comes to establishing measures for portfolio.

The two approaches measure the same reality and, consequently, converge in the long term although they represent successive moments in credit risk cost measurement: flows of non-performing loans (VMG), coverage of non-performing loans (net credit loss provisions), respectively. Although they converge in the long term within the same economic cycle, the three approaches show differences at certain times, which are particularly significant at the start of a change of cycle, as observed in this period. These differences are explained by the different moment of calculation of losses, which is basically determined by accounting regulations (for example, mortgage loans have a coverage calendar and becomes written off "slower" than consumer portfolios). In addition, the analysis can be clouded by changes in the policy of hedging and default, composition of the portfolio, doubtful of acquired entities, changes in accounting regulations (IFRS-9), sale of portfolios and adjustments on expected losses calculation parameters, etc.

e) Credit risk cycle

The credit risk management process consists of identifying, measuring analysing, controlling, negotiating and deciding on the risks incurred in the Group's operations. This process involves the areas that take risks, senior management and the Risk function.

As the Group is a member of the Santander Group, the process starts with senior management, through the board of directors and the executive risk committee, which set the risk policies and procedures, the limits and delegation of powers, and approve and supervise the framework for action by the risk function.

The risk cycle has three phases: pre-sale, sale and post-sale. The process is constantly revised, incorporating the results and conclusions of the after-sale phase into the study of risk and pre-sale planning.

e.1) ***Pre-sale***

– **Study of risk and credit rating process**

Generally speaking, risk study consists of analysing a customer's capacity to meet their contractual commitments with the Group and other creditors. This entails analysing the customer's credit quality, risk operations, solvency and profitability on the basis of the risk assumed.

With this objective, the Group has used rating models for classifying customer solvency since 1993. These mechanisms are applied in the wholesale segment (sovereign, financial entities, corporate banking) and to SMEs and individuals.

The rating results from a quantitative model based on balance sheet ratios or macroeconomic variables, complemented by the expert judgement of analysts.

The ratings given to customers are regularly reviewed, incorporating the latest available financial information and experience in the development of the banking relationship. The regularity of the reviews increases in the case of customers who trigger certain levels in the automatic warning systems and who are classified as special watch. The rating tools are also reviewed in order to adjust the accuracy of the rating.

While ratings are used in the wholesale sector and for companies and institutions, scoring techniques predominate for individuals and smaller companies. In general, these techniques automatically assign a score to the customer for decision-making purposes, as explained in the Decisions on operations section.

– **Planning and setting limits**

The purpose of this phase is to limit the levels of risk assumed by the Group, efficiently and comprehensively. The credit risk planning process serves to set the budgets and limits at the portfolio level for subsidiaries. Planning is carried out through a dashboard that ensures that the business plan and lending policy are achieved, and that the resources needed to achieve these are available. This arose as a joint initiative between the Sales area and the Risk function, providing a management tool and a way of working as a team.

Incorporating the volatility of macroeconomic variables that affect portfolio performance is a key aspect in planning. The Group simulates this performance under a range of adverse and stressed scenarios (stress testing), enabling assessment of the Group's solvency in specific situations.

Scenario analysis enables senior management to understand the portfolio's evolution in the face of market conditions and changes in the environment. It is a key tool for assessing the sufficiency of provisions in stress scenarios.

Limits are planned and established using documents agreed between the Business and Risk areas and approved by the Group, setting out the expected business results in terms of risk and return, the limits to which this activity is subject and management of the associated risks, by group or customer.

e.2) ***Sales***

– **Decisions on operations**

The sales phase consists of the decision-making process, analysing and deciding on operations. Approval by the risk area is a prior requirement before the contracting of any risk. This process must take into account the policies defined for approving operations, the risk appetite and the elements of the operation that are relevant to the search for the right balance between risk and profitability.

In the sphere of standardised customers (individuals and businesses and SMEs with low turnover), large volumes of credit operations can be managed more easily by using automatic decision models for classifying the customer/transaction pair. The ratings these models give to transactions enable lending to be classified consistently into homogeneous risk groups, based on information on the characteristics of the transaction and its owner.

e.3) After-sales

– **Monitoring**

The Monitoring function is based on a continuous process of ongoing observation, enabling early detection of changes that could affect the credit quality of customers, in order to take measures to correct deviations with a negative impact.

This monitoring is based on customer segmentation, and is carried out by dedicated local and global risk teams, supplemented by internal audit.

The function includes, among other tasks, the identification, monitoring and assignment of policies at customer level to anticipate surprises and manage them in the most appropriate way for their situation, credit policies, rating reviews and continuous monitoring of indicators.

The system called Santander Customer Assessment Notes (SCAN) distinguishes between four levels depending on the level of concern of the circumstances observed (Specialized Follow-up, Intensive Follow-up, Ordinary Follow-up, Do Not Attend). The inclusion of a position in SCAN does not imply that non-compliance has been recorded, but rather the convenience of adopting a specific policy with the same, determining the person responsible and the time frame in which it must be carried out. SCAN qualified clients are reviewed at least semi-annually, being such review quarterly and/or monthly for the most serious grades. The ways in which a firm qualifies in SCAN are the monitoring work itself, the review carried out by the internal audit, the decision of the commercial manager who oversees the firm or the entry into operation of the established system of automatic alarms.

Ratings are reviewed at least every year, but this may be more frequent if weaknesses are detected or based on the rating itself.

The main risk indicators for individual customers, businesses and SMEs with low turnover are monitored to detect changes in the performance of the loan portfolio with respect to the projections in the commercial strategic plans (CSPs).

f) Concentration risk

Concentration risk is a key component of credit risk management. The Santander Group, which Santander Consumer Finance Group belongs, continuously monitors the degree of credit risk concentration, by geographical area/country, economic sector, product and customer group.

The Board of Directors, by reference to the risk appetite, determines the maximum levels of concentration, and the executive risk committee establishes the risk policies and reviews the appropriate exposure limits to ensure the adequate management of credit risk concentration.

Santander Consumer Finance is subject to Bank of Spain regulations on large exposures contained in the fourth part of the CRR (Regulation UE No.575 / 2013), according to which the exposure contracted by an entity with respect to a client or related group of clients will be considered 'great exposure' when its value is equal or greater than 10% of its computable capital. Additionally, to limit large exposures, no entity may assume against a client or group of clients linked to each other an exposure whose value exceeds 25% of its eligible capital, after taking into account the effect of credit risk reduction under rule.

At December closing, after applying risk mitigation techniques, no group reached the aforementioned thresholds.

The Santander Consumer Finance Group’s Risk Division works closely with the Finance Division in the active management of credit portfolios, which includes reducing the concentration of exposures through several techniques, such as the arrangement of credit derivatives for hedging purposes or the performance of securitisation transactions, in order to optimise the risk/return ratio of the total portfolio.

