

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

Consolidated Financial Statements and Consolidated
Management's Report for the year ended 31 December
2022

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.



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. (parent company) and its subsidiaries (the Group), consisting of the consolidated balance sheet at 31 December 2022, 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 2022 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.



Key audit matters	How the matter was addressed in the audit
<p>Estimation of the impairment of financial assets at amortised cost – loans and advances to customers – determined collectively.</p> <p>The expected loss impairment calculation models required by International Financial Reporting Standard 9 (IFRS 9), imply a high degree of subjectivity when incorporating estimates and elements of judgement, especially those updates and adjustments to the models to determine the expected loss in the current macroeconomic environment of uncertainty.</p> <p>In this context, the main judgements and assumptions made by management are as follows:</p> <ul style="list-style-type: none"> • The main estimates employed to calculate the probability of default (PD) and loss given default (LGD) parameters of the recalibrated expected loss models. • The updating of the prospective information in the <i>forward looking</i> models and the definition and evaluation of additional adjustments to the expected loss models to consider the effect of macroeconomic conditions in the current environment. <p>These estimates involve a high degree of management judgement and uncertainty. They were therefore one of the most significant and complex estimates when preparing the accompanying consolidated annual accounts as at 31 December 2022. Therefore, these estimates have been identified as one of the key audit matters.</p> <p>See notes 2, 10 and 47 to the accompanying consolidated annual accounts as at 31 December 2022.</p>	<p>With the assistance of our credit risk specialists and our experts in macroeconomic forecasts, we have obtained an understanding of management's process for estimating the impairment of financial assets at amortised cost - loans and advances to customers, collectively 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.</p> <p>With regards to internal control, we gained an understanding of and tested controls for the main steps 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.</p> <p>We also performed the following tests of detail:</p> <ul style="list-style-type: none"> • Checks, for the main models, on: (i) calculation and segmentation methods; (ii) expected loss parameter estimation methods; (iii) data used and main estimates employed and (iv) loan staging approach. • Evaluation of the main macroeconomic variables used in the scenarios of the <i>forward looking</i> models, including verification of the methodology, the assumptions used, the breakdown of the projection of the macroeconomic scenarios and their weighting. • Recalculation of collective provisions using the parameters obtained from the expected loss models. • Evaluation of additional adjustments to the expected loss models made by management derived from the current macroeconomic environment.

No differences outside a reasonable range were identified in the tests described above.



Key audit matters	How the matter was addressed in the audit
<p>Assessment of goodwill impairment</p> <p>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.</p> <p>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).</p> <p>In 2022, 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.</p> <p>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.</p> <p>See Notes 2 and 14 to the accompanying consolidated annual accounts at 31 December 2022.</p>	<p>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.</p> <p>As regards internal control, we gained an understanding and tested controls of the steps 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.</p> <p>We also conducted the following tests of detail:</p> <ul style="list-style-type: none"> • 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. • 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. <p>No differences outside a reasonable range were identified in the tests described above.</p>



Key audit matters	How the matter was addressed in the audit
<p>Information systems</p> <p>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.</p> <p>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.</p> <p>Management continues to monitor internal control over IT systems, including access control supporting the Group's technology processes.</p>	<p>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.</p> <p>We carried out procedures on internal controls and substantive tests, in the environment of both the Group and its External Partners, relating to:</p> <ul style="list-style-type: none"> • 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. <p>In addition, considering management's monitoring of internal control over IT systems, our audit approach and plan focused on the following aspects:</p> <ul style="list-style-type: none"> • Assessment of management's monitoring as part of the Group's internal control environment. • Verification of the design and operability of controls implemented by management, including access control. <p>The results of the above-mentioned procedures revealed no relevant exceptions in this regard.</p>



Other information: Consolidated Management Report

The other information only relates to the consolidated management report for 2022, 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 2022 and its content and presentation comply with application legislation.

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 2022, 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 2022 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.



Santander Consumer Finance, S.A. and subsidiaries

Additional information 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 23 February 2023.

Term of engagement

The General Shareholders' Meeting of 3 March 2022 appointed us as the Group's auditors for a one-year period for the financial year ended 31 December 2022.

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)

Ignacio Martínez Ortiz (23834)

23 February 2023

SANTANDER CONSUMER FINANCE, S.A. AND SUBSIDIARIES COMPOSING THE SANTANDER CONSUMER FINANCE GROUP
CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2022 AND 2021
(EUR Thousands)

ASSETS	Note	31/12/2022	31/12/2021 (*)
Cash and balances at central banks	2	6,826,225	18,965,097
Financial assets held for trading	9	494,664	51,476
<i>Derivatives</i>		494,664	51,476
Non-trading financial assets mandatorily at fair value through profit or loss	8	1,876	2,998
<i>Equity instruments</i>		45	26
<i>Debt instruments</i>	7	1,444	2,593
<i>Loans and advances - Customers</i>	10	387	379
Financial assets at fair value through profit or loss		—	—
Financial assets at fair value through other comprehensive income		748,469	1,077,351
<i>Equity instruments</i>	8	21,961	22,591
<i>Debt instruments</i>	7	726,508	1,054,760
Financial assets at amortised cost		113,094,548	103,663,354
<i>Debt instruments</i>	7	6,185,061	3,472,396
<i>Loans and advances</i>		106,909,487	100,190,958
<i>Central banks</i>		19,736	10,452
<i>Credit institutions</i>	6	390,306	621,223
<i>Customers</i>	10	106,499,445	99,559,283
Derivatives – hedge accounting	29	1,131,071	121,585
Changes of the fair value of hedged items in an interest rate risk hedging portfolio	29	(709,133)	(46,269)
Investments in associates and joint-ventures	12	724,777	682,414
<i>Joint-ventures</i>		281,915	260,115
<i>Associates</i>		442,862	422,299
Assets under insurance and reinsurance contracts		—	—
Tangible assets	13	3,163,609	2,306,339
<i>Property, plant and equipment</i>		3,163,609	2,306,339
<i>For own use</i>		367,958	400,330
<i>Leased out under operating leases</i>		2,795,651	1,906,009
<i>Investment property</i>		—	—
<i>Memorandum items: acquired through finance lease</i>		264,104	289,600
Intangible assets		2,097,941	2,063,513
<i>Goodwill</i>	14	1,712,426	1,707,480
<i>Other</i>	15	385,515	356,033
Tax assets:	22	1,675,146	1,280,479
<i>Current tax assets</i>		1,116,612	692,567
<i>Deferred tax assets</i>		558,534	587,912
Other assets	16	985,164	712,466
<i>Inventories</i>		8,880	3,777
<i>Other</i>		976,284	708,689
Assets included in disposal groups classified as held for sale	11	45,337	50,386
Total assets		130,279,694	130,931,189

(*) 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 2022.

SANTANDER CONSUMER FINANCE, S.A. AND SUBSIDIARIES COMPOSING THE SANTANDER CONSUMER FINANCE GROUP
CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2022 AND 2021
(EUR Thousands)

LIABILITIES	Note	31/12/2022	31/12/2021 (*)
Financial liabilities held for trading	9	466,031	58,169
Derivatives		466,031	58,169
Financial liabilities at fair value through profit or loss		—	—
Financial liabilities at amortised cost		111,077,230	113,270,031
Deposits		70,848,070	70,866,247
<i>Central banks</i>	<i>17</i>	<i>17,900,641</i>	<i>19,997,499</i>
<i>Credit institutions</i>	<i>17</i>	<i>11,620,202</i>	<i>11,780,269</i>
<i>Customers</i>	<i>18</i>	<i>41,327,227</i>	<i>39,088,479</i>
Debt securities in issue	<i>19</i>	38,855,760	40,652,231
Other	<i>20</i>	1,373,400	1,751,553
<i>Memorandum items: subordinated liabilities</i>	<i>17, 18, 19</i>	<i>1,514,223</i>	<i>898,750</i>
Derivatives – hedge accounting	29	193,787	128,650
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	11	—	—
Liabilities under insurance and reinsurance contracts		—	—
Provisions	21	610,875	825,910
Pensions and other retirement benefit obligations		414,385	598,456
Other long term employee benefit obligations		31,488	44,442
Taxes and other legal contingencies		10,089	9,576
Contingent liabilities and commitments		28,010	39,403
Other		126,903	134,033
Tax liabilities		1,864,753	1,411,213
Current tax liabilities		581,279	338,699
Deferred tax liabilities	<i>22</i>	<i>1,283,474</i>	<i>1,072,514</i>
Other liabilities	16	1,874,830	1,842,887
Liabilities included in disposal groups classified as held for sale		—	—
Total liabilities		116,087,506	117,536,860
Shareholder's equity		12,219,470	11,702,523
Capital	<i>23</i>	<i>5,638,639</i>	<i>5,638,639</i>
<i>Called-up share capital</i>		<i>5,638,639</i>	<i>5,638,639</i>
<i>Memorandum items: uncalled capital</i>		<i>—</i>	<i>—</i>
Share premium	<i>24</i>	<i>1,139,990</i>	<i>1,139,990</i>
Other equity instruments	<i>23</i>	<i>1,200,000</i>	<i>1,200,000</i>
Equity component of hybrid securities		—	—
Other		1,200,000	1,200,000
Other equity		—	—
Retained earnings	<i>25</i>	<i>3,629,337</i>	<i>2,985,858</i>
Revaluation reserves		—	—
Other reserves	<i>25</i>	<i>20,847</i>	<i>53,909</i>
<i>Reserves or accumulated losses in investments in joint ventures and associates</i>		<i>439,882</i>	<i>398,835</i>
Other		(419,035)	(344,926)
(-) Treasury stock		—	—
Profit or loss after tax attributable to equity holders of the parent		1,242,860	1,174,689
(-) Dividends paid	<i>3</i>	<i>(652,203)</i>	<i>(490,562)</i>
Other comprehensive income/(loss)		(582,107)	(645,973)
Items that may be reclassified to profit or loss	<i>26</i>	<i>(33,865)</i>	<i>(155,201)</i>
Items not reclassified to profit or loss	<i>26</i>	<i>(548,242)</i>	<i>(490,772)</i>
Non-controlling interests	<i>27</i>	<i>2,554,825</i>	<i>2,337,779</i>
Other comprehensive income		(3,715)	2,157
Other		2,558,540	2,335,622
Equity		14,192,188	13,394,329
Total liabilities and equity		130,279,694	130,931,189
Memorandum items: off-balance sheet items		27,052,044	25,495,968
Loans commitment granted	<i>28</i>	<i>25,756,041</i>	<i>24,122,179</i>
Financial guarantees granted	<i>28</i>	<i>84,997</i>	<i>189,841</i>
Other	<i>28</i>	<i>1,211,006</i>	<i>1,183,948</i>

(*) 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 2022.

SANTANDER CONSUMER FINANCE, S.A. AND SUBSIDIARIES COMPOSING THE SANTANDER CONSUMER FINANCE GROUP
CONSOLIDATED INCOME STATEMENTS AS AT 31 DECEMBER 2022 AND 2021
(EUR Thousands)

	Note	Income / (Expenses)	
		31/12/2022	31/12/2021 (*)
INTEREST INCOME	30	4,195,233	4,021,364
<i>Financial assets at fair value through other comprehensive income</i>		767	85
<i>Financial assets at amortised cost</i>		4,089,331	3,869,373
<i>Other</i>		105,135	151,906
INTEREST EXPENSE	31	(624,026)	(463,392)
NET INTEREST INCOME		3,571,207	3,557,972
DIVIDEND INCOME		236	275
INCOME FROM COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD	32	96,736	63,790
COMMISSION INCOME	33	1,133,025	1,095,656
COMMISSION EXPENSE	34	(349,489)	(334,182)
GAINS OR LOSSES IN FINANCIAL INSTRUMENTS NOT AT FAIR VALUE THROUGH PROFIT OR LOSS, NET	35	807	(6,654)
GAINS OR LOSSES ON FINANCIAL INSTRUMENTS HELD FOR TRADING, NET	35	(10,077)	1,413
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	—	—
GAINS OR LOSSES FROM HEDGE ACCOUNTING, NET	35	86,600	10,889
CURRENCY TRANSLATION DIFFERENCES, NET	36	(17,644)	(4,331)
OTHER OPERATING INCOME	37	551,078	383,075
OTHER OPERATING EXPENSE	38	(415,988)	(325,336)
INCOME FROM ASSETS UNDER INSURANCE OR REINSURANCE CONTRACTS		—	—
CHARGES FROM LIABILITIES UNDER INSURANCE OR REINSURANCE CONTRACTS		—	—
OPERATING INCOME		4,646,491	4,442,574
ADMINISTRATION AND GENERAL EXPENSES		(1,756,232)	(1,663,948)
<i>Staff costs</i>	39	(884,182)	(842,630)
<i>Other</i>	40	(872,050)	(821,318)
DEPRECIATION AND AMORTISATION COST	13, 15	(189,183)	(191,320)
PROVISIONS OR REVERSAL FROM PROVISIONS, NET	21	(20,467)	(50,453)
IMPAIRMENT CHARGES AND REVERSALS FROM FINANCIAL ASSETS NOT AT FAIR VALUE THROUGH PROFIT OR LOSS	10	(451,931)	(495,060)
<i>Financial assets at fair value through other comprehensive income</i>		285	(82)
<i>Financial assets at amortised cost</i>		(452,216)	(494,978)
IMPAIRMENT CHARGES OR REVERSAL OF INVESTMENTS IN JOINT VENTURES AND ASSOCIATES		—	—
IMPAIRMENT CHARGES OR REVERSAL OF NON-FINANCIAL ASSETS	41	(21,859)	(14,872)
<i>Tangible assets</i>		(985)	2,701
<i>Intangible assets</i>		(11,647)	(11,662)
<i>Other</i>		(9,227)	(5,911)
GAINS OR LOSSES ON NON-FINANCIAL ASSETS, NET	42	1,202	236
NEGATIVE GOODWILL RECOGNISED IN RESULTS		—	—
GAINS OR LOSSES ON NON-CURRENT ASSETS HELD FOR SALE FROM DISCONTINUED OPERATIONS	43	(128)	(3,225)
PROFIT OR LOSS BEFORE TAX IN RESPECT OF CONTINUING OPERATIONS		2,207,893	2,023,932
OPERATING TAX EXPENSE OR INCOME FROM CONTINUING OPERATIONS	22	(606,270)	(533,271)
PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS		1,601,623	1,490,661
(LOSS)/PROFIT AFTER TAX FROM DISCONTINUED OPERATIONS		—	—
PROFIT /(LOSS) AFTER TAX		1,601,623	1,490,661
<i>Attributable to non-controlling interests</i>	27	358,763	315,972
<i>Attributable to equity holders of the parent</i>		1,242,860	1,174,689
EARNINGS PER SHARE:			
<i>Basic</i>	4	0.66	0.59
<i>Diluted</i>	4	0.66	0.59

(*) 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 2022.