The detail, by activity and geographical area of the counterparty, of the concentration of the Group's risk (*) at 31 December 2021 and 2020 is as follows:

2021					
	EUR Thousands				
	Spain	Other EU Countries	Americas	Rest of the world	Total
Credit institutions	5,096,843	15,221,781	3	419,861	20,738,488
Public sector	1,136,219	2,687,032	—	177,194	4,000,445
Of which:					
Central government	*1,135,291*	*2,106,457*	—	*132,741*	*3,374,489*
Other	*928*	*580,575*	—	*44,453*	*625,956*
Other financial institutions	2,706	983,191	206,888	225,043	1,417,828
Non-financial companies and individual traders	1,962,248	23,787,207	—	2,511,404	28,260,859
Of which:					
Construction and property development	—	*257,106*	—	—	*257,106*
Civil engineering construction	—	*5,846*	—	—	*5,846*
Large companies	*698,777*	*8,693,490*	—	*967,906*	*10,360,173*
SMEs and individual traders	*1,263,471*	*14,830,765*	—	*1,543,498*	*17,637,734*
Other households and non-profit institutions serving households	11,112,915	53,012,709	7	6,694,057	70,819,688
Of which:					
Residential	*1,441,332*	*2,418,162*	—	—	*3,859,494*
Consumer loans	*9,575,949*	*50,296,449*	*7*	*6,694,057*	*66,566,462*
Other purposes	*95,634*	*298,098*	—	—	*393,732*
				Total	125,237,308

(*) The definition of risk for the purposes of this table includes the following public consolidated balance sheet items: 'Loans and advances: to credit institutions', 'Loans and advances: to central banks', 'Loans and advances: to customers', 'Debt securities', 'Equity instruments', 'Derivatives', 'Derivatives - Hedge accounting', 'Participating interests and guarantees granted'.

2020					
	EUR Thousands				
	Spain	Other EU Countries	Americas	Rest of the world	Total
Credit institutions	2,612,702	9,496,801	1,375	178,845	12,289,723
Public sector	1,536,095	2,984,518	—	198,890	4,719,503
Of which:					
Central government	*1,485,807*	*2,417,949*	—	*160,462*	*4,064,218*
Other	*50,288*	*566,569*	—	*38,428*	*655,285*
Other financial institutions	230,050	651,730	7,782	176,795	1,066,357
Non-financial companies and individual traders	2,248,064	26,094,026	—	1,618,284	29,960,374
Of which:					
Construction and property development	—	*68,731*	—	—	*68,731*
Civil engineering construction	—	*27,788*	—	—	*27,788*
Large companies	*751,621*	*9,809,590*	—	*463,492*	*11,024,703*
SMEs and individual traders	*1,496,443*	*16,187,917*	—	*1,154,792*	*18,839,152*
Other households and non-profit institutions serving households	11,601,877	51,144,972	22	4,259,661	67,006,532
Of which:					
Residential	*1,508,610*	*2,578,703*	—	—	*4,087,313*
Consumer loans	*10,033,590*	*48,258,481*	*22*	*4,259,661*	*62,551,754*
Other purposes	*59,677*	*307,788*	—	—	*367,465*
				Total	115,042,489

(*) For the purposes of this table, the definition of risk includes the following items in the public consolidated balance sheet: "Cash, cash balances at central banks and others deposits on demand", "Deposits to Credit Institutions", "Loans and Advances to Customers", "Debt Instruments", "Trading Derivatives", "Hedging Derivatives", "Investments", "Equity Instruments" and "Contingent Liabilities",

g) Recoveries management

Recovery activity is an important function within the Group's risk management area. The area responsible is Collection and Recoveries, which frames a global strategy and a comprehensive approach to recovery management.

The Group combines a global model with local execution, taking account of the specific features of the business in each area.

The main objective of the recovery activity is to recover outstanding debts and obligations by managing our customers, thus contributing to a lesser need for provisions and a lower cost of risk.

The specific targets of the recovery process are guided as follows:

- Achieve collection or regularisation of outstanding balances, so that an account returns to its normal state; if this is not possible, the objective is total or partial recovery of debts, whatever their accounting or management status.

- Maintain and strengthen our relationship with the customer by addressing their behavior with an offer of management tools, such as refinancing products according to their needs, consistently with careful corporate policies of approval and control, as established by the risk areas.

In the recovery activity, Standardised customers and Individually Managed customers are segmented or differentiated with specific and comprehensive management models in each case, according to basic specialisation criteria.

Management is articulated through a multichannel customer relationship strategy. The telephone channel is oriented towards standardised management, with a focus on achieving contact with customers and monitoring payment agreements, prioritising and adapting management actions based on the state of progress of their situation of "in arrears", "doubtful" or "in default", their balance sheet and their payment commitments.

The commercial network of recovery management operates alongside the telephone channel. It is a means of developing a closer relationship with selected customers, and is composed of teams of agents with a highly commercial focus, specific training and strong negotiation skills. They conduct personalised management of their own portfolios of high-impact customers (large balance sheets, special products, customers requiring special management).

Recovery activities at advanced stages of non-performance are guided by a dual judicial and extra judicial management approach. Commercial and follow-up activities by telephone and via agent networks are continued, applying strategies and practices specific to the state of progress.

The management model encourages proactivity and targeted management through continuous recovery campaigns with specific approaches for customer groups and non-performance states, acting with predefined goals through specific strategies and intensive activities via appropriate channels within limited time frames.

Suitable local production and analysis of daily and monthly management information, aligned with corporate models, have been defined as the basis of business intelligence for ongoing decision-making for management guidance and results monitoring.

III. Market, structural and liquidity risk

a. Scope and definitions

The measurement, control and monitoring scope of the Market Risk function encompasses operations where an asset risk is accepted because of changes in market factors.

Such risks are generated through two types of basic activities:

- Trading, which includes both the rendering of financial services on markets for clients, where the bank is the counterparty, and proprietary sales, purchases and positioning, mainly in fixed income, equities and foreign currency products.

The Group does not carry out trading, as its treasury activity is limited to management and hedging of the structural risk of its balance sheet, and to management of liquidity as needed to fund its business.

- Balance sheet management or ALM, which involves management of inherent risks in the entity's balance sheet, not including the trading portfolio.

The risks generated in these activities are:

- Trading market: Risk resulting from the possibility of changes in market factors affecting the value of positions held by the entity in its trading book.

- Structural: Risk arising from management of different balance sheet items. This risk includes both losses owing to price variations affecting available-for-sale and held-to-maturity portfolios (banking book), and losses arising from the management of the Group's assets and liabilities measured at amortised cost.

- Liquidity: Risk of payment obligations not being met on a timely basis or being met at an excessive cost. The types of losses that this risk triggers include losses on the forced selling of assets or impacts on the margin because of the mismatch of forecast cash outflows and inflows.

Trading market and structural risks, depending on the market variable that triggers them, may be classified as:

- Interest rate risk: Identifies the possibility that interest rate variations may have a negative impact on the value of a financial instrument, a portfolio or the Group as a whole.

- Credit spread risk: Identifies the possibility that variations in credit risk curves associated with issues and specific types of debt may have an adverse effect on a financial instrument, a portfolio or the Group as a whole. The spread is a differential between financial instruments listed at a margin over other benchmark instruments, basically the Internal Rate of Return (IRR) of government securities and interbank interest rates.

- Exchange rate risk: Identifies the possibility that variations in the value of a position in a currency other than the base currency can have an adverse effect on the value of a financial instrument, a portfolio or the Group as a whole.

- Inflation risk: This identifies the possibility that changes in inflation rates could adversely affect the value of a financial instrument, a portfolio or the Group as a whole.

- Volatility risk: Identifies the possibility that variations in the listed volatility of market variables may have an adverse effect on the value of a financial instrument, a portfolio or the Group as a whole.

- Market liquidity risk: Identifies the possibility that an entity or Group as a whole is unable to unwind or close a position on a timely basis without impacting the market price or transaction cost.

- Risk of early payment or cancellation: Identifies the possibility of early cancellation without negotiation on operations where the contractual relationship so allows explicitly or implicitly, generating cash flows that should be reinvested at a potentially lower interest rate.

There are other variables that only impact trading market risk (and not structural risk), meaning that market risk can also be classified as follows:

- Equity risk: Identifies the possibility that changes in the value of prices or dividend expectations from equity instruments can have an adverse effect on the value of a financial instrument, a portfolio or the Group as a whole.

- Commodity price risk: Identifies the possibility that changes in commodity prices may have an adverse effect on the value of a financial instrument, a portfolio or the Group as a whole.

- Correlation risk: Identifies the possibility that changes in the correlation between variables, either of the same or a different type, listed in the market, could adversely affect the value of a financial instrument, a portfolio or the Group as a whole.

- Underwriting risk: Identifies the possibility that placement targets for securities or other types of debt are not reached when the entity participates in underwriting them.

Liquidity risk may also be classified in the following categories:

- Funding risk: Identifies the possibility that the entity is unable to meet its obligations owing to its inability to sell assets or secure funding.

- Mismatch risk: Identifies the possibility that differences between the maturity structures of assets and liabilities will generate an additional cost to the entity.

- Contingency risk: Identifies the possibility that adequate management levers will be unavailable to raise liquidity as a result of an outlier event that entails greater funding needs or more strict collateral requirements to raise funds.

b. Measurement and methods

1. Structural interest-rate risk

The Group analyses the sensitivity of net interest income and of equity to interest rate fluctuations. This sensitivity is determined by mismatches in the maturity and review dates of interest rates of different balance sheet items.

According to the interest rate positioning of the balance sheet, and considering the situation and perspectives of the market, financial measures are adopted to adjust the positioning to that sought by the Bank. These measures may range from taking up positions in markets to the specification of interest rate characteristics of commercial products.

The metrics used to control the interest rate risk in these activities are the interest rate gap, financial margin sensibility and equity in the levels of interest rate.

- Interest rate gap

Analysis of the interest rate gap deals with the mismatch between the timing of re-pricing of on and off-balance aggregates of assets and liabilities and of memorandum accounts (off-balance sheet). It provides a basic profile of the balance sheet structure and can detect concentrations of interest rate risk at different terms. It is also a useful tool for estimates of the potential impact of interest rate movements on net interest income and the equity of the entity.

All on- and off-balance sheet aggregates have to be broken down so that they can be placed in the point of repricing/maturity. For aggregates that do not have a contractual maturity, the Santander Group's internal model for analysis and estimation of their durations and sensitivity is used.

- Sensitivity of Net Interest Income (NII)

The sensitivity of net interest income measures the change in expected accruals for a certain period (12 months) in the event of a shift in the interest rate curve.

– Sensitivity of Economic Value of Equity (EVE)

This measures the implied interest rate risk in the economic value of equity which, for the purposes of interest rate risk, is defined as the difference between the net present value of assets minus the net present value of liabilities, based on the effect of a change in interest rates on such present values.

2. Liquidity risk

Management of structural liquidity aims to fund the recurring activity of the Santander Consumer Finance Group in optimal conditions of term and cost, while avoiding undesired liquidity risks.

The measures used for the control of liquidity risk are the liquidity gap, liquidity ratios, the statement of structural liquidity, liquidity stress tests, the financial plan, the liquidity contingency plan and regulatory reporting.

– Liquidity Gap

The liquidity gap provides information on contractual and expected cash inflows and outflows for a given period in each of the currencies in which the Santander Consumer Finance Group operates. The gap measures the net cash needed or the surplus at a given date and reflects the liquidity level maintained under normal market conditions.

In the contractual liquidity gap, all balance sheet items that generate cash flows are analysed and placed at their point of contractual maturity. For assets and liabilities with no contractual maturity, the Santander Group's internal analysis model is used. It is based on a statistical study of products' time series, and the socalled 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 12 months with liabilities of up to 12 months.

The Net Stable Funding Ratio measures the extent to which assets that require structural funding are being funded by structural liabilities.

– Structural liquidity

The purpose of this analysis is to determine the structural liquidity position according to the liquidity profile (greater or lesser stability) of different asset and liability instruments.

– Liquidity stress test

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 securitization considering eligible assets available, in addition to potential growth in customer deposits. This information is used to establish an issue and securitization plan for the year. Throughout the year, regular monitoring is carried out of actual trends in funding requirements, thus giving rise to the revisions of the plan.

– Contingency Funding Plan

The purpose of the Liquidity Contingency Plan is to set out the processes (governance structure) to be followed in the event of a potential or real liquidity crisis, as well as the analysis of contingency actions or levers available to Management should such a situation arise.

The Liquidity Contingency Plan is underpinned by, and must be designed in line with, two key elements: liquidity stress tests and the early warning indicator (EWI) system. Stress tests and different scenarios are used as the basis for analysing available contingency actions and for determining such actions are sufficient. The EWI system monitors and potentially triggers the escalation mechanism for activating the plan and subsequently monitoring the situation.

– Regulatory Reporting

Santander Consumer Finance applies the Liquidity Coverage Ratio (LCR) as required by the European Banking Authority (EBA) for the consolidated sub-group on a monthly basis, and the net stable funding ratio (NSFR) on a quarterly basis.

In addition, Santander Consumer Finance has produced an annual Internal Liquidity Adequacy and Assessment Process (ILAAP) report as part of the consolidated document of the Santander Group, although the supervisor does not require this report at sub-group level.

3. Structural change risk

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

c. Internal Control

The structural and liquidity risk control environment in Santander Consumer Finance Group is based on the framework of the annual limits plan, where the limits for said risks are established, responding to the Group's level of risk appetite.

The limit structure involves a process that considers:

- Efficient and comprehensive identification and delimitation of the main types of market risk incurred, consistently with the management of the business and the strategy defined.

- Quantification and communication of the risk levels and profile considered acceptable by senior management to the business areas, so that undesired risks are not incurred.