SANTANDER CONSUMER FINANCE, S.A. Y SUBSIDIARIES COMPOSING THE SANTANDER CONSUMER FINANCE
CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE AS AT 31 DECEMBER 2022 AND 2021
(EUR Thousands)

	Nota	31/12/2022	31/12/2021 (*)
Profit or loss after tax		1,601,623	1,490,661
Other comprehensive income		57,994	61,836
Items that will not be reclassified to profit or loss		120,796	33,245
Actuarial gains or losses on defined benefit pension plans	26	180,485	43,346
Non-current assets held for sale		—	—
Other recognised income and expense from investments in joint ventures and associates		35	91
Changes in the fair value of equity instruments measured at fair value through other comprehensive income		(968)	3,278
Income tax in respect of items not reclassified to profit or loss	22	(58,756)	(13,470)
Items that may be reclassified to profit or loss		(62,802)	28,591
Hedges of net investments in joint ventures and associates (effective portion)		54,046	(112,307)
Revaluation gains/(losses)	26	54,046	(112,307)
Amounts transferred to the income statement		—	—
Other reclassifications		—	—
Currency translation differences		(154,051)	131,765
Revaluation gains/(losses)	26	(154,051)	131,765
Amounts transferred to the income statement		—	—
Other reclassifications		—	—
Cash flow hedges		73,002	19,312
Revaluation gains/(losses)	26	41,409	1,316
Amounts transferred to the income statement		31,593	17,996
Transferred to initial carrying amount of hedged items		—	—
Other reclassifications		—	—
Debt instruments at fair value through other comprehensive income		(2,082)	(369)
Revaluation gains/(losses)		(1,797)	(6,062)
Amounts transferred to the income statement		(285)	5,693
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	(18,231)	(4,819)
Income tax in respect of items that may be reclassified to profit or loss	22	(15,486)	(4,991)
Total recognised income and expenses for the year		1,659,617	1,552,497
Attributable to non-controlling interests		352,891	322,141
Attributable to equity owners of the parent		1,306,726	1,230,356

(*) 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 2022.

SANTANDER CONSUMER FINANCE, S.A. AND SUBSIDIARIES COMPOSING THE SANTANDER CONSUMER FINANCE GROUP
CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY AS AT 31 DECEMBER 2022 AND 2021

(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 31/12/21	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
Adjustments due to errors	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Adjustments due to changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Beginning of period balance (01/01/22)	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
Total recognised income and expenses (Note 4)	—	—	—	—	—	—	—	—	1,242,860	—	63,866	(5,872)	358,763	1,659,617
Other changes in equity	—	—	—	—	643,479	—	(33,062)	—	(1,174,689)	(161,641)	—	—	(135,845)	(861,758)
Common stock issued	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Preferred stock issued	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Other equity instruments issued (Note 23)	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Redemption or maturity of other equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Debt conversion to equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Reduction of capital	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Dividends (Note 4)	—	—	—	—	—	—	—	—	—	(652,203)	—	—	(135,837)	(788,040)
Stock buybacks	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Sale or cancellation of shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Transfers from equity to liabilities	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Transfers from liabilities to equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Transfers between equity items	—	—	—	—	643,479	—	40,648	—	(1,174,689)	490,562	—	—	—	—
Increases/(decreases) due to business combinations	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Vesting of shares under employee share schemes	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Other increase/(decreases) of equity	—	—	—	—	—	—	(73,710)	—	—	—	—	—	(8)	(73,718)
End of period balance 31/12/22	5,638,639	1,139,990	1,200,000	—	3,629,337	—	20,847	—	1,242,860	(652,203)	(582,107)	(3,715)	2,558,540	14,192,188

(*) 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 2022.

SANTANDER CONSUMER FINANCE, S.A. AND SUBSIDIARIES COMPOSING THE SANTANDER CONSUMER FINANCE GROUP
CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY AS AT 31 DECEMBER 2022 AND 2021

(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 2022.

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

CONSOLIDATED STATEMENT OF CASH FLOWS AS AT 31 DECEMBER 2022 AND 2021
(EUR Thousands)

	Note	31/12/2022	31/12/2021 (*)
Cash flow from operating activities		(10,121,259)	11,617,981
Profit or loss after tax		1,601,623	1,490,661
Adjustments made to obtain the cash flows from operating activities:		1,605,540	1,728,148
Amortisation		189,183	191,320
Other		1,416,357	1,536,828
Net increase/(decrease) in operating assets		(11,940,967)	1,812,150
Financial assets held for trading		(445,008)	(27,686)
Non-trading financial assets mandatorily at fair value through profit or loss		1,120	(2,607)
Financial assets at fair value through profit or loss		—	—
Financial assets at fair value through other comprehensive income	7, 8	326,049	(300,886)
Financial assets at amortised cost	6, 7, 10	(11,240,158)	2,327,470
Other operating assets		(582,970)	(184,141)
Net increase/(decrease) in operating liabilities		(953,502)	7,042,718
Financial liabilities held for trading		409,700	29,348
Financial liabilities at fair value through profit or loss		—	—
Financial liabilities at amortised cost		(1,636,653)	6,944,753
Other operating liabilities		273,451	68,617
Corporate income tax paid		(433,953)	(455,696)
Cash flow from investing activities		(1,022,024)	(740,742)
Payments		(1,321,383)	(1,517,770)
Tangible assets	13	(1,145,924)	(1,019,856)
Intangible assets	14, 15	(154,150)	(137,848)
Investments in joint ventures and associates	12	—	—
Subsidiaries and other business units	3	(21,309)	(360,066)
Assets and liabilities included in disposal groups classified as held for sale		—	—
Other cash flows associated with investing activities		—	—
Proceeds		299,359	777,028
Tangible assets		255,257	307,226
Intangible assets	14, 15	—	—
Investments in joint ventures and associates		28,422	1,639
Subsidiaries and other business units	3	—	449,946
Non-current assets held for sale and associated liabilities		15,680	18,217
Other cash flows associated with investing activities		—	—
Cash flow from financing activities		(937,684)	(2,219,096)
Payments		(1,537,684)	(2,532,646)
Dividends paid		(1,259,296)	(1,268,694)
Subordinated debt		(32,659)	(815,445)
Redemption of own equity instruments	17	—	—
Repurchase of own equity instruments		—	—
Other cash flows associated with financing activities		(245,729)	(448,507)
Proceeds		600,000	313,550
Subordinated debt	19	600,000	100,000
Issuance of equity instruments	23	—	—
Disposal of own equity instruments		—	—
Other cash flows associated with financing activities		—	213,550
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS		(57,905)	(9,845)
NET INCREASE IN CASH AND CASH EQUIVALENTS		(12,138,872)	8,648,298
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		18,965,097	10,316,799
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		6,826,225	18,965,097
MEMORANDUM ITEMS:			
Cash and cash equivalents comprise:	2		
Of which: held by group entities but not available for the group			
Cash		82,148	94,086
Cash equivalent balances at central banks		3,900,413	16,570,595
Other financial assets		2,843,664	2,300,416
(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 2022.

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2022

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 2022 and 2021 (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 2021 of the Santander Group were authorised for issue by the Directors of Banco Santander, S.A. at its Board of Directors Meeting on 24 February 2022, were approved by the shareholders at the Annual General Meeting on 1 April 2022 and were filed at the Santander Mercantile Registry. The consolidated financial statements of the Santander Group for 2022 are expected to be authorised for issue by its Directors on 27 February 2023.

The Bank has one bank office located in Madrid, is not listed and, in 2022, 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 2022, the Group had 311 offices distributed throughout Europe, 48 of which were located in Spain (314 branches, 49 of which were located in Spain as of 31 December 2021).

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 were established in Belgium, Portugal and the Netherlands in order to continue the activities that had been provided until this date.

During the year 2022 and after the merger of the Bank with its subsidiary Santander Consumer Banque, S.A. (see Note 3), a branch has been established in France in order to continue the activities that had been provided until this date.

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 2022.

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 published Circulars 6/2021, dated December 22, 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 2022 were formally prepared by the Directors of the Bank, as Parent (at the Board Meeting of 22 February 2023), 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 2022, 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 2022. 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 Santander Consumer Finance Group.

These notes to the consolidated financial statements contain information in addition to that presented in the accompanying balance sheet, income statement, statement of recognised income and expense, statement of changes in total equity and statement of cash flows, all of them consolidated. 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 2021 were approved by the Shareholders at the Annual General Meeting of the Bank on 3 March 2022 and filed at the Madrid Mercantile Registry. The 2022 consolidated financial statements of the Group and the 2022 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 significant changes.

Adoption of new standards and interpretations issued

The following modifications came into force and were adopted by the European Union in 2022:

- 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, that are applied from 1 January 2022, 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.
 - 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.

The application of the aforementioned amendments to accounting standards and interpretations, has not resulted in significant effects on the consolidated annual accounts of Santander Consumer Finance Group.

Likewise, as of the date of preparation of these consolidated annual accounts, the following standards are in force, the effective date of which is after December 31, 2022:

- IFRS 17, Insurance Contracts and modifications of IFRS 17: 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 retrospectively.

The Group has carried out a project to implement IFRS 17 with all Group entities and has drawn up an accounting policy that establishes the accounting criteria for recording insurance contracts.

The Group has concluded the analysis about the possible effects of this new standard, without noticing material impacts on the consolidated financial statements of Santander Consumer Finance Group.

- 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:
 - a. Right-of-use assets and lease liabilities, and
 - b. 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.

Finally, as of the date of preparation of these consolidated annual accounts, the following standards were pending adoption by the European Union, the effective dates of which come into force are after December 31, 2022:

- 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.

Likewise, during 2022 an additional amendment to IAS 1 on the classification of liabilities with covenants as current or non-current has been included, specifying that covenants that must be complied with after the reporting date do not affect the classification of liabilities to that date, also requiring breakdowns on them.

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 2024.

- IFRS 16 Leases: the lease liability in a sale and leaseback requires a lessee-seller to subsequently measure the lease liabilities arising from a leaseback so that it does not recognize any amount for the gain or loss in relation to the right. of use. On the other hand, the new requirements do not prevent a seller-lessee from recognizing in results any gain or loss related to the partial or total termination of a lease. It will be applicable, retrospectively, from January 1, 2024.

Santander Consumer Finance Group 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 2022 were applied in the preparation of these consolidated annual accounts.

Use of critical 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 Santander Consumer Finance Group in preparing the consolidated financial statements.

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

In the Group's consolidated financial statements, estimates were occasionally made by the senior management of the Santander Consumer Finance Group 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 according to IFRS 3 (see Note 3).

To update the previous estimates, the Group's management has taken into account the current macroeconomic scenario resulting from the Ukrainian war, as well as the growing level of inflation and the difficulties in the supply chains, which is having a certain impact on the economic evolution and is being closely monitored, and which generates uncertainty in the Group's estimates. For this reason, the Management of the Group has carried out an evaluation of the current situation in accordance with the best information available to date, developing in the notes the main estimates made and the potential impacts of the Ukrainian war and the macroeconomic situation on them during the period ended December 31, 2022 (see Notes 14, 22 and 47).

Although these estimates were made on the basis of the best information available at the end of 2022 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, would be prospectively, recognising any changes in estimates in the related consolidated income statements.

c) Comparability of information presented

The information contained in this report referring to the 2021 financial year is presented solely and exclusively for comparative purposes with the information referring to the 2022 financial year and, therefore, does not constitute the Group's annual accounts for the 2021 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.

Regarding entities that, without having the majority of the voting rights, were classified as dependent entities and, therefore, consolidated in these annual accounts, such circumstance would be a consequence of the existence of agreements that affect the relevant activities of these entities and that give control to the Bank. As of December 31, 2022 and 2021, there are no companies in which the Group does not have at least 50% of the voting rights and which have been considered as Group entities.

On 31 December 2022 and 2021, 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 2022.

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, 2022 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 2022.

iv. Structured entities

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

- Percentage of ownership held by the Group; 20% is established as the general threshold.
- Identification of the fund manager, and verification as to whether it is a company controlled by the Group since this could affect the Group's ability to direct the relevant activities.
- Existence of agreements between investors that might require decisions to be taken jointly by the investors, rather than by the fund manager.
- Existence of currently exercisable removal rights (possibility of removing the manager from his position) since the existence of such rights might limit the manager's power over the fund, and it may be concluded that the manager is acting as an agent of the investors.
- Analysis of the fund manager's remuneration regime, taking into consideration that a remuneration regime that is proportionate to the service rendered does not, generally, create exposure of such importance as to indicate that the manager is acting as the principal. Conversely, if the remuneration regime is not proportionate to the service rendered, this might give rise to an exposure that would lead the Group to a different conclusion.

These structured entities also include the asset 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 2022.

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 acquiree.
- 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 2022 and 2021.

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.

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, securitisations, etc.) required to achieve its capital targets.

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

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

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

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

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 securitisation framework. The first regulation established a new methodology for calculating capital requirements for securitisations and a transitional period ending on 31 December 2019, while the second regulation defines a type of STS securitisation which, due to characteristics ('simple, transparent and standardised')s, 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 2022 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) Deposits 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 2022 include additional information on the contributions of this nature made by the Bank in 2022 and 2021.

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 prorata 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 81,891 thousand as of 31 December 2022 (EUR 82,156 thousand as of 31 December 2021), 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 of Spain in 2022, which amounted to EUR 451 thousand (EUR 535 thousand in 2021), 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, 2022 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.

However, there are two events to highlight:

- On December 28, 2022, the Law establishing a temporary tax on credit institutions and financial credit establishments was published in Spain (see note 22 for more details). The impact recorded in the year 2023 is not material in the consolidated profit and loss account.
- As of December 31, 2022, SCF S.A. presents in its balance sheet deposits taken from its parent entity Banco Santander S.A. for an amount of 6,050 million euros, which constitute part of the entity's structural financing (Financial liabilities at amortized cost – Deposits- note 17).

During the month of January 2023 Banco Santander S.A. has cancelled in advance a total of 5,250 million euros that were part the financing, which have been fully replaced by deposits taken from Openbank S.A, an entity 100% owned by Banco Santander S.A.

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 2022 and 2021 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*

The equivalent Euro value of the total assets and liabilities in foreign currency held by the Group as of 31 December 2022 and 2021 amounted to EUR 20,296 million and EUR 12,221 million, respectively (EUR 20,136 million and EUR 13,183 million, respectively in 2021) –see Note 44.b.–. 98.80% (98.90% on 31 December 2021) of these assets and 100% of these liabilities (100% in 2021), 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.

Las operaciones señaladas a continuación no se tratan, a efectos contables, como instrumentos financieros:

- 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. securitisations) require a look-through analysis by the Group so as to review that both the financial asset and the underlying assets are only principal and interest payments and that the exposure to credit risk of the set of underlying assets belonging to the tranche analysed is less than or equal to the exposure to credit risk of the set of underlying assets of the instrument.

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

- Amortised cost: financial instruments under a business model whose objective is to collect principal and interest flows, over which there is no significant unjustified sales and fair value is not a key element in the management of these assets and contractual conditions they give rise to cash flows on specific dates, which are only payments of principal and interest on the outstanding principal amount. In this sense, unjustified sales are those other than those related to an increase in the credit risk of the asset, unanticipated funding needs (stress case scenarios). Additionally, the characteristics of its contractual flows represent substantially a "basic financing agreement".
- Fair value with changes in other comprehensive income: financial instruments held in a business model whose objective is to collect principal and interest cash flows and the sale of these assets, where fair value is a key factor in their management. Additionally, the contractual cash flow characteristics substantially represent a "basic financing agreement".
- Fair value with changes in profit or loss: financial instruments included in a business model whose objective is not obtained through the models mentioned above, where fair value is a key factor in managing of these assets, and financial instruments whose contractual cash flow characteristics do not substantially represent a "basic financing agreement". In this section it can be enclosed the portfolios classified under "Financial assets held for trading", "Non-trading financial assets mandatorily at fair value through profit or loss" and "Financial assets at fair value through profit or loss".

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

iii) Classification of financial assets for presentation purposes

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

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

- **Loans 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 favor 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 measurements 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.

During the 2019, the European Central Bank announced a new program of longer-term financing operations with a specific objective (TLTRO III), which included special conditions, including a reduction in the interest rate applicable between June 2020 and June 2022 subject to compliance with a certain volume of eligible loans.

Santander Consumer Finance Group chose to accrue interest in accordance with the specific periods of adjustment to market rates, so that the interest corresponding to said period (-1%) has been recorded in the income statement from June 2020 to June 2022, having met the computable loan threshold that gave rise to the extra rate on that date.

Subsequently, and as a result of the modifications introduced by the European Central Bank in the conditions of the program, which include changes in its interest rates, the Group has updated the effective interest rate at which interest accrues on said financial liability, maintaining the criterion adopted in previous years, and considering said modifications a change in the variable interest rate (which affects the EIR) and is applied prospectively.

- Marketable debt securities: includes the amount of bonds and other debt represented by marketable securities, other than those having the substance of subordinated liabilities (amount of the loans received, which for credit priority purposes are after common creditors, 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 component that has the consideration of financial liability of the securities issued that are compound financial instruments.
- 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 (includes, among others, the balance of lease liabilities), and liabilities under financial guarantee contracts, unless they have been classified as non-performing.
- Changes in the fair value of hedged items in portfolio hedges of interest rate risk: 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 2022 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 2022 and 2021, 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					
	31/12/2022			31/12/2021		
	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	—	494,664	494,664	—	51,476	51,476
Non-trading assets mandatorily at fair value through profit or loss	6	1,870	1,876	26	2,972	2,998
Financial assets at fair value through other comprehensive income	735,775	12,694	748,469	1,062,405	14,946	1,077,351
Derivatives – hedge accounting (assets)	—	1,131,071	1,131,071	—	121,585	121,585
Financial liabilities held for trading	—	466,031	466,031	—	58,169	58,169
Financial liabilities at fair value through profit or loss	—	—	—	—	—	—
Derivatives – hedge accounting (liabilities)	—	193,787	193,787	—	128,650	128,650

(*) En su práctica totalidad, las (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 2022 or 2021. Also, there were no changes in the valuation techniques used to measure financial instruments. Likewise, the movement of Level 3 financial assets has not been significant during the years 2022 and 2021.

General measurement criteria

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.

Inflation-related assets include zero-coupon or year-on-year inflation-linked bonds and swaps, valued with the present value method using forward estimation and discounting. Derivatives on inflation indices are priced using standard or more complex bespoke models, as appropriate. Valuation inputs of these models consider inflation-linked swap spreads observable in the market and estimations of inflation seasonality, on the basis of which a forward inflation curve is calculated. Also, implied volatilities taken from zero-coupon and year-on-year inflation options are also inputs for the pricing of more complex derivatives.

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.

Valuation adjustment for counterparty risk or default risk

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

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

- Expected exposure: including for each transaction the mark-to-market (MtM) value plus an add-on for the potential future exposure for each period. Mitigating factors such as collateral and netting agreements are taken into account, as well as a temporary impairment factor for derivatives with interim payments.
- Loss Given Default: percentage of final loss assumed in a counterparty credit event/default.
- Probability of default: for cases where there is no market information (the CDS quoted spread curve, etc.), proxies based on companies holding exchange-listed CDS, in the same industry and with the same external rating as the counterparty, are used.

- Discount factor curve.

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

At the end of December 2022 and 2021, 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 2022 and 2021.

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. 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 and Level 3) at 31 December 2022 and 2021:

	EUR Thousands			
	Fair Values calculated using internal models 31-12-22 (Level 2)	Fair Values calculated using internal models 31-12-22 (Level 3)	Valuation techniques	Main assumptions
ASSETS:				
Financial assets held for trading	494,664	—		
Derivatives	494,664	—		
<i>Swaps</i>	425,843	—	Present Value Method	Yield curves, Fx market rates, Basis
<i>Interest rate options</i>	37,316	—	Black Sholes SLN	Yield curves, volatility
<i>Other</i>	31,505	—	Present Value Method	Yield curves, volatility surface
		1,870		
Non-trading assets mandatorily at fair value through profit or loss	—			
<i>Equity instruments</i>	—	39	Present Value Method	Yield curves, Fx market rates, Basis
<i>Debt securities</i>	—	1,444	Present Value Method	Yield curves, Fx market rates, Basis
Loans and advances	—	387	Present Value Method	Yield curves, Fx market rates, Basis
Derivatives – hedge accounting	1,131,071	—		
<i>Swaps</i>	1,068,242	—	Present Value Method	Yield curves, Fx market rates, Basis
<i>Other</i>	62,829	—	Present Value Method	Yield curves, Fx market rates, Basis
		11,489		
Financial assets at fair value through other comprehensive income	1,205			
Equity instruments	1,205	11,489	Present Value Method	Yield curves, Fx market rates, Basis
TOTAL ASSETS	1,626,940	13,359		
LIABILITIES:				
Financial liabilities held for trading	466,031	—		
Derivatives	466,031	—		
<i>Swaps</i>	430,526	—	Present Value Method	Yield curves, Fx market rates, Basis
<i>Exchange rate options</i>	6	—	Black Sholes SLN	Yield curves, volatility surface
<i>Interest rate options</i>	35,484	—	Present Value Method	Yield curves, Fx market rates, Basis
<i>Other</i>	15	—	Present Value Method	Yield curves, Fx market rates, Basis
Derivatives – hedge accounting	193,787			
<i>Swaps</i>	163,493	—	Present Value Method	Yield curves, Fx market rates, Basis
<i>Other</i>	30,294	—	Present Value Method	Yield curves, Fx market rates, Basis
TOTAL LIABILITIES	659,818	—		

	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	—		
<i>Swaps</i>	45,978	—	Present Value Method	Yield curves, Fx market rates, Basis
<i>Interest rate options</i>	5,450	—		
<i>Other</i>	48	—	Present Value Method	Yield curves, volatility surface
Non-trading assets mandatorily at fair value through profit or loss	—	2,972		
Equity instruments	—	—	Present Value Method	Yield curves, Fx market rates, EQ, dividends, other
<i>Debt securities</i>	—	2,593		
Loans and advances	—	379		
Derivatives – hedge accounting	121,585	—		
<i>Swaps</i>	107,759	—	Present Value Method	Yield curves, Fx market rates, Basis
<i>Other</i>	13,826	—	Present Value Method	Yield curves, volatility surface, Fx market rates
Financial assets at fair value through other comprehensive income	—	14,946	Present Value Method	Yield curves, Fx market rates, EQ, dividends, other , credit, other
Equity instruments	—	14,946		
TOTAL ASSETS	173,061	17,918		
LIABILITIES:				
Financial liabilities held for trading	58,169	—		
Derivatives	58,169	—		
<i>Swaps</i>	46,982	—	Present Value Method	Yield curves, Fx market rates, Basis
<i>Interest rate options</i>	5,460	—		
<i>Other</i>	5,727	—		
Derivatives – hedge accounting	128,650	—		
<i>Swaps</i>	80,677	—	Present Value Method	Yield curves, Fx market rates, Basis
<i>Other</i>	47,973	—	Present Value Method	Yield curves, volatility surface, Fx market rates
TOTAL LIABILITIES	186,819	—		

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 at fair value through other comprehensive income 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, securitisation of assets in which the transferor does not retain a subordinated debt or grant any credit enhancement to the new holders, and other similar cases-, the transferred financial asset is derecognised and any rights and obligations created or retained in the transfer are recognised simultaneously.
- If the Group retains substantially all the risks and rewards associated with the transferred financial asset - sale of financial assets under an agreement to repurchase them at a fixed price or at the sale price plus interest, a securities lending agreement in which the borrower undertakes to return the same or similar assets, securitisation of assets in which the transferor retains a subordinated debt or grants a credit enhancement to the new holders that entails assuming substantially all the credit risk of the transferred assets, and other similar cases-, the transferred financial asset is not derecognised and continues to be measured by the same criteria as those used before the transfer. However, the following items are recognised:
 - An associated financial liability, for an amount equal to the consideration received; this liability is, in general, subsequently measured at amortised cost unless it meets the requirements for classification under Financial liabilities designated at fair value through profit or loss.
 - The income from the transferred financial asset not derecognised and any expense incurred on the new financial liability.
- If the Group neither transfers nor retains substantially all the risks and rewards associated with the transferred financial asset -sale of financial assets with a purchased call option or written put option that is not deeply in or out of the money, securitisation of assets in which the transferor retains a subordinated debt or other type of credit enhancement for a portion of the transferred asset, and other similar cases- the following distinction is made:
 - If the transferor does not retain control of the transferred financial asset, the asset is derecognised and any rights and obligations created or retained in the transfer are recognised.
 - If the transferor retains control of the transferred financial asset, it continues to recognise it for an amount equal to its exposure to changes in value of the asset and recognises a financial liability associated with the transferred financial asset. The net carrying amount of the transferred asset and the associated liability is the amortised cost of the rights and obligations retained, if the transferred asset is measured at amortised cost, or the fair value of the rights and obligations retained, if the transferred asset is measured at fair value.