- Providing flexibility for the business areas in the acceptance of risks, responding efficiently and appropriately to developments in the market and changes in business strategies, within the risk limits considered acceptable by the entity.

- Enabling business generators to take sufficient prudent risks to achieve their budgeted results.

- Delimiting the range of products and underlying assets in which each Treasury unit can operate, considering characteristics such as the model and assessment systems, the liquidity of the instruments involved, etc.

In the event of exceeding one of these limits or their sub-limits, the risk management officers involved must explain the reasons and facilitate an action plan to correct it.

The main management limits for structural risk at the consolidated Santander Consumer level are:

- One-year net interest income sensitivity limit.

- Equity value sensitivity limit.

The limits are compared to the sensitivity that would result in the largest loss among those calculated under two scenarios (parallel 25 basis point increases and decreases in the interest rate curve). Using a range of scenarios fosters improved control of interest rate risk. The downward scenarios consider negative interest rates.

During 2021, the level of exposure at the consolidated level in SCF Group, both on financial margin and economic value, is low in relation to the budget and the amount of shareholders' equity respectively, being in both cases less than 1% throughout the year, and within the established limits.

With respect to liquidity risk, the main limits at the Santander Consumer Finance Group level include regulatory liquidity metrics such as the LCR and the NSFR (for which there is not yet a regulatory limit in force), as well as the liquidity stress tests under different adverse scenarios mentioned above.

At the end of December 2021, all liquidity metrics are above the internal limits in force, as well as the regulatory requirements. Both the LCR and NSFR at the consolidated Group level were above 115% and 103% throughout the year.

d. Management

Balance sheet management entails the analysis, projection and simulation of structural risks, along with the design, proposal and execution of transactions and strategies to manage this risk. Finance Management is responsible for this process, and it takes a projection-based approach where and when this is applicable or feasible

A high-level description of the main processes and/or responsibilities in managing structural risks is as follows:

- Analysis of the balance sheet and its structural risks.

- Monitoring of movements in the most relevant markets for asset and liability management (ALM) for the Group.

- Planning. Design, maintenance and monitoring of certain planning instruments. Finance Management is responsible for preparing, following and maintaining the financial plan, the funding plan and the liquidity contingency plan.

- Strategy proposals. Design of strategies aimed at funding the SCF sub-group's business by securing the best available market conditions or by managing the balance sheet and its exposure to structural risks, thereby avoiding unnecessary risks, preserving net interest income and safeguarding the market value of equity and capital.

- Execution. To achieve appropriate ALM positioning, Finance Management uses different tools. Chief among these are issues in debt or capital markets, securitization, deposits and interest rate and/or currency hedges, and management of ALCO portfolios and the minimum liquidity buffer.

- Compliance with risk limits and with risk appetite

IV. Operational risk

a) Definition and objectives

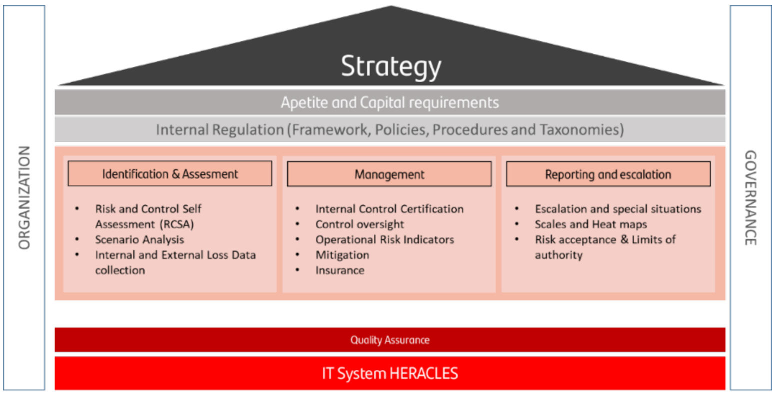
The Group defines operational risk (OR) as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Operational risk is inherent to all products, activities, processes and systems, and is generated in all business and support areas. Accordingly, all employees are responsible for managing and controlling operational risks arising in their area of activity.

The aim pursued by the Group in operational risk control and management is primarily to identify, measure/ assess, monitor, control, mitigate and report this risk.

The Group's priority, therefore, is to identify and mitigate focal points of risk, irrespective of whether they have given rise to any losses. Measurement also contributes to the establishment of priorities in the management of operational risk.

To improve and promote adequate operational risk management, Santander Consumer Finance has developed an advanced loss distribution model (LDA) 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.

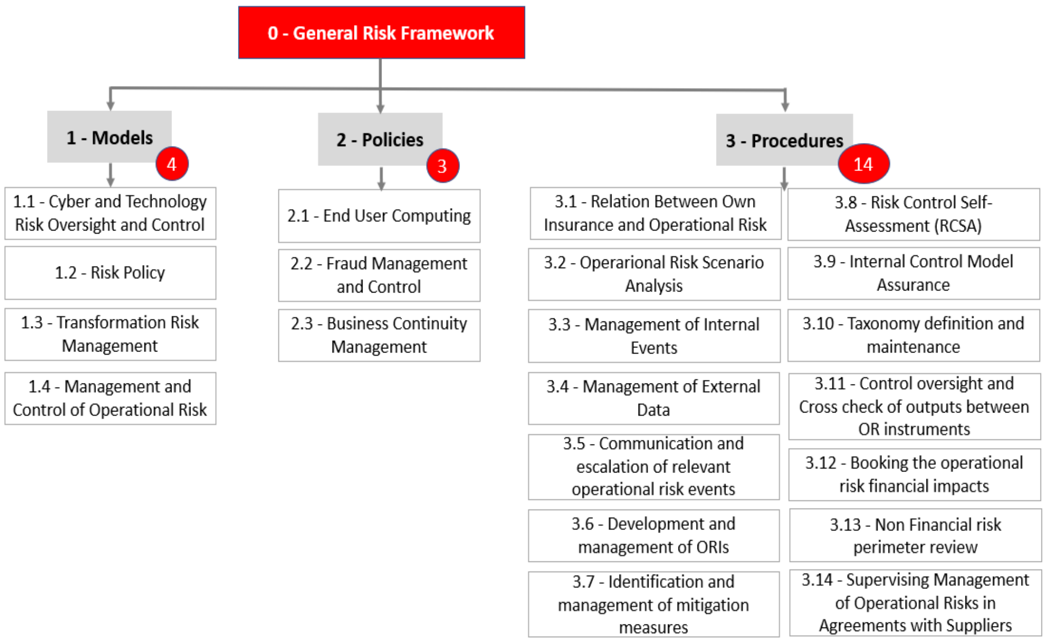
The following is required for each of the key processes indicated above:

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

Towards this end, in 2016 the Group implemented a single tool for management and control of operational risk, compliance and internal control, called Heracles, and which 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 November 2014, the Group adopted the new management system of the Santander Group, in which three lines of defense are defined:

– 1st line of defense: integrated in areas of business or support areas. Its tasks are to identify, measure or assess, control (primary control) mitigate and report the risks inherent to the activity or function for which it is responsible.