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

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 securitisation transactions in which it retains substantially all the risks and rewards of ownership of the assets. The detail, by consolidated entity, of the securitised assets retained on the consolidated balance sheets as at 31 December 2022 and 2021 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.

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 2022 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 favour of the entity. The properties include:
 - i) Buildings and building elements, distinguishing among:
 - Houses;
 - Offices, stores and multi-purpose premises;
 - Rest of buildings such as non-multi-purpose premises and hotels.
 - ii) Urban and developable ordered land.
 - iii) Rest of properties that classify as: buildings and building elements under construction, such as property development in progress and halted development, and the rest of land types, such as rustic lands.
- b) Collateral guarantees on financial instruments in the form of cash deposits and debt securities issued by creditworthy issuers.
- c) Other types of real guarantees, including properties received in guarantee and second and subsequent mortgages on properties, as long as the entity demonstrates its effectiveness. When assessing the effectiveness of the second and subsequent mortgages on properties the entity will implement particularly restrictive criteria. It will take into account, among others, whether the previous charges are in favour of the entity itself or not and the relationship between the risk guaranteed by them and the property value.
- d) Personal guarantees, as well as the incorporation of new owners, covering the entire amount of the financial instruments and implying direct and joint liability to the entity of persons or other entities whose solvency is sufficiently proven to ensure the repayment of the loan on the agreed terms.

ii) Financial instruments presentation

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

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

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

	<p>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.</p> <p>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.</p>
Quantitative criteria	<p>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.</p>
Qualitative criteria	<p>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.).</p> <p>The use of these qualitative criteria is complemented with the use of an expert judgement, under the corresponding governance.</p>

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, offbalance-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:

- 1) Negative net equity or decrease because of losses of the client's net equity by at least 50% during the last financial year.
- 2) Continued losses or significant decrease in revenue or, in general, in the client's recurring cash flows.
- 3) Generalised delay in payments or insufficient cash flows to service debts.
- 4) Significantly inadequate economic or financial structure or inability to obtain additional financing by the client.
- 5) Existence of an internal or external credit rating showing that the client is in default.
- 6) 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.

Santander Consumer Finance Group uses prospective information both in internal risk management processes and in prudential regulation, therefore various scenarios are incorporated to calculate the correction for impairment of value that take advantage of experience with said information, thus ensuring consistency in obtaining the expected loss.

The complexity of the estimation in this financial year has been impacted by the current macroeconomic scenario as a consequence of the war in Ukraine, as well as the increasing level of inflation and interest rates, and the difficulties in the supply chains, which has generated some uncertainty regarding the development of the economy.

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 consecutive material delays with respect to any significant credit obligation.

Santander Consumer Finance Group has partially and voluntarily aligned during the 2022 financial year the accounting definition of Phase 3, both the accounting definition of Phase 3, and for the calculation of the 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. Santander Consumer Finance Group has registered an expected increase in the default rate estimated at around 23 basis points, with no material impact on the provision figures for credit risk.

Additionally, the Group considers the risk that is generated in all cross-border operations, due to circumstances other than the usual commercial risk due to insolvency (sovereign risk, transfer risk or risks derived from international financial activity, such as wars, natural catastrophes, balance sheet crises of payments, etc.).

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

- Rebuttable presumption of a significant increase in risk from 30 days of default: this threshold is used as an additional indicator, but not as a primary indicator, in determining significantly increased risk. Additionally, there are some cases in the Group, in which its use has been refuted by studies that show a low correlation of the significant increase in risk with this delay threshold. The disputed volume does not exceed 0.1% of the Group's total exposure.
- Assets with low credit risk at the reporting date: the Group analyzes the existence of a significant increase in risk in all its financial instruments.

This information is broken down in greater detail in Note 47.II (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 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: AESVAL, Logica de valoraciones, S.A., Alia Tasaciones, S.A., Arco Valoraciones, S.A., Agrupación Técnica del Valor, S.A. (AT Valor), Sociedad de Tasación CATSA, S.A., CBRE Valuation Advisory, S.A., Compañía Hispana de Valoraciones y Tasaciones, S.A., Eurovaloraciones, S.A., Gesvalt Sociedad de Tasación, S.A., Gloval Valuation, S.A., Instituto de Valoraciones S.A., Krata, S.A., Savills Aguirre Newman Valoraciones y Tasaciones S.A.U., Sociedad de Tasación, S.A., Tasalia Sociedad de Tasaciones, S.A., Tasasur Sociedad de Tasaciones, S.A., 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.

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	10%

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 received. 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 firsttime 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

In the event of sale or abandonment of an activity that is part of a CGU, the part of the goodwill assignable to said activity would be derecognized, taking as a reference its relative value over the total of the CGU in the time of sale or abandonment. In the event that the distribution by currency of the remaining goodwill is applied, it will be made based on the relative values of the activity.

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 2022 and 2021 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 expense 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 2022 and 2021 and of the average annual interest rates in 2022 and 2021 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:

1. Consolidated profit for the year.

2. 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.
3. The net amount of the income and expenses recognised in consolidated equity which can be reclassified as profit or loss.
4. 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.
5. 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:

1. 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.
2. 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.
3. 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 2022 and 2021, details by type and currency as follows:

	EUR Thousands	
	2022	2021
Type:		
Cash	82,148	94,086
Current accounts	3,900,413	16,570,596
Reciprocal accounts	1,585,659	1,612,286
Other accounts at credit institutions and central banks	1,258,005	688,129
	6,826,225	18,965,097
Currency:		
Euro	5,960,743	18,198,959
Foreign currency	865,482	766,138
	6,826,225	18,965,097

z) Own equity instruments

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

- The instruments do not include any contractual obligation for the issuer: (i) to deliver cash or another financial asset to a third party; or (ii) to exchange financial assets or financial liabilities with a third party under conditions that are potentially unfavourable to the issuer.
- The instruments will or may be settled in the issuer's own equity instruments and are: (i) a 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 2022 and 2021:

SANTANDER CONSUMER FINANCE, S.A.

CONDENSED BALANCE SHEETS AS OF 31 DECEMBER 2022 AND 2021

(EUR Thousands)

ASSETS	2022	2021	LIABILITIES AND EQUITY	2022	2021
Cash and balances at central banks	489,246	4,036,549	LIABILITIES		
Financial assets held for trading	125,187	5,873	Financial liabilities held for trading	95,224	11,573
Non-trading financial assets mandatorily at fair value through profit or loss	387	379	Financial liabilities at amortised cost	36,758,895	34,843,929
Financial assets through other comprehensive income	2,462,252	2,012,055	Derivatives – hedge accounting	60,577	114,770
Financial assets at amortised cost	31,833,829	27,017,876	Provisions	89,521	103,131
Derivatives – hedge accounting	454,166	76,568	Tax liabilities	368,899	348,264
Changes of the fair value of hedged items in an interest rate risk hedging portfolio	(171,757)	(5,561)	Other liabilities	153,008	140,487
Investments in subsidiaries, joint ventures and associates	11,292,945	10,944,440			
Tangible assets	26,391	20,040	TOTAL LIABILITIES	37,526,124	35,562,154
Intangible assets	118,289	80,133			
Tax assets	365,721	239,303	Equity	9,534,480	8,907,406
Other assets	53,964	49,077	Other comprehensive income	(7,338)	9,952
Assets included in disposal groups classified as held for sale	2,646	2,780			
			TOTAL EQUITY	9,527,142	8,917,358
TOTAL ASSETS	47,053,266	44,479,512	TOTAL LIABILITIES AND EQUITY	47,053,266	44,479,512
Memorandum items: off balance sheet items					
Loans commitment granted	630,107	660,587			
Financial guarantees granted	4,063,980	5,348,250			

SANTANDER CONSUMER FINANCE, S.A.

CONDENSED INCOME STATEMENTS AS AT 31 DECEMBER 2022 AND 2021

(EUR Thousands)

	Income / (expenses)	
	2022	2021
Interest income	693,257	606,701
Interest expenses	(242,460)	(143,554)
NET INTEREST INCOME	450,797	463,147
Dividend income	899,631	600,528
Income from companies accounted for using the equity method	—	—
Commissions income	92,654	79,094
Commissions expense	(69,900)	(64,255)
Gains or losses on financial instruments not at fair value through profit or loss, net	5	19
Gains or losses on financial instruments held for trading, net	(208)	(172)
Gains or losses from hedge accounting, net	(4,735)	(80)
Currency translation differences, net	(17,742)	(4,967)
Gains or losses on derecognition of investments in subsidiaries, joint ventures or associates, net	—	(7,319)
Other operating income	9,583	5,255
Other operating expenses	(26,856)	(24,787)
OPERATING INCOME	1,333,229	1,046,463
Administration and general expenses	(293,014)	(241,647)
Depreciation and amortisation cost	(30,737)	(28,286)
Provisions or reversal from provisions, net	(13,690)	(17,306)
Impairment charges and reversals from financial assets not at fair value through profit or loss	(100,102)	(142,443)
NET OPERATING PROFIT	895,686	616,781
Impairment charges or reversals on investments in joint ventures and associates	—	—
Impairment charges or reversals on non-financial assets	(8,352)	(806)
Gains or losses on assets and liabilities included in disposal groups classified as held for sale from discontinued operations	(2,684)	(4,553)
PROFIT OR LOSS BEFORE TAX IN RESPECT OF CONTINUING OPERATIONS	884,650	611,422
Taxation	(32,857)	(10,567)
Gains or losses after tax in respect of continuing operations	851,793	600,855
PROFIT/(LOSS) AFTER TAX	851,793	600,855

SANTANDER CONSUMER FINANCE, S.A.

CONDENSED STATEMENTS OF RECOGNISED INCOME AND EXPENSE AS AT 2022 AND 2021

(EUR Thousands)

	2022	2021
PROFIT OR LOSS AFTER TAX	851,793	600,855
OTHER COMPREHENSIVE INCOME	(17,291)	28,322
Items not reclassified to profit or loss	1,333	1,519
Actuarial gains or losses on defined benefit pension plan	4,228	1,555
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	(593)	553
Income tax in respect of items not reclassified to profit or loss	(2,302)	(589)
Items that may be reclassified to profit or loss	(18,624)	26,803
Currency translation differences	—	—
Hedging of net investments in joint ventures and associates (effective portion)	—	—
Cash flow hedges (effective portion)	47,023	13,071
Financial assets available-for-sale	(73,627)	25,218
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	7,980	(11,486)
TOTAL RECOGNISED INCOME AND EXPENSE	834,502	657,499

SANTANDER CONSUMER FINANCE, S.A.

CONDENSED STATEMENTS OF TOTAL CHANGES IN EQUITY AS AT 31 DECEMBER 2022 AND 2021

(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 31/12/21	5,638,639	1,139,990	1,200,000	—	818,484	600,855	(490,562)	9,952	8,917,358
Acquisition effect	—	—	—	—	500,359	—	—	—	500,359
Beginning of period balance (01/01/2022)	5,638,639	1,139,990	1,200,000	—	1,318,843	600,855	(490,562)	9,952	9,417,717
Acquisition due to errors	—	—	—	—	—	—	—	—	—
Adjustments due to changes in accounting policies	—	—	—	—	—	—	—	—	—
Total adjusted balance	5,638,639	1,139,990	1,200,000	—	1,318,843	600,855	(490,562)	9,952	9,417,717
Total recognised income and expense	—	—	—	—	—	851,793	—	(17,291)	834,502
Other changes in equity	—	—	—	—	37,418	(600,855)	(161,641)	—	(725,078)
Common stock issued (Note 23)	—	—	—	—	—	—	—	—	—
Preferred stock issued (Note 23)	—	—	—	—	—	—	—	—	—
Other equity instruments issued (Note 24)	—	—	—	—	—	—	—	—	—
Dividends (Note 4)	—	—	—	—	—	—	(652,203)	—	(652,203)
Transfers between components of equity	—	—	—	—	110,293	(600,855)	490,562	—	—
Other increases/(decreases) of equity	—	—	—	—	(72,875)	—	—	—	(72,875)
End of period balance 31/12/22	5,638,639	1,139,990	1,200,000	—	1,356,261	851,793	(652,203)	(7,339)	9,527,141

	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
Acquisition effect (**)	—	—	—	—	50,217	—	—	(6)	50,211
Beginning of period balance (01/01/21)	5,638,639	1,139,990	1,200,000	—	2,148,674	127,908	—	(18,370)	10,236,841
Adjustments due to errors	—	—	—	—	—	—	—	—	—
Adjustments due to changes in accounting policies	—	—	—	—	—	—	—	—	—
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

SANTANDER CONSUMER FINANCE, S.A.

CONDENSED STATEMENTS OF CASH FLOWS AS AT 31 DECEMBER 2022 AND 2021

(EUR Thousands)

	2022	2021
A. CASH FLOWS FROM OPERATING ACTIVITIES:	(3,336,265)	4,273,290
Profit or loss after tax	851,793	600,855
Adjustments made to obtain the cash flows from operating activities	(375,033)	1,262,603
Net change in operating assets	(5,224,163)	(1,243,130)
Net change in operating liabilities	1,411,138	3,652,962
B. CASH FLOWS FROM INVESTING ACTIVITIES:	(85,960)	(110,242)
Payments	(87,062)	(228,216)
Proceeds	1,102	117,974
C. CASH FLOWS FROM FINANCING ACTIVITIES	(125,078)	(1,241,567)
Payments	(725,078)	(1,341,567)
Proceeds	600,000	100,000
E. NET INCREASE/(DECREASE) OF CASH AND CASH EQUIVALENTS (A+B+C+D):	(3,547,303)	2,921,481
F. Cash and equivalents at beginning of period	4,036,549	1,115,068
G. Cash and equivalents at end of period	489,246	4,036,549

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 2022 and 2021 were as follows:

b.1) Financial Year 2022

Merger of Santander Consumer Finance, S.A. and Santander Consumer Banque, S.A. (France)

On 22 and 24 February 2022, the members of the Boards of Directors of Santander Consumer Banque, S.A. and Santander Consumer Finance, S.A. approved the common plan for the merger of Santander Consumer Banque, S.A. (target company) into Santander Consumer Finance, S.A. (acquiring company).