Given the complexity and heterogeneous nature of Operational Risk within a large-scale organization with various lines of business, appropriate risk management is carried out in two axes:

(1) Operational Risk Management: each business unit and support function of the Santander Group is responsible for the Operational Risks arising within 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 OR team) in the 1LoD.

(2) Management of specialized Operational Risk controls: there are some functions that tend to manage specialized controls for certain risks where they have greater visibility and specialization. Such functions have a global view of the specific Operational Risk exposure in all areas. We can also refer to them as Subject Matter Experts or SME.

OR 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 ultimate responsibility for Operational Risk in its scope.

OR Coordinators:

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

- Interaction Undertake interaction with the second line of defense in day-to-day operations and communication to Operational Risk Management in their scope.
- Facilitate integration in the management of OR in each scope.
- Support the implementation of qualitative and quantitative methodologies and tools for operations management and control.
- Provide support and advice on Operational Risk within its scope.
- Maintain an overview of risk exposure in scope.
- Ensure the quality and consistency of data and information reported to 2LoD, identifying and monitoring the implementation of relevant controls.
- Review and monitor results provided by business units and support functions related to controls testing.
- Support in sign-off 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 defense: performed by the Non-Financial Risks Department, reporting to the CRO. Its functions are to design, maintain and develop the local adaptation of the Operational Risk Management Framework (BIS), and to control and challenge the first line of defense against operational risk. Main responsibilities include:

  - Design, maintain and develop the Operational Risk management and control model, promoting the development of an operational risk culture across the Group.

  - Safeguard the proper design, maintenance and implementation of Operational Risk regulations.

  - Drive the business units to effectively monitor identified risks.

  - Ensure that each key risk affecting the entity is identified and properly managed by the relevant units.

  - Ensure that the Group has implemented effective OR management processes.

  - Prepare Operational Risk appetite tolerance proposals and monitor risk limits in the Group and in the different local units.

  - Ensure that Top Management receives an overview of all relevant risks, ensuring adequate communication and reporting to Senior Management and the Board of Directors, through the established governance bodies.

In addition, 2LoD will provide the necessary information for consolidation, together with the remaining risks, to the Risk Supervision and Consolidation function.

To ensure adequate oversight, a sound 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 (BRMs) as commercial knowledge specialists (e.g. Global Corporate Banking) and Specialized Risk Managers (SRMs) as OR control specialists (e.g. IT and cyber risks) perform these functions within OR 2LOD and are positioned as key points of contact for 1LOD business units and operations management support functions.

- 3rd line of defense: Carried out by Internal Audit, which assesses compliance with its policies and procedures by all the entity's activities and units. Main responsibilities include:

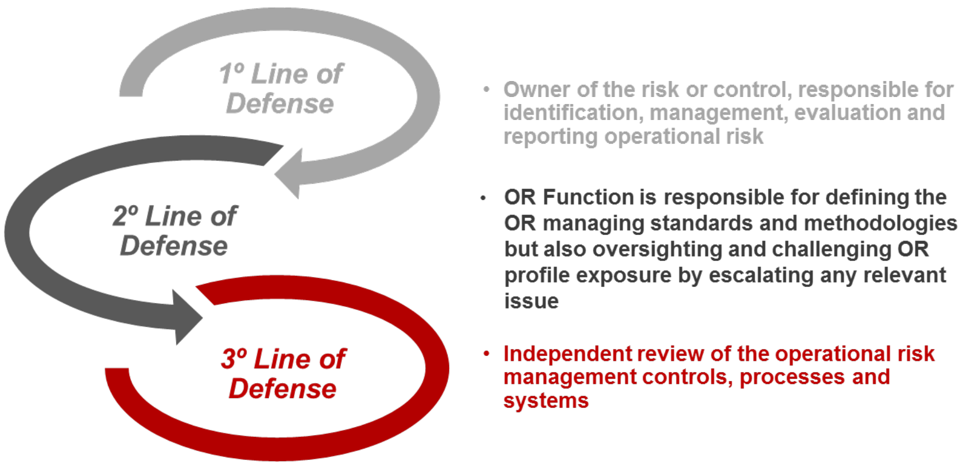
  - Verify that the risks inherent to the Group's activity are sufficiently covered, complying with the policies established by Senior Management and the applicable internal and external procedures and regulations.

  - Supervise the compliance, effectiveness and efficiency of the internal control systems of operations in the Group, as well as the quality of accounting information.

  - Perform an independent review and challenge OR controls, as well as Operational Risk management processes and systems.

  - Evaluate the status of implementation of the OR 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, as the Group, through the Santander Group, takes part in international consortia such as the Operational Risk data exchange Association (ORX). In 2016, the Group started to make increased use of external databases that provide quantitative and qualitative information to enable a more detailed and structured analysis of significant events occurring in the sector.

- OR scenario analysis. Expert opinion is obtained from the business lines and the risk and control managers with the aim of identifying potential events which, although very unlikely to occur, could result in a very high loss for the institution. Their potential effect on the institution is evaluated and additional controls and mitigating measures are identified that reduce the possibility of a high economic impact. In addition, the results of this exercise (which has also been integrated into the HERACLES tool) will be used as one of the inputs for the calculation of economic capital for operational risk based on the advanced model (LDA).

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. Incentivizing the responsibility of the first lines of defense: It establishes the first line figures of risk owner and control owner.

  ii. Helping identify the most significant risks: Non-predefined risks, but rather risks that arise from the risk-generating areas.

  iii. Improved integration of OR tools: Root cause analysis is added.

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

  v. Tests with a more forward-looking approach: The financial impact of risk exposure is assessed

- Operational Risk Indicator system (ORIS): continuously-evolving corporate system of operational risk indicators that is coordinated with the corresponding corporate area. These are diverse statistics or parameters that provide information on an entity's exposure to risk. They are revised periodically in order to warn of any changes that could reveal problems vis-à-vis risk.

- Recommendations from regulators, Internal Audit and the external auditor. These provide relevant information on inherent risk arising from internal and external factors, and enable identification of weaknesses in controls.

- Other specific instruments that permit a more detailed analysis of technology risk, such as control of critical incidences in systems and cyber-security events.

d) Operational risk information system

HERACLES is the corporate operational risk information system. This system has modules for risk self-assessment, event registration, a risk and assessment map, indicators of both operational risk and of internal control, mitigation and reporting systems and scenario analysis, and it is applied to all entities of the Group.

e) Business Continuity Plan

The Santander Group and, accordingly, the Santander Consumer Finance Group, have a Business Continuity Management System (BCMS) to ensure the continuity of its entities' business processes in the event of a disaster or serious incident.