Therefore, when the merger was registered, with effects on 14 October 2022, Santander Consumer Banque, S.A. was dissolved 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. In addition, on that same date, Santander Consumer Banque, S.A.'s assets and liabilities were automatically assigned to the branch that Santander Consumer Finance, S.A. had set up in France during the merger process.

In accordance with applicable legislation, the date of the merger was 1 January 2022 for accounting purposes, as the date as from which the target's operations were deemed to be effected by the acquiring company.

Riemersma Leasing, B.V.

On 15 April 2022, Santander Consumer Finance, S.A., through its branch in the Netherlands, reached an agreement to acquire 100% of the share capital of Riemersma Leasing, B.V., comprising 45,400 shares with a par value of EUR 1 each. This company's core business is the provision of operating lease services in the Dutch market through its platform.

After obtaining the relevant authorisations from the Dutch authorities, the acquisition was completed for a total amount of EUR 21,308,805 on 9 June 2022.

The acquisition was carried out as follows:

- Acquisition of the entire ownership interest (66.67%) held by Lathouwers Beheer B.V., consisting of 30,268 shares, for EUR 14,206,496.

- Acquisition of the entire ownership interest (33.33%) held by ING Corporate Investments Participaties B.V., consisting of 15,132 shares, for EUR 7,102,309.

Details of the acquired business are set out below:

Business acquired	Main activity	Acquisition date	Ownership interest (voting rights) acquired	Purchase consideration (million euro)
Riemersma Leasing, B.V.	Operating lease services	09/06/2022	100%	21.3

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

	Carrying amount (Million euro)
Loans and advances to customers	0.4
Non-current assets	63.7
Current assets	1.2
Financial liabilities at amortised cost	(49.6)
Non-current and current liabilities	(2.7)
Provisions	(2.0)
Net assets	11.0
Agreed dividend (*)	(3.6)
Net assets after dividend	7.4
Purchase consideration	21.3
Goodwill	13.9

(*) Relates to the dividend agreed with the seller before completion of the transaction.

The fair value of the receivables acquired amounts to €0.4 million and does not differ from the gross contractual amounts. The parent company's directors consider that there were no indications that they would not be fully collected at the acquisition date.

Net cash flow on acquisition:

	Million euro
Cash paid	21.3
Less: Cash and cash equivalents.	-
Total	21.3

This company contributed a profit of EUR 2.3 million to the consolidated Group's results at 31 December 2022.

Drive, S.r.l. and Santander Consumer Renting, S.r.l.

On 26 April 2022 and 30 March 2022, respectively, Santander Consumer Bank, S.p.A. set up two companies to engage in the operating lease activity, Drive, S.r.l. and Santander Consumer Renting, S.r.l., by issuing 1,000,000 shares and 2,000,000 shares, respectively, with a par value of EUR 1 each. Both companies began to do business at the end of the second quarter of 2022.

In December 2022, both companies increased capital directly under reserves without issuing any shares:

- Drive, S.r.l.: capital increase of EUR 4 million.
- Santander Consumer Renting, S.r.l.: capital increase of EUR 2 million.

Reorganisation of the Stellantis global agreement

On 10 July 2014, Peugeot, S.A., Banque PSA Finance, S.A. and Santander Consumer Finance, S.A. entered into an initial agreement ("Original Framework") to cooperate in the distribution of financial and insurance products in a number of European countries.

Following the January 2021 merger of Peugeot, S.A. and Fiat Chrysler, the Stellantis Group was formed and became the successor of Peugeot, S.A., forcing the parties to reassess the terms of the agreement and establish a new cooperation arrangement. The purpose of the new arrangement ("Framework Agreement") entered into on 31 March 2022 between Stellantis, N.V., Santander Consumer Finance, S.A. and Banque PSA Finance is to define the terms and conditions of the new cooperation, which supersedes the "Original Framework".

The new terms and conditions ("Framework Agreement") have enhanced the prevailing global cooperation ("Original Agreement") and Santander Consumer Finance will finance all the Stellantis brand vehicles in seven European countries: Spain, Belgium, France, Italy, Netherlands, Poland and Portugal, where financing, finance lease and operating lease products will be offered jointly to end customers for all the Stellantis brands: Abarth, Alfa Romeo, Chrysler, Citroën, Dodge, DS, Fiat, Fiat Professional, Jeep, Lancia, Maserati, Opel, Peugeot, RAM and Vauxhall.

In exchange, as a result of a process initiated by the Stellantis Group, it is also agreed that Santander Consumer Finance will no longer finance the activities of Stellantis, N.V. and Banque PSA Finance, S.A. in Germany and the United Kingdom, specifically at PSA Bank Deutschland GmbH (and its branch in Austria) and PSA UK Finance Limited, respectively, which will entail the divestment of these subsidiaries in those countries.

The agreement is also subject to the obtainment of the corresponding regulatory and competition authorisations, among other conditions. It is expected to be closed in the first half of 2023.

MCE Group Bank

In November 2022, Santander Consumer Bank AG reached an agreement to purchase all of the shares in MCE Bank, GmbH on 31 March 2023.

MCE Bank GmbH is Mitsubishi's captive financial institution in Germany. It has a banking licence and is engaged in providing financial services, essentially in the automotive industry, and in deposit-taking, its shareholders being various companies of the Mitsubishi Group. MCE Bank GmbH in turn has the following subsidiaries that are wholly owned, directly or indirectly:

- MCE Verwaltung GmbH, engaged in managing real estate for the group in Germany.
- Midata Service GmbH, engaged in providing IT services, particularly to dealers.
- AMS Auto Markt am Schieferstein GmbH, engaged in remarketing activities.
- TVG-Trappgroup Versicherungsvermittlungs GmbH, engaged in insurance intermediation for retail customers and dealers.

Also in November 2022, Santander Consumer Bank AG reached an agreement with Emil Frey Automobil Holding Deutschland GmbH to sell 9.99% of its ownership interest in MCE Bank GmbH following the acquisition described above.

These agreements have bolstered Santander Consumer Bank AG's activities in the German market.

The acquisition agreement is subject to the obtainment of the corresponding regulatory authorisations, among other conditions. The acquisition agreement is expected to be closed during the first quarter of 2023 and the sale agreement before the end of the first half of 2023.

Vinturas Group

In 2020 and 2021, Santander Consumer Finance, S.A. took part in several capital increases in the Dutch company Vinturas Holding, B.V. (whose corporate objects include holding shares in companies developing a blockchain logistics

platform so as to digitalise the supply chain), having reached a shareholding of 14.75% at 31 December 2021 for a total amount of EUR 500,000.

In 2022, an impairment loss was recognised for the entire ownership interest.

There were no other material changes to the Group's consolidation scope in 2022.

b.2) Financial Year 2021

PSA Finance Belux, S.A y PSA Financial Services Nederland, B.V.

During the month of August 2021, a corporate reorganization was carried out in the Group through which PSA Financial Services Spain, E.F.C., S.A. acquired 100% of the stake in 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. (Belgian 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 book values after obtaining the corresponding authorizations from the European and local authorities.

PSA Finance UK Limited

On 30 July 2021, the Group, through its Spanish subsidiary PSA Financial Services Spain E.F.C., S.A. (divided into a 50% by equal parts between Santander Consumer Finance, S.A. and Banque PSA Finance, S.A), 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 detail of the acquired business is as follows:

Company acquired	Core business	Acquisition date	% shareholding (voting rights) acquired	Purchase consideration (million euro)
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	2,896.0
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 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, amounted to EUR 2,986 million and matched 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 Million
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 had 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 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.

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.

Belgium

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.

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 2022 that the Board of Directors will propose for approval by the shareholders at the Annual General Meeting and the proposal approved for 2021 by the Bank's Shareholders at the Annual General Meeting held on 13 March 2022 is as follows:

	EUR Thousands	
	2022	2021
<u>Distributable profit:</u>		
Balance per the income statement	851,793	600,855
<u>Appropriation:</u>		
To dividends paid	652,203	490,562
To legal reserve	85,179	60,086
To voluntary reserve	114,411	50,207
Total	851,793	600,855

On 28 April 2022, in view of the Company's liquidity statement, the Board of Directors resolved, to pay an interim dividend of EUR 351,475 thousand. The dividend was settled on 29 April 2022.

On 28 July 2022, in view of the Company's liquidity statement, the Board of Directors resolved to pay an interim dividend of EUR 300,728 thousand out of 2022 profits. The dividend was settled on 2 August 2022.

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	
	30/06/2022	31/03/2022
Estimated profit before tax	802,973	400,627
Less:		
Estimated income tax	(13,199)	(6,977)
Appropriation to legal reserve	(78,977)	(39,365)
Distributable profit	351,475	—
Interim dividend to be distributed	359,322	354,285
Gross dividend per share (euros) (*)	0.16	0.19

(*) 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	
	2022	2021
Consolidated profit attributable to the parent	1,242,860	1,174,689
Remuneration of contingently convertible preferred equity (Note 23)	(72,875)	(72,873)
	1,169,985	1,101,816
<i>Dilutive effect of changes in profit for the year arising from potential conversion of ordinary shares</i>	—	—
<i>Profit or loss from discontinuing operations (net of noncontrolling interests)</i>	—	—
<i>Profit or loss from continuing operations (net of noncontrolling interests)</i>	1,169,985	1,101,816
Weighted average number of shares outstanding	1,879,546,172	1,879,546,172
Adjusted number of shares	1,879,546,172	1,879,546,172
Basic and diluted EPS (Euro)	0.6225	0.5862
<i>Of which:</i>		
From continued operations	0.6225	0.5862

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 2022 the Board of Directors received remuneration amounting to EUR 656 thousand in the form of bylaw-stipulated emoluments and attendance fees (EUR 516 thousand in 2021), related in full to six external Board members on 31 December 2022 and 2021, detailed as follows:

	EUR Thousands	
	2022	2021
Antonio Escámez Torres	150	128
Jean Pierre Landau	112	95
Benita Ferrero-Waldner	82	69
Luis Alberto Salazar-Simpson Bos	112	95
José Manuel Robles	97	82
Javier Monzón de Cáceres	103	—
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 2022, the pension payments made to former members of the Bank's Board of Directors amounted to EUR 775 thousand in 2022 (EUR 914 thousand in 2021) 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 2022 and 2021 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 management*

The remuneration received by the Bank's non-director senior managers (14 and 13 persons in 2022 and 2021, respectively) amounted to EUR 9,417 thousand in 2022 and EUR 7,169 thousand in 2021 and was paid in full by other Santander Group entities that do not belong to the Group. Additionally, in 2022 no senior managers have perceived compensation for non-compete agreements.

The remuneration in kind paid to the Bank's non-director senior managers totaled approximately EUR 99 thousand in 2022 (EUR 88 thousand at 31 December 2021).

In 2022 contributions amounting to EUR 1,023 thousand (EUR 685 thousand at 31 December 2021) 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 2022 and 2021 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 2022 and 2021, 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.

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 2022 and 2021 is as follows:

	EUR Thousands	
	2022	2021
Type:		
Time deposits	62,135	203,131
Reverse repurchase agreements	67,249	268,117
Other accounts	260,922	149,975
	390,306	621,223
Currency:		
Euro	283,237	436,565
Foreign currency	107,069	184,658
	390,306	621,223

At December 31, 2022, the balances held under this heading relate mainly to Santander Consumer Bank A.S. (Nordics) in the amount of EUR 96,768 thousand (EUR 177,989 thousand at December 31, 2021).

Note 44 contains a detail of the terms to maturity and estimated fair value of these assets at 31 December 2022 and 2021 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 2022, the breakdown of the exposure by impairment phase of the assets recognised under IFRS9 was EUR 392,325 thousand, all of which are registered in phase 1 (EUR 623,353 thousand in phase 1 , in 2021) and of the impairment loss provision was EUR 2,019 thousand, all of which are registered in phase 1 (EUR 2,130 thousand in phase 1, in 2021).

7. Debt instruments

The detail, by classification, type and currency, of Debt Instruments in the accompanying consolidated balance sheets as at 31 December 2022 and 2021 is as follows:

	EUR Thousands	
	2022	2021
Classification:		
Financial assets at fair value through other comprehensive income	726,508	1,054,760
Non-trading financial assets mandatorily measured at fair value through profit or loss	1,444	2,593
Financial assets at amortised cost	6,185,061	3,472,396
	6,913,013	4,529,749
Type:		
Spanish sovereign debt	921,128	1,135,286
Foreign sovereign debt	5,347,062	2,665,246
Issued by financial institutions	141,587	244,149
Other fixed income securities	503,362	485,467
Impairment losses	(126)	(399)
	6,913,013	4,529,749
Currency:		
Euro	6,582,093	3,962,246
Foreign currency	331,046	567,902
Gross total	6,913,139	4,530,148
Less - Impairment losses	(126)	(399)
	6,913,013	4,529,749

At 31 December 2022 and 2021, 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 stage 1.

The balance at 31 December 2022 and 2021 of the "Spanish Government Debt Securities" account in the foregoing table relates mainly to "other debts issued the Spanish Government" acquired by Santander Consumer Finance, S.A.

The balance as of December 31, 2022 of the "Foreign Government Debt" accounted in the table above corresponds mainly to Italian bonds acquired by Santander Consumer Finance, S.A. for EUR 1,157,907 thousand, to Finnish, Belgian and Norwegian Treasury Bonds acquired by the subsidiary Santander Consumer Bank AS (Norway) for around EUR 43,672 thousand, EUR 72,477 thousand and EUR 70,896 thousand, respectively, German, Italian, Luxembourg, Belgian and French treasuries acquired by the German subsidiary Santander Consumer Bank AG for EUR 1,583,068 thousand, EUR 718,290 thousand, EUR 222,574 thousand, EUR 316,592 thousand and EUR 268,148 thousand respectively, and Italian Treasury Bonds acquired by the Italian subsidiaries Santander Consumer Bank S.p.A. and Banca PSA Italia S.p.A. for about EUR 448,845 thousand.

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 as of December 31, 2022 of the "Debt Securities - Issued by Financial Entities" account in the above table mainly includes bonds issued by the financial entities Nykredit Realkredit A/S, Nordea Eiendomskreditt AS, DNB Boligkredit AS, acquired by the subsidiary Santander Consumer Bank A.S. (Norway) for an amount of 141,541 thousand euros; and the line "Other fixed income securities" in the above table mainly includes bonds issued by KfW Kreditanstalt für Wiederaufbau - German Development Bank acquired by the subsidiary Santander Consumer Bank AG (Germany) for an amount of EUR 501,031 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.

Note 44 to these consolidated financial statements details the maturity of these financial assets at the end of 2022 and 2021.

8. Equity instruments

The detail of Equity instruments in the accompanying consolidated balance sheets for the year ended in 31 December 2022 and 2021, based on their classification and type is as follows:

	EUR Thousands	
	2022	2021
Classification:		
Financial assets at fair value through other comprehensive income	14,143	13,806
Mandatory to VR with results changes	45	26
	14,188	13,832
Type:		
Spanish companies	998	—
Foreign companies	13,190	13,832
Add - Valuation adjustments	14,188	13,832
	7,818	8,785
	22,006	22,617

The changes in "Financial assets at fair value through other comprehensive income - Equity instruments" as of December 31, 2022 and 2021 in the accompanying consolidated balance sheet is as follows:

	EUR Thousands	
	2022	2021
Balance at beginning of period	22,591	19,105
Net additions (disposals)	337	208
Valuation adjustments	(967)	3,278
Currency translation and other differences	—	—
Balance at end of period	21,961	22,591

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 2022 and 2021 is presented, classified according to their inherent risk:

	EUR Thousand			
	2022		2021	
	Assets	Liabilities	Assets	Liabilities
Inherent rate risk	463,159	466,009	51,428	52,440
Foreign exchange rate	31,505	22	48	5,729
	494,664(*)	466,031(*)	51,476(*)	58,169(*)

(*) Of which, on 31 December 2022, EUR 334.747 thousand and EUR 307.105 thousand of asset and liability balances, respectively, correspond to balances with Santander Group entities (EUR 29.519 thousand and EUR 35.449 thousand of asset and liability balances, respectively, corresponded to balances with Santander Group entities on 31 December 2021) -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, 2022 and 2021, classified according to inherent risks:

	EUR Thousand			
	2022		2021	
	Notional Value	Market Value	Notional Value	Market Value
Trading derivatives:				
<i>Inherent rate risk-</i>				
Forward rate agreements	—	—	—	—
Interest rate swaps	19,353,328	(4,682)	18,878,901	(997)
Options and futures and other	3,414,249	1,832	4,050,244	(10)
<i>Credit risk</i>				
Credit Default Swap	—	—	—	—
<i>Exchange risk</i>				
Buy foreign exchange	1,797,740	31,489	852,841	(5,680)
Currency options	19	(6)	—	—
Foreign exchange swaps	48,628	—	31,006	(6)
<i>Derivatives on securities and commodities (*)</i>	—	—	—	—
	24,613,964	28,633	23,812,992	(6,693)

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	
	2022	2021
Financial assets at amortized cost	106,499,445	99,559,283
Non-trading financial assets mandatorily measured at fair value through profit or loss	387	379
Which:		
Value corrections for impairment	(1,956,054)	(2,115,180)
Loans and advances to customers without considering value corrections for impairment	108,455,886	101,674,842

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	
	2022	2021
Loan type and status:		
Commercial credit	358,983	2,756,540
Secured loans	20,956,543	19,385,018
Other terms loans	56,323,555	49,938,270
Finance leases	25,347,169	24,330,411
Receivables on demand and other	1,139,088	993,854
Credit card receivables	2,150,500	2,237,697
Impaired assets	2,180,048	2,033,052
	108,455,886	101,674,842
Geographical area:		
Spain and Portugal	14,951,535	14,602,431
Italy	10,351,612	9,079,017
France	15,940,474	14,733,804
Germany and Austria	42,099,289	38,774,496
Scandinavia	17,815,074	17,583,374
United Kingdom	2,819,118	2,973,796
Other	4,478,784	3,927,924
	108,455,886	101,674,842
Interest rate formula:		
Fixed rate	79,507,813	75,697,315
Floating rate	28,948,073	25,977,527
	108,455,886	101,674,842
Currency:		
Euros	90,628,942	84,127,603
Foreign currency	17,826,944	17,547,239
	108,455,886	101,674,842
Less:		
<i>Impairment changes</i>	(1,956,054)	(2,115,180)
TOTAL	106,499,832	99,559,662

As of December 31, 2022 and 2021, the Group had EUR 919 and 179 thousand, respectively, of loans and advances granted to Spanish Public Administrations with a rating of A and with EUR 198,952 and 192,369 thousand, respectively, granted to the Public Sector of other countries (as of December 31, 2022, this amount included, based on the issuer's rating: 66% AAA, 30% AA, 0% A and 5% BBB and 0% without rating).

Excluding Public Administrations, the amount of loans and advances at December 31, 2022 and 2021 amounts to EUR 108,256,015 and 101,482,294 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 0.20% and 4.52%.

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 0.002 % and 4.08%.

The outstanding balance of these mortgage participation certificates amounted to EUR 303.311 thousand on 31 December 2022 (EUR 358.003 thousand as of 31 December 2021).

On December 2022, loans to customers assigned to own or third-party commitments amounted to EUR 0 thousand (31 December 2021: EUR 600,000 thousand) (see Notes 18 and 19), without taking into consideration for these purposes the consolidated loan portfolio held through various securitisation special-purpose vehicles included in the Group's scope of consolidation (see Appendix I).

Note 47 contains certain information relating to the restructured/refinanced portfolio, as well as the detail of loans to customers by activity, net of impairment charges, as of 31 December 2022 and 2021.

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 2022 and 2021 is detailed below:

2022	EUR Thousands			
	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	96,229,354	3,412,057	2,033,052	101,674,463
Movements				
Transfers:				
Transfer to Stage 2 from Stage 1	(2,549,410)	2,549,410	—	—
Transfer to Stage 3 from Stage 1	(721,064)	—	721,064	—
Transfer to Stage 3 from Stage 2	—	(514,371)	514,371	—
Transfer to Stage 1 from Stage 2	1,140,767	(1,140,767)	—	—
Transfer to Stage 2 from Stage 3	—	137,777	(137,777)	—
Transfer to Stage 1 from Stage 3	28,108	—	(28,108)	—
Net changes in financial assets	8,935,179	(366,402)	(153,166)	8,415,611
Write-offs	—	—	(749,860)	(749,860)
Exchange differences and other	(832,506)	(32,681)	(19,528)	(884,715)
Balance at end of period	102,230,428	4,045,023	2,180,048	108,455,499

In addition, the Group has EUR 27,052,044 thousand under loans commitments and financial guarantees granted, subject to impairment, of which EUR 26,865,725 thousand are under stage 1, EUR 127,214 thousand under stage 2 and EUR 59,105 thousand under stage 3.

2021	Miles de Euros			
	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

As of December 31, 2021, the Group had EUR 25,495,968 thousand under loans commitments and financial guarantees granted, subject to impairment, of which EUR 25,192,422 thousand were under phase 1, EUR 237,580 thousand under phase 2 and EUR 65,966 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	
	2022	2021
Balance at beginning of period	2,115,180	2,197,400
Impairment losses through profit or loss	641,332	677,629
Of which:		
Impairment charges to profit or loss	2,334,407	2,071,425
Reversal of impairment charges to profit or loss	(1,693,075)	(1,393,796)
Write-off impaired balances against recorded impairment allowance	(749,860)	(803,588)
Currency translation differences and other changes	(50,598)	43,739
Balance at end of period	1,956,054	2,115,180
Of which:		
By asset class:		
Impaired Assets	1,228,609	1,292,581
Other	727,445	822,599
By calculation method:		
Calculated individually	143,520	114,572
Calculated collectively	1,812,534	2,000,608

Following is the change in the loan loss provision in 2022 and 2021, broken down by impairment stage of loans and advances to customers, recognised under "Financial assets at amortised cost" under IFRS 9:

	2022			
	EUR Thousand			
	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	528,498	294,101	1,292,581	2,115,180
Transfers:				
Transfer to Stage 2 from Stage 1	(61,758)	307,013	—	245,255
Transfer to Stage 3 from Stage 1	(18,621)	—	226,461	207,840
Transfer to Stage 3 from Stage 2	—	(191,044)	400,045	209,001
Transfer to Stage 1 from Stage 2	38,894	(140,762)	—	(101,868)
Transfer to Stage 2 from Stage 3	—	20,220	(96,059)	(75,839)
Transfer to Stage 1 from Stage 3	881	—	(13,340)	(12,459)
Net changes in financial assets and changes in credit risk	(9,044)	(28,753)	207,199	169,402
Write-offs			(749,860)	(749,860)
Exchange differences and other	(2,133)	(10,047)	(38,418)	(50,598)
Balance at end of period	476,717	250,728	1,228,609	1,956,054

2021				
	EUR Thousand			
	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		15,936	6,257	43,739
Balance at end of period	528,498	294,101	1,292,581	2,115,180

As of 31 December 2022 and 2021, the Group had no significant amounts in purchased impaired assets.

In 2022, a reversal amounting to EUR 272 thousand (provision of EUR 75 thousand in 2021) and results for assets on hold recovered amounting to EUR 189,129 thousand (EUR 183,219 thousand in 2021) have been recorded in Fixed Income. Additionally, no amount has been recognized in the account for renegotiation or contractual modification (EUR 575 thousand in 2021). With all of this, the amount recorded under the heading Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss and net gain or loss from changes in: Financial assets at fair value through other comprehensive income and financial assets at amortized cost (IFRS 9) and, in Loans and receivables (IAS 39); amounts to EUR 451,931 thousand (EUR 495,060 euros in 2021).

In 2022 and 2021, the Group has sold the following portfolios of written-off loans:

Company	EUR Thousands	
	31/12/2022	31/12/2021
	Nominal Value	Nominal Value
Santander Consumer Bank AG (Germany)	258,000	204,400
Santander Consumer Bank S.p.A. (Italy)	16,600	39,500
Santander Consumer Bank AS (Norway)	58,700	81,600
Santander Consumer Finance Oy (Finland)	10,600	19,700
Santander Consumer Bank GmbH (Austria)	41,800	34,700
Financiera El Corte Inglés, E.F.C., S.A. (Spain)	—	88,500
PSA Banque France (France)	40,000	—
PSA Financial Services Spain (Spain)	—	—
PSA Bank Deutschland GmbH (Germany)	21,400	—
Santander Consumer Finance, S.A. (Spain)	151,300	28,800
Of which:		
Spanish subsidiary in Portugal (*)	25,400	10,700
Spanish subsidiary in Netherlands (*)	7,900	18,100
	662,700	497,200

(*) See note 1.a

The selling price of the portfolios of written-off loans in 2022 was EUR 145,600 thousand (EUR 138,800 thousand in 2021). 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 2022 and 2021 is as follows:

	31-12-2022		31-12-2021	
	EUR Thousands		EUR Thousands	
	Gross amount	Of which: nonperforming	Gross amount	Of which: nonperforming
Loans for home purchases				
Without mortgage guarantee	—	—	—	—
With mortgage guarantee	1,216,220	55,421	1,375,816	62,394
	1,216,220	55,421	1,375,816	62,394

The detail, by loan-to-value ratio, of the home purchase mortgage loans granted by the Group to households in Spain at 31 December 2022 and 2021 is as follows:

	2022					
	Loan to value ratio					
	0-40%	40-60%	60-80%	60-100%	Over 100%	TOTAL
EUR millions						
Gross amount	299	315	218	169	215	1,216
Of which :non-performing	5	9	11	8	22	55

	2021					
	Loan to value ratio					
	0-40%	40-60%	60-80%	60-100%	Over 100%	TOTAL
EUR millions						
Gross amount	328	372	243	190	243	1,376
Of which :non-performing	5	10	10	10	27	62

Securitizations

The balance of Financial assets at amortised cost – Customers in the accompanying consolidated balance sheets for the years ended 31 December 2022 and 2021 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 2022 and 2021, 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	
	2022	2021
Derecognised	—	—
Maintained in balance sheet	32,479,951	34,481,056
<i>Of which</i>		
<i>Santander Consumer Bank AG</i>	11,985,025	13,596,370
<i>Compagnie Generale de Credit Aux Particuliers - Credipar S.A.</i>	5,772,604	6,254,964
<i>Santander Consumer Bank S.p.A.</i>	2,362,857	2,761,232
<i>SANTANDER CONSUMER FINANCE, S.A. (*)</i>	2,346,467	2,309,085
<i>PSA Bank Deutschland GmbH</i>	1,673,300	1,943,488
<i>Banca PSA Italia S.p.a.</i>	1,391,508	1,536,125
<i>Financiera El Corte Inglés, E.F.C., S.A.</i>	1,342,660	1,186,556
<i>Santander Consumer Bank GmbH</i>	1,341,132	432,548
<i>PSA FINANCE UK LIMITED</i>	1,252,528	1,458,763
<i>Santander Consumer Finance Oy</i>	1,196,631	1,218,947
<i>PSA Financial Services, Spain, EFC, SA</i>	1,121,800	807,022
<i>Other securizations</i>	693,439	975,956
Total	32,479,951	34,481,056

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

In 2022 and 2021 the subsidiaries mentioned in the foregoing table securitised receivables amounting to EUR 5,026,660 and 7,569,000 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 securitisation 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	
	2022	2021
Balance at beginning of year	2,033,052	2,026,916
Additions net of recoveries	916,383	799,684
Written-off assets	(749,860)	(803,588)
Exchanges differences and other(net)	(19,527)	10,040
Balance at end of year	2,180,048	2,033,052

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, 2022 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 2022 and 2021.