Impact analysis	Scenarios & strategies	Plan Development	Continuous processes
Identify **processes which not planned interruption may carry a severe impact in the business process**, as well as the requirements needed for their recovery. These processes are identified as “critical”.	Identification of **threats or risk situations** that potentially **can cause the interruption of the normal activity of the business**, approach of the probability / frequency and the **impact of the materialization** of each threat.	Document the **response procedures in case of emergencies**, since the moment when an incident happens until a serious contingency is declared, **roles and process to follow up for the resolution** and recovery of the critical processes.	Update of processes and BCP maintenance. Tests and simulations.

The basic objective consists of the following:

- Minimising possible injury to persons, as well as adverse financial and business impacts for the Group, resulting from an interruption of normal business operations.
- Reducing the operational effects of a disaster by supplying a series of pre-defined, flexible guidelines and procedures to be employed in order to resume and recover processes.
- Resuming time-sensitive business operations and associated support functions, in order to achieve business continuity, stable earnings and planned growth.
- Re-establishing the time-sensitive technology and transaction-support operations of the business if existing technologies are not operational.
- Safeguarding the public image of, and confidence in, the Group.

f) *Corporate information*

The Santander Group's corporate operational risk control area has an operational risk management information system that provides data on the Group's main risk elements. The information available from each country/unit in the operational risk sphere is consolidated to obtain a global view with the following features:

- Two levels of information: a corporate level, with consolidated information, and an individual level containing information for each country/unit.

- Dissemination of best practices among the Santander Group countries/units, obtained from the combined study of the results of quantitative and qualitative analyses of operational risk.

Specifically, information is prepared on the following subjects:

- The operational risk management model in the Bank and the main units and geographic areas of the Group.

- The scope of operational risk management.

- The monitoring of appetite metrics

- Analysis of internal event database and of significant external events.

- Analysis of most significant risks detected using various information sources, such as operational and technology risk self-assessment processes.

- Evaluation and analysis of risk indicators.

- Mitigation measures/active management.

- Business continuity plans and contingency plans.

This information is used as the basis for meeting reporting requirements to the Executive Risk Committee, the Risk Supervision, Regulation and Compliance Committee, the Operational Risk Committee, senior management, regulators, credit rating agencies, etc.

The role of insurance in operational risk management

The Santander Consumer Finance Group considers insurance to be a key tool in the management of operational risk. Since 2014, common guidelines have been in place for coordination between the different functions involved in the management cycle of operational risk-mitigating insurance, mainly the areas of proprietary insurance and operational risk control, but also different areas of first line risk management.

These guidelines include the following activities:

- Identification of all risks at the Group that could be covered by insurance, as well as new insurance cover for risks already identified in the market.

- Establishment and implementation of criteria for quantifying insurable risk, based on the analysis of losses and in loss scenarios that make it possible to determine the Group's level of exposure to each risk.

- Analysis of the cover available in the insurance market, as well as preliminary design of the terms and conditions that best suit the requirements previously identified and evaluated.

- Technical assessment of the level of protection provided by a policy, the cost and levels of retention that would be assumed by the Group (deductibles and other items borne by the insured) for the purpose of deciding whether to contract it.

- Negotiation with suppliers and contract awards in accordance with the relevant procedures established by the Group.

- Monitoring of claims reported under the policies, as well as those not reported or not recovered due to incorrect reporting.

– Analysis of the appropriateness of the Group's policies for the risks covered, taking the necessary measures to correct any shortcomings detected.

– Close cooperation between local operational risk officers and local insurance coordinators in order to enhance operational risk mitigation.

– Regular meetings to inform on the specific activities, situation and projects of the two areas.

– Active participation of both areas in the global insurance sourcing desk, the Group's highest technical body for the definition of insurance cover and arrangement strategies.

Cyber Risk

Cybersecurity risk (also known as cyber risk) is defined as any risk of financial loss, business interruption or damage to Santander Consumer's reputation arising 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, there would be three main cyber risks for Santander Consumer:

- Unauthorised access to or misuse of information or systems (e.g. theft of business or personal information).

- Theft and financial fraud.

- Business service disruption (e.g. sabotage, extortion, denial of service).

During 2021, Santander Consumer continued to pay full attention to cybersecurity-related risks affecting our units in the various geographies. This situation, which is causing concern among institutions and regulators, is spurring the adoption of preventive measures so as to be prepared for attacks of this kind.

The Group has upgraded its cyber regulations by approving a new cyber security framework and the cyber risk monitoring model, as well as various related policies.

A new organisational structure has also been defined and governance has been bolstered to manage and control this risk. Specific committees have been set up and cybersecurity metrics have been added to the Group's risk appetite. These metrics have been monitored and reported both in the various geographies and at the global level.

The main instruments and processes in place for controlling cybersecurity risk are:

– Compliance with the cyber risk appetite, the purpose of this process being to ensure that the cyber risk profile is in line with the risk appetite. The cyber risk appetite is defined by a set of metrics, risk statements and indicators together with related tolerance thresholds, using the existing governance structures for monitoring and escalation, including risk committees and cyber security committees.

– Cybersecurity risk identification and assessment: The cyber risk identification and assessment process is a key to anticipating and determining the risk factors that could lead to cyber risk and estimating probability 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 methodology includes the approaches used to identify, classify and quantify cyber risks, as well as to assess the controls and corrective actions implemented by the first line of defense function. Cyber risk assessment exercises are the fundamental tool for identifying and assessing cybersecurity risks in the various Consumer companies. The cybersecurity and technology risk assessment will be updated as is reasonably necessary taking into account changes in information systems, confidential or business information, and the company's business transactions.

– Cyber risk control and mitigation: processes undertaken to evaluate the effectiveness of controls and the mitigation of risks. Once the cyber risks have been assessed and mitigation measures have been defined, these measures are set out in Santander Consumer's cybersecurity risk mitigation plan, the residual risks identified being formally accepted. In view of the nature of cyber risks, a regular assessment of risk mitigation plans is carried out. The business continuity plan is a key process should there be a successful cyber security attack. Santander Consumer has put in place mitigation strategies and measures related to business continuity management and disaster recovery plans. These measures are also linked to cyber attacks and backed up by defined policies, methods and procedures.

- Monitoring, supervision and communication of cyber risk: Santander Consumer controls and monitors cyber risk so as to periodically analyse the information available on risks assumed in the Group's activities. This entails controlling and monitoring key risk indicators (KRIs) and key performance indicators (KPIs) to assess whether risk exposure is in line with the agreed risk appetite.

- Escalation and reporting: Proper escalation and communication of cyber threats and cyber attacks is another key process. Santander Consumer has tools and processes in place to detect signs of insider threats and potential compromises in its infrastructure, servers, applications and databases. Communication entails reporting and submitting to the relevant committees the information necessary to evaluate cyber risk exposure and the cyber risk profile before taking the necessary decisions and actions. The cyber risk situation is reported to the management committees. There are also mechanisms for the independent internal escalation of technology and cybersecurity incidents to the bank's management team and, if necessary, to the relevant regulator.

Other emerging risks

In addition to cyber risk, Santander Consumer Group is stepping up the monitoring of new emerging risks arising from 1) supplier management and 2) transformation projects.

- With regard to supplier management risks, the focus is on the quality and continuity of services provided to SCF, but also on ensuring compliance with the new EBA Guidelines by implementing specific risk instruments throughout the various phases of the supplier lifecycle.

- Transformation risk is defined as any risk arising from material changes to SCF's organisation, products, services or processes due to imperfect design, construction, testing, implementation and/or roll-out of projects and initiatives, and transition to business as usual (BAU). Transformation is a root cause that 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 according to the General Corporate Compliance and Conduct Framework (Marco Corporativo General de Cumplimiento y Conducta).

The compliance function promotes the adhesion of Santander Consumer Finance, S.A. ("SCF") to standards, supervisory requirements, and the principles and values of good conduct by setting standards, debating, advising and reporting, in the interest of employees, customers, shareholders and the wider community. In accordance with the current corporate configuration of the Santander Group's three lines of defense, the compliance function is a second-line independent control function that reports directly to the Board of Directors and its committees through the CCO. This configuration is aligned with the requirements of banking regulation and with the expectations of supervisors.

The SCF Group's objective in the area of compliance and conduct risk is to minimise the probability that noncompliance and irregularities occur and that any that should occur are identified, assessed, reported and quickly resolved.

The main tools used by the Compliance function in order to meet their objectives are (among others): establishment and coordination with the Compliance Program, coordination of the Risk Assessments of all the areas of Compliance and Conduct, definition and monitoring of the Compliance Metrics that participate in the SCF Appetite Risk Framework and monitoring of the Norms of Obligatory Compliance.

Proposed appropriation of profit or loss

The appropriation of profit obtained by the Bank in 2021, amounting EUR 600,855 thousand, will be submitted for approval by the shareholders at the Annual General Shareholder’s Meeting in accordance with the following proposal:

Legal reserve: EUR 60,086 thousand

Voluntary reserve: EUR 50,207 thousand

Capital and treasury shares

In 2021 the Group did not conclude any transactions involving treasury shares/own shares. There was no treasury share balance on its balance sheet at 31 December 2021.

Research and development

Grupo Santander understands innovation and technological development as a key anchor point of the corporate strategy, and seeks to take advantage of the opportunities offered by digitalization. Aligned with the Santander Consumer Finance Group's technology and innovation strategy, it leverages global capabilities and incorporates local particularities to maximize the development of its business and stay ahead of its competitors.

It is crucial for Technology and Operations to support the needs of the business, with specific value-added proposals for the value offer of consumer finance, focusing on the point of sale, customer management and the design of specialized products, guaranteeing optimal management of the process to maintain good efficiency ratios and ensure control of technological and operational security.

On the other hand, like the rest of the Santander Group's units, Santander Consumer Finance is coming under increasing pressure from ever more demanding regulatory requirements that impact the systems model and underlying technology, and require additional investments to ensure compliance and legal security.

Events after the reporting date

Events occurring after the 2021 year-end are disclosed in Note 1-i to the consolidated financial statements.

Compliance with regulatory framework

The Basel III regulations came into effect in 2014, setting new global standards for the capital, liquidity and leverage of financial entities.

From the capital perspective, Basel III redefines what is considered available capital for financial entities (including new deductions and increasing requirements for eligible capital instruments); increases minimum capital requirements; requires financial entities to always hold capital buffers; and adds new requirements for the risks considered.

These regulations were implemented in Europe through Directive 2013/36/EU, known as 'CRD IV', and its regulations, 575/2013 (CRR), which apply directly in all EU member states (Single Rule Book). These rules are currently subject to regulatory development by the European Banking Authority (EBA).

CRD IV was introduced into Spanish law through Act 10/2014, on the ordering, supervision and solvency of credit institutions, and its subsequent regulatory implementation through Royal Decree Act 84/2015. The CRR is directly applicable to member states from 1 January 2014 and repeals lower-ranking standards that entail additional capital requirements.

The CRR provides for a phase-in period that will allow institutions to adapt gradually to the new requirements in the European Union. The phase-in arrangements have been introduced into Spanish law through Bank of Spain Circular 2/2014. The phase-in affects both the new deductions from capital and the capital instruments and elements that cease to be eligible as capital under the new regulations. The capital conservation buffers provided for in CRD IV are also being phased in gradually, starting in 2016 and reaching full implementation in 2019.

In 2021, the Santander Consumer Finance Group must maintain a minimum capital ratio of 7.89% CET1 phase-in (4.5% for Pillar I, 0.8437% for Pillar II, 2.5% for the capital conservation buffer, and 0.0526% for the anticyclical buffer). This requirement includes: (i) the minimum Common Equity Tier 1 requirement to be maintained at all times under Section 92(1)(a) of Regulation (EU) No 575/2013 (ii) the Common Equity Tier 1 requirement to be maintained in excess at all times under Section 16(2)(a) of Regulation (EU) No 1024/2013; and (iii) the capital conservation buffer under Section 129 of Directive 2013/36/EU. In addition, the Santander Consumer Finance Group must maintain a minimum capital ratio of 9.68% of Q1 phase-in as well as a minimum Total Ratio of 12.05% phase-in.

At the end of 2021, the Bank exceeds the prudential requirement defined by the ECB, with a CET1 (Fully Loaded) ratio of 12.58% and a total capital ratio of 15.95% (Fully Loaded).

Regarding credit risk, the Bank continues its plan to implement the advanced internal models approach (AIRB) of Basel. This progress is also conditioned by the acquisitions of new entities, as well as by the need for coordination between supervisors of the internal model validation processes.

The Santander Consumer Finance Group is mainly present in geographies where the legal framework between supervisors is the same, as is the case in Europe through the Capital Directive.

Currently, the Santander Consumer Finance Group has supervisory authorization for the use of advanced approaches for the calculation of regulatory capital requirements for credit risk for its main portfolios in Spain, certain portfolios in Germany, the Nordic countries and France.

With regard to operational risk, the Santander Consumer Finance Group currently uses the standard approach for calculating regulatory capital provided for in the European Capital Directive.

In relation to the other risks explicitly contemplated in Pillar I of Basel, market risk is not significant in Santander Consumer Finance since it is not the object of the business, and the standard approach is used.

Leverage ratio

The leverage ratio has been defined within the regulatory framework of Basel III as a measure of the capital required by financial institutions not sensitive to risk. The Group performs the calculation as stipulated in CRD IV and its subsequent amendment in EU Regulation no. 573/2013 of 17 January 2015, which was aimed at harmonising calculation criteria with those specified in the BCBS "Basel III leverage ratio framework" and "Disclosure requirements" documents. This ratio is calculated as the ratio of Tier 1 divided by leverage exposure.

Santander Consumer Finance maintains a fully loaded leverage ratio at sub consolidated level of 9.40% at the end of 2021, based on a reference ratio of 3%.