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 2022 and 2021 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	
	31/12/2022	31/12/2021
Enclosed tangible assets	8,477	11,692
<i>Of which Foreclosed tangible assets in Spain</i>	2,568	2,772
Other tangible assets held for sale	36,860	38,694
	45,337	50,386

As of December 31, 2022, the provisions established for the total assets from foreclosures are 15,487 thousand euros (16,566 thousand euros in 2021). The allocations made during said years have amounted to 753 and 2,455 thousand euros respectively and the recoveries made during said years have amounted to 1,405 and 1,910 thousand euros (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 2022 and 2021 is as follows:

EUR Thousand	31/12/2022				31/12/2021			
	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	—	—	—	—	—	—	—	—
<i>Of which:</i>	—	—	—	—	—	—	—	—
<i>Completed buildings</i>	—	—	—	—	—	—	—	—
<i>Residential</i>	—	—	—	—	—	—	—	—
<i>Other</i>	—	—	—	—	—	—	—	—
<i>Land</i>	—	—	—	—	—	—	—	—
<i>Developed land</i>	—	—	—	—	—	—	—	—
<i>Other</i>	—	—	—	—	—	—	—	—
Property assets arising from home purchase mortgage financing granted to households	14,744	(12,364)	(8,973)	2,380	15,335	(12,813)	(9,393)	2,522
Other property assets received in payment of debts	1,267	(1,079)	(1,062)	188	1,809	(1,559)	(1,346)	250
Total property assets	16,011	(13,443)	(10,035)	2,568	17,144	(14,372)	(10,739)	2,772

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 2022 and 2021 is as follows:

	EUR Thousands	
	2022	2021
Associates		
Santander Consumer Bank S.A. (Poland)	401,297	394,026
Santander Consumer Multirent, Sp. z.o.o	24,270	11,723
Santander Consumer Finance Sp. z.o.o. (Poland)	8,393	6,152
Payever GmbH	6,124	1,462
PSA Finance Polska Sp. z.o.o.	1,480	7,473
Santander Consumer Financial Solutions SP. Z.O.O.	717	803
PSA Consumer Finance Polska SP. Z.O.O.	550	628
Other	31	32
	442,862	422,299
<i>Of which, Goodwill:</i>		
<i>Payever GmbH</i>	1,238	1,238
<i>Santander Consumer Bank S.A. (Poland)</i>	97,049	98,891
	98,287	100,129
Joint ventures:		
Fortune Auto Finance Co. Ltd. (China)	244,333	222,290
Stellantis Insurance Europe Ltd (Malta)	30,621	29,939
Stellantis Life Insurance Europe, Ltd (Malta)	6,681	7,655
Other	280	231
	281,915	260,115
	724,777	682,414

The changes in 2022 and 2021 in investments in joint ventures and associates is as follows:

	EUR Thousands	
	2022	2021
Balance at beginning of period	682,414	635,248
Purchases and capital increases	—	—
Sales	—	—
Dividends paid	(3,894)	(1,639)
Effect of equity method accounting (Note 32)	96,736	63,790
Changes in the consolidation perimeter	—	—
Value impairment adjustments (Note 3.b)	—	—
Currency translation differences and other	(50,479)	(14,985)
Balance at end of period	724,777	682,414

Impairment losses

In 2022 and 2021 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 million	
	2022	2021 (*)
Data on 31 December		
Total assets	8,589	9,951
Total liabilities	(6,932)	(8,396)
Equity	(1,657)	(1,555)
Group's share of the net assets of associates	626	582
Goodwill	99	100
Total Group share	725	682
Data for the year		
Total income	1,585	1,442
Total profit	194	141
Group's share of the profit of associates	97	64

(*) 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 2022 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 SPÓŁKA AKCYJNA	FORTUNE AUTO FINANCE CO., LTD
Current assets	185,310	175,682
Non-current assets	3,449,798	1,863,766
Total assets	3,635,108	2,039,448
Current liabilities	166,033	29,237
Non-current liabilities	2,648,217	1,521,546
Total liabilities	2,814,250	1,550,783
Net attributable profit for the period	76,717	56,671
Other comprehensive income	(121,811)	12,313
Other	865,952	419,681
Total equity	820,858	488,665
Total liabilities and equity	3,635,108	2,039,448
Income from ordinary activities	399,469	257,290
Profit for the period from continuing operations	76,718	56,670
Income after taxes from discontinued operations	—	—

13. Tangible assets

The changes in 2022 and 2021 in the balance of “Tangible Assets” in the accompanying consolidated balance sheets as at 31 December 2022 and 2021 were as follows

EUR Thousands	Tangible assets				Of which: right pf use operating lease			
	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 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
				—				—
Balances as of 31 December 2021	765,006	2,091,073	—	2,856,079	429,145	—	—	429,145
Additions/Disposals (net)	15,435	736,533	—	751,968	2,964	—	—	2,964
Additions	24,652	1,129,494	—	1,154,146	8,222	—	—	8,222
Disposals	(9,217)	(392,961)	—	(402,178)	(5,258)	—	—	(5,258)
Net Additions/disposals due to changes in the consolidation perimeter	2,419	59,504	—	61,923	1,048	—	—	1,048
Currency Transaction differences	(3,112)	2,922	—	(190)	(2,446)	—	—	(2,446)
Transfers and other	(40,345)	388,298	—	347,953	2,092	—	—	2,092
Balances as of 31 December 2022	739,403	3,278,330	—	4,017,733	432,803	—	—	432,803
Accumulated Amortization:								
Balances as of 31 December 2020	(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)
Net Additions/disposals due to changes in the consolidation perimeter	(1,383)	—	—	(1,383)	291	—	—	291
Charges	(71,061)	—	—	(71,061)	(42,523)	—	—	(42,523)
Disposals and retirements	6,402	139,519	—	145,921	3,787	—	—	3,787
Currency translation differences	1,871	(1,358)	—	513	1,333	—	—	1,333
Transfers and others	57,298	(436,889)	—	(379,591)	7,854	—	—	7,854
Balances as of 31 December 2022	(370,514)	(479,369)	—	(849,883)	(167,769)	—	—	(167,769)
Impairment losses:								
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 Additions/disposals due to changes in the consolidation perimeter	—	—	—	—	—	—	—	—
Charges	(968)	(1,397)	—	(2,365)	(353)	—	—	(353)
Releases	18	1,362	—	1,380	18	—	—	18
Disposals and retirements	1,025	805	—	1,830	416	—	—	416
Transfers and other	29	343	—	372	23	—	—	23
Balances as of 31 December 2022	(931)	(3,310)	—	(4,241)	(930)	—	—	(930)
Net Tangible asset:								
Balances as of 31 December 2021	400,330	1,906,009	—	2,306,339	289,600	—	—	289,600
Balances as of 31 December 2022	367,958	2,795,651	—	3,163,609	264,104	—	—	264,104

(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 264,104 thousand as of 31 December 2022 (EUR 289,600 thousand in 2021). 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 570 thousand in net gains in 2022 (EUR 236 thousand net losses in 2021) 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 2022 and 2021 is as follows:

	EUR Thousands				
	Cost	Accumulated depreciation	Fund	Carrying amount	Of which: Right-of-use for operating lease
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 December 2021	765,006	(363,641)	(1,035)	400,330	289,600
Buildings	436,328	(164,762)	—	271,566	261,036
Furniture	195,987	(123,586)	—	72,401	4,017
IT equipment	88,724	(70,748)	—	17,976	—
Other	18,364	(11,418)	(931)	6,015	(949)
Balances as of 31 December 2022	739,403	(370,514)	(931)	367,958	264,104

The net balance of "Property, Plant and Equipment for Own Use" on 31 December 2022 includes approximately EUR 337,732 thousand (EUR 372,090 thousand on 31 December 2021) 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 2022 and 2021, based on the cash-generating units which originate it, is as follows:

	Miles de Euros	
	2022	2021
Germany	1,297,469	1,297,469
Austria	98,074	98,074
Nordics (Scandinavia)	215,443	223,974
Netherlands (*)	13,897	—
Spain	87,543	87,963
Total	1,712,426	1,707,480

(*) Corresponds to the goodwill originated by the acquisition of Riemersma Leasing, B.V. (see note 3).

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 2022 financial year, the Group has not recorded impairment losses.

The main assumptions used to determine the recoverable amount, at the end of 2022 and 2021, of the most significant cash-generating units that have been valued by discounting cash flows are shown below:

	2022		
	Projected Period	Discount rate (*)	Nominal perpetuity growth rate
Austria	3 years	9.4%	2.3%
Germany	5 years	9.4%	2.3%
Nordics (Scandinavia)	5 years	11.0%	2.5%

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

	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

The variations reflected in the hypotheses used in the 2022 financial year are mainly a consequence of the current macroeconomic scenario, as well as the growing level of inflation and the difficulties in the supply chains, which have caused a rapid increase in the reference interest rates of the central banks in the main countries where the Group's CGUs are located.

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, 2022 and 2021, during the years 2022 and 2021, has been as follows:

	EUR Thousands	
	2022	2021
Balance at beginning of period	1,707,480	1,709,913
Acquisitions	13,897	—
Additions	—	—
Impairment value (Note 41)	—	—
Currency translation differences and other	(8,951)	(2,433)
Balance at end of period	1,712,426	1,707,480

Santander Consumer Finance Group has goodwill generated by cash-generating units located in countries with currencies other than the euro (mainly in Nordics) and consequently generate exchange differences when converting to euros, at the closing exchange rate, the amount of such goodwill expressed in foreign currency. Thus, during the financial year 2022 there has been a decrease due to exchange differences and other concepts amounting to 8,951 thousand euros (decrease of 2,433 million euros in 2021), which, in accordance with current regulations, have been recorded charged to the heading 'Other accumulated comprehensive income - Items that can be reclassified in results - Currency conversion of net worth, through the attached consolidated statement of recognized income and expenses.

15. Other intangible assets

The detail of "Other Intangible Assets" in the accompanying consolidated balance sheets as of 31 December 2022 and 2021 is as follows:

	Estimated useful life	EUR Thousand	
		2022	2021
With finite useful lives			
Client portfolio	2 years	23,349	26,828
IT developments	3 years	360,170	327,055
Other		1,996	2,150
		385,515	356,033

The changes in 2022 and 2021 in "Other Intangible Assets" in the accompanying consolidated balance sheets were as follows:

	EUR Thousand	
	2022	2021
Balance at beginning of period	356,033	314,444
Net additions	158,831	169,304
Amortization charges ⁽¹⁾	(117,702)	(116,053)
Impairment losses (Note 41)	(11,647)	(11,662)
Balance at year-end	385,515	356,033

(1) The amortisation charges for the period are recognised under "Amortisation" in the accompanying consolidated income statement.

Most of the additions in 2022 and 2021 relate to the implementation of management and accounting software at certain Group companies, mainly in Germany, Spain, and Norway . 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 2022 the Group has derecognised intangible asset elements that have generated losses due to obsolescence for EUR 11,647 thousand (EUR 11,662 thousand in 2021) 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 other liabilities

The detail of "Other Assets" and "Other Liabilities" in the accompanying consolidated balance sheets as at 31 December 2022 and 2021 is as follows:

	EUR Thousand			
	Assets		Liabilities	
	2022	2021	2022	2021
Inventories	8,880	3,777	—	—
Prepaid expenses	200,307	178,822	—	—
Accrued expenses	—	—	967,856	867,763
Transactions in transit	3,894	8,179	76,225	47,675
Other	772,083	521,688	830,749	927,449
	985,164	712,466	1,874,830	1,842,887

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 2022 and 2021, of EUR 17,900,641 thousand and EUR 19,997,499 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, 2022, the balance of conditional long-term financing from the European Central Bank TLTRO (Targeted Longer-Term Refinancing Operation) amounted to EUR 18,160,112 thousand, all belonging to TILTRO III.