Economic capital

From the point of view of solvency, in the context of Basel Pillar II Santander Consumer Finance Group uses its economic model for its internal capital adequacy assessment process (ICAAP). For this purpose, business performance and capital needs are planned under a base case scenario and under alternative stress scenarios.

In this scenario, the Group ensures that it maintains its solvency targets even in adverse economic scenarios.

Economic capital is the capital required, according to an internally developed model, to support all the risks of our business at a certain level of solvency. In our case, the solvency level is determined by the long-term objective rating of 'A' (two steps above Spain's rating), which means applying a confidence level of 99.95% (above the regulatory 99.90%) to calculate the necessary capital.

The Group's economic capital model includes in its measurement all significant risks incurred by the Group in its operations, and therefore considers risks such as concentration, structural interest rate, business, pensions and others that are outside the scope of "regulatory" Pillar 1. Furthermore, economic capital incorporates the diversification effect, which in the case of the Group is crucial, due to the multinational and multi-business nature of its activity, in order to determine the overall risk and solvency profile.

The Santander Consumer Finance Group uses the RORAC method in its risk management to calculate the economic capital consumption and return on risk-adjusted capital of the Group's business units, segments, portfolios or customers, in order to periodically analyse value creation and facilitate optimal allocation of capital.

The RORAC methodology makes it possible to compare, on a uniform basis, the returns on transactions, customers, portfolios and businesses, identifying those that obtain a risk-adjusted return higher than the Group's cost of capital, and thus aligning risk and business management with the intention of maximising value creation, which is the ultimate objective of Santander Consumer Finance's senior management.

Annual corporate governance report

Pursuant to article 9,4 of Order ECC/461/2013, of 20 March, from the Ministry of Economy and Competitiveness, the Bank, an entity domiciled in Spain with voting rights belonging, directly and/or indirectly, to Banco Santander, S.A., has not prepared an annual corporate governance report, as this is drawn up and filed with the CNMV by Banco Santander, S.A. as the parent of the Santander Group.

Non-financial information

On 28 December 2018, the Council of Ministers approved Law 11/2018 amending the Commercial Code, the consolidated text of the Companies Law approved by Royal Legislative Decree 1/2010 of 2 July and Law 22/2015 of 20 July on account auditing, non-financial reporting and diversity.

The statement of non-financial information shall contain the following: a brief description of the group's business model, the group's relevant policies and their outcomes, the principal risks related to its business, in addition to non-financial key performance indicators on matters relating to the environment, employees, human rights, the fight against corruption and bribery and diversity.

The Directive applies to entities whose average number of employees in the financial year exceeds 500 and which are either considered to be public-interest entities in accordance with auditing legislation or, for two consecutive financial years, at the closing date of each year engage at least two of the circumstances indicated in the Law. However, subsidiaries belonging to a group are exempt from this obligation if the company and its subsidiaries are included in another company's consolidated management report.

In this regard, as a subsidiary of Banco Santander S.A, Santander Consumer Finance, S.A. and the companies in the Consumer Finance Group (consolidated) have included this information in the management report of Banco Santander S.A. and subsidiaries for the year ended 31 December 2020, which has been filed with the Companies' Registry of Santander, together with the consolidated financial statements of the Banco Santander Group and subsidiaries, as set out in note 1 to the accompanying Notes. These are also available at www.santander.com

Capital structure and significant shareholders

Banco Santander, S.A.	1,879,546,152	Ownership 99.99%
Cántabro Catalana de Inversiones, S.A.	20	Ownership 0.00000106%
Total number of shares outstanding	1,879,546,152	
Par value	3.00	
Shareholder's equity	5,638,638,516	

At 31 December 2021, the Bank’s share capital consisted of 1,879,546,172 registered shares, with a par value of EUR 3 each, all fully subscribed and paid up, and with equal dividend and voting rights.

Restrictions on the transferability of shares

Not applicable

Restrictions on voting rights

The shareholders attending the Annual General Meeting will have one vote for each share that they hold or represent.

Only the holders of 20 or more shares will be entitled to attend the Annual General Meeting, provided that they are registered in their name in the share register.

Side agreements

Not applicable

Appointment and replacement of members of the Board of Directors and amendment of the bylaws

The representation of the Bank is the responsibility of the Board of Directors, which will comprise no fewer than 5 and no more than 15 members, who will be appointed by the Annual General Meeting for a period of three years, although they may be re-elected, as many times as may be desired, for further three-year periods.

It is not necessary to be a shareholder of the Bank in order to be a director.

Powers of the member of the Board of Directors

On 24 May 2012, the Bank granted powers of attorney to the General Managing Director Ms. Inés Serrano González and to the General Managing Director Mr. Bruno Montalvo Wilmot. Furthermore, on 18 July 2019, the Bank made Don David Turiel López General Director granting him powers of attorney. Either of them, acting jointly and severally, for and on behalf of the Bank, can exercise the powers detailed below:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Board of Directors of Santander Consumer Finance, S.A., held on December 17, 2020 approved the appointment of Mr. José Luis de Mora Gil-Gallardo and Mr. Ezequiel Szafir as Chief Executive Officers of Santander Consumer Finance, S.A. In this regard, the Board of Directors agreed to delegate to Mr. José Luis de Mora Gil-Gallardo and Mr. Ezequiel Szafir, jointly and severally, all the powers of the Board, except those that cannot be legally delegated.

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.

Mr. Fernando García Solé, with ID number 1914273Y, Secretary Non-Director of the Board of Directors of Santander Consumer Finance, S.A., located in Boadilla del Monte (Madrid), Avenida de Cantabria s/n with Tax Identification Code (C.I.F.) A-28122570

I CERTIFY:

That the directors of Santander Consumer Finance, S.A. have prepared on February 24, 2022 the consolidated financial statements of Santander Consumer Finance, S.A. (parent company) and its subsidiaries (the Group) comprising the balance sheet as of December 31, 2021, the income statement, the statement of recognised income and expenses, the statement of total changes in equity, the statement of cash flows and the notes to the annual accounts, all of them consolidated, and the corresponding consolidated management report for the year ended December 31, 2021.

That these consolidated annual accounts have been prepared with the agreement of all the directors, in accordance with the format and labeling requirements set forth in the European Commission Delegated Regulation EU 2019/815. All the directors were present at the meeting, with the exception of the director Mr. Keiran Foad, delegating his representation and vote to the Chairman Sebastian Gunningham.

That such consolidated annual accounts and the corresponding consolidated management report are integrated in the electronic file(s) with hash code(s) 5c2347f67e31cd28b61fcf50b6326fcf.

That, although these consolidated annual accounts do not include the signature in handwriting or by means of an electronic signature recognized by any of the directors, each and every one of them has expressed, verbally, their agreements with the company's consolidated annual accounts proceeding t its formulation.

And for the purposes of authenticity, I hereby issue this certificate in Boadilla del Monte (Madrid), on February 24, 2022.

Vº Bº The vice-president	The secretary
Fdo. Antonio Escámez Torres	Fdo. Fernando García Solé