As of December 31, 2022, the income recognized in the consolidated profit and loss account corresponding to TLTRO III amounts to 83,202 thousand euros (184,139 thousand euros as of December 31, 2021).

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 2022 and 2021 is as follows:

	EUR Thousands	
	2022	2021
Type:		
Deposits on demand	273,895	185,566
Term deposits	10,890,128	10,965,116
Reverse repurchase agreements	—	174,363
Subordinated deposits	456,179	455,224
	11,620,202	11,780,269
Currency		
Euro	11,552,343	11,684,171
Foreign currency	67,859	96,098
	11,620,202	11,780,269

A significant portion of these deposits from credit institutions on 31 December 2022 and 2021 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 2022 and 2021.

On 31 December 2022 and 2022, the consolidated entities had unused credit facilities amounting to EUR 368.650 thousand and 544,964 thousand, respectively.

The detail of the balance of subordinated liabilities on 31 December 2022 and 2021 based on the currency in which the issue is denominated is as follows:

	EUR Thousands		2022		2021	
	2022	2021	Outstanding amount (millions)	Annual interest rate (31/12/2022)	Outstanding amount (millions)	Annual interest rate (31/12/2021)
Currency of issue						
Euros	456,179	455,224	431,000	2.34 %	570,500	2.04 %
Balance at end of period	456,179	455,224				

The list of subordinated liabilities denominated in euro on 31 December 2022 and 2021, set out by company, is as follows:

2022				
Company	EUR Thousands	Counterparty	Date	
			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
Banca PSA Italia S.p.a.	11,000	Banque PSA France	(2)	22/11/2029
PSA Financial Services Spain EFC SA	20,000	Banque PSA France	(2)	19/12/2027
Add - Valuation adjustments	25,179			
Total	456,179			

(1) It cannot be canceled early.

(2) It can be canceled early

2021				
Company	EUR Thousands	Counterparty	Date	
			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	11,000	Banque PSA France	(2)	18/12/2028
Santander Consumer Holding GmbH	22,500	Banque PSA France	(2)	24/10/2029
Banca PSA Italia S.p.a.	20,000	Banque PSA France	(2)	19/12/2027
Add- Valuation adjustments	1,724			
Total	455,224			

(1) It cannot be canceled early.

(2) It can be canceled early

The movement that has occurred in the balance of this heading of the consolidated balance sheets as of December 31, 2022 and 2021 is as follows:

	EUR Thousands	
	2022	2021
Balance at beginning of period	455,224	1,372,018
Additions	—	—
Amortizations(*)	—	(800,000)
<i>Santander Consumer Holding GmbH</i>	—	(800,000)
Net additions/disposals due to changes in the consolidation perimeter	—	(117,000)
Currency translation and other	955	206
Balance at end of period	456,179	455,224

(*) During the 2022 financial year there have been no amortizations (the balance related to amortizations in the 2021 financial year amounted to 800,000 thousand euros). The interest paid as remuneration for these issues is 10,627 thousand euros (13,361 thousand euros in 2021). The balance related to amortizations and interest paid are included in the cash flow 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 2022 and 2021 is as follows:

	EUR Thousands	
	2022	2021
Type:		
On demand-		
Current accounts	20,183,923	19,365,490
Savings accounts	12,490,865	12,320,358
Other deposits on demand	1,453	1,129
Term deposits		
Fixed-term and other deposits	8,510,920	7,261,195
Subordinated liabilities	140,066	140,307
Geographical area:	41,327,227	39,088,479
Spain and Portugal	2,070,991	1,633,728
Germany	25,201,401	23,518,888
Italy	1,357,795	1,290,210
France	3,387,033	3,467,646
Scandinavia	7,217,679	7,340,655
Austria	2,060,958	1,789,291
Other	31,370	48,061
	41,327,227	39,088,479
By currency:		
Euros	34,106,738	31,740,455
Foreign currency	7,220,489	7,348,024
	41,327,227	39,088,479

As of December 31, 2021 in the above table, the "Impositions and other term deposits" account included individual mortgage bonds issued by the Bank on July 20, 2007 for a nominal amount of 150,000 thousand euros that matured on 20 July 2022 and that were guaranteed by mortgages registered in favor of the Bank (see Notes 10 and 19). These bonds were subscribed by Santander Investment Bolsa, Sociedad de Valores, S.A., which assigned them, in turn, to the Fondo de Titulización de Activos, Independent Mortgage Bond Securitization Program. The annual interest rate of these bonds was 5.135% and they matured on July 20, 2022. There were no early repayment options for the Bank or the holder, except for those legally established assumptions.

Likewise, on December 31, 2022, said heading includes guarantees received for an amount of EUR 141,255 thousand (EUR 192,424 thousand as of December 31, 2021) and other installment debits for an amount of EUR 18,625 thousand (EUR 20,239 thousand as of December 31, 2021).

Note 44 contains details of the terms to maturity and estimated fair value of these financial liabilities at amortised cost on 31 December 2022 and 2021 and of the related average annual interest rates in the years then ended.

19. Debt securities issued

The detail, by type, of "Debt securities in issue" in the accompanying consolidated balance sheets as of 31 December 2022 and 2021 is as follows:

	EUR Thousands	
	2022	2021
Bonds and debentures outstanding	31,242,461	34,756,330
Mortgage-backed bonds	—	450,012
Notes and other securities	6,695,321	5,142,670
Subordinated	917,978	303,219
	38,855,760	40,652,231

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 6,112 million as of 31 December 2022 (EUR 7,844 million in 2021), and the balance, at that date, of the financing obtained by the Group in the securitisation transactions carried out by the Group's subsidiaries, amounting to 12,584 million euros (12,891 million euros at December 31, 2021).

The Bank's Shareholders Meeting, held on March 3, 2022, 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 April 28, 2022, delegated these powers to the Bank's Executive Committee. The Board of Directors, at its meeting held on May 19, 2022, 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 16, 2022.

As of December 31, 2022, the outstanding balance of these notes amounted to 12,942,874 thousand euros (13,126,683 thousand euros as of December 31, 2021), maturing between May 30, 2023 and 12 May 2032. The annual interest rate of these financial liabilities amounts between 0% and 4.110% (0% and 1.356% as of December 31, 2021).

Mortgage-backed bonds

On 31 December 2022, the balance of "Mortgage-Backed Bonds" in the foregoing table includes the amount of the mortgage-backed bonds issued by the Bank on 6 May 2019. These bonds, which are listed on the Spanish AIAF fixed-income market, are secured by mortgages registered in the Bank's favour (see Note 9), have a principal amount of EUR 450,000 thousand and mature on 6 May 2022. The annual interest rate on these liabilities is 0.00% and there are no early redemption options on these bonds for the Bank or for the holders, except in the legally stipulated circumstances.

Notes and other securities

The balance of the "Promissory notes and effects" account in the above table corresponds to issues made by the Bank, admitted to trading, which have accrued an average annual interest of 0.19% in fiscal year 2022 (-0.367% in fiscal year 2021), According to the following detail:

- At the meeting held on 20 October 2022, 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, with a unit nominal value of EUR 100,000, have maturities ranging from a minimum of 3 business days to a maximum of 731 calendar days (2 years and 1 day). This programme was registered in the Official Registers of the Spanish National Securities Market Commission (CNMV) on 15 November 2022.

The balance of the promissory notes listed on the AIAF market amounted to 523,300 thousand euros as of December 31, 2022 (82,200 thousand euros as of December 31, 2021).

- At the meeting held on 19 May 2022, 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 registered in the Irish Stock Exchange on 16 June 2022.

The outstanding balance of this commercial paper recognised in these consolidated financial statements amounted to EUR 4,408,500 thousand on 31 December 2022 (EUR 4,320,000 thousand as of 31 December, 2021).

Additionally, on 31 December 2022 Santander Consumer Bank AG maintained issues in promissory notes and marketable securities amounting to EUR 835,000 thousand and PSA Banque France EUR 980,000 thousand (EUR 605,000 thousand and EUR 129,000 thousand, respectively as of December 31, 2022).

Subordinated marketable securities

In the scope of said programme, three subordinated notes whose outstanding balance amounts to EUR 900,000 thousand and whose average maturity date and average annual interest rate are 1 April 2031 and 2.157% each.

Other information

As of 31 December 2022 and 2021, 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 2022 and 2021 and of the related average annual interest rates in the years then ended.

Information on issues, repurchases and redemption of debt securities

Below is a detail, as of December 31, 2022 and 2021, of the outstanding balance of the debt securities issued by the Bank or by any other entity of the Group, on said dates, taking into account the market in which they are traded, in each case. Likewise, a detail of the movement that has occurred in this balance during the years 2022 and 2021 is shown:

Santander Consumer Finance	EUR Thousands					
	2022					
	Outstanding Balance at 01/01/22	Perimeter	Issues	Repurchases or Redemptions	Exchange Rate and Other Adjustments (*)	Outstanding Balance on 31/12/22
Bonds and debentures in circulation	34,756,330	—	5,330,095	(8,589,994)	(253,970)	31,242,461
Mortgage-backed bonds	450,012	—	—	(450,000)	(12)	—
Total Bonds and debentures in circulation	35,206,342	—	5,330,095	(9,039,994)	(253,982)	31,242,461
Notes and other securities	5,142,670	—	7,331,200	(5,720,600)	(57,949)	6,695,321
Subordinated securities	303,219	—	600,000	—	14,759	917,978
Total	40,652,231	—	13,261,295	(14,760,594)	(297,172)	38,855,760

Santander Consumer Finance	EUR Thousands					
	2021					
	Outstanding Balance at 01/01/21	Perimeter	Issues	Repurchases or Redemptions	Exchange Rate and Other Adjustments (*)	Outstanding Balance on 31/12/21
Bonds and debentures in circulation	31,143,866	1,168,433	11,010,477	(8,575,706)	9,260	34,756,330
Mortgage-backed bonds	450,048	—	—	—	(36)	450,012
Total Bonds and debentures in circulation	31,593,914	1,168,433	11,010,477	(8,575,706)	9,224	35,206,342
Notes and other securities	4,770,259	—	5,391,200	(5,022,400)	3,611	5,142,670
Subordinated securities	202,175	—	100,000	—	1,044	303,219
Total	36,566,348	1,168,433	16,501,677	(13,598,106)	13,879	40,652,231

Other issues guaranteed by the Group

As of December 31, 2022 and 2021, the Group guarantees certain debt securities issued by Group companies.

Information required Royal Decree 716/2009

Article 21 of Royal Decree 716/2009, of April 24, establishes that entities issuing mortgage backed assets or mortgage bonds will keep a special accounting record of the mortgage loans and credits that serve as collateral for said issues, of the replacement assets that back them and the derivative financial instruments linked to each issuance. Said special accounting record must also indicate whether or not the mortgage loans and credits are eligible in accordance with article 3 of the aforementioned Royal Decree 716/2009. The Bank of Spain will determine the essential data of the aforementioned registry that must be included in the annual accounts of the issuing entity, having defined various statements of public information on the mortgage market in Bank of Spain Circular 4/2017.

Mortgage-backed bonds

The mortgage-backed bonds issued by the Bank were securities the principal and interest of which were specifically secured by mortgages, there being no need for registration in the Property Register, without prejudice to the issuer's unlimited liability. The total amount of the mortgage backed bond issued have matured during 2022.

The mortgage-backed bonds included the holder's financial claim on the issuer, secured as indicated in the preceding paragraph, and may have been enforced to claim payment from the issuer after maturity. The holders of these securities had the status of special preferential creditors vis-à-vis all other creditors (established in Article 1923.3 of the Spanish Civil Code) in relation to all the mortgage loans and credits registered in the issuer's favour and, where appropriate, in relation to the cash flows generated by the derivative financial instruments associated with the issues.

In the event of insolvency, the holders of mortgage-backed bonds enjoyed 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 were 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 were to be insufficient to meet the payments described in the preceding paragraph, the insolvency managers would have settled them by realising the replacement assets set aside to cover the issue and, if this was not sufficient, they would have obtained financing to meet the mandated payments to the holders of the mortgage-backed bonds, and the finance provider have 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 have been made on a pro-rata basis, irrespective of the issue dates of the bonds..

Mortgage-backed bond issuers had 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.

Annex VI contains the additional information required by the Bank of Spain in relation to article 21 of Royal Decree 716/2009, of April 24, which establishes that the issuing entities of mortgage-backed bonds or mortgage bonds will keep an accounting record of the mortgage loans and credits that serve as collateral for these issues, of the replacement assets that back them and of the derivative financial instruments linked to each issue.

20. Other financial liabilities

The detail of "Other Financial Liabilities" in the accompanying consolidated balance sheets as of 31 December 2022 and 2021 is as follows:

	EUR Thousands	
	2022	2021
Declared dividends payable	—	637,093
Trade payables	180,029	171,519
Tax collection accounts	25,934	25,213
Other financial liabilities (*)	1,167,437	917,728
	1,373,400	1,751,553

(*) At 31 December 2022, the balance included EUR 3,718 thousand relating to balances payable on consolidation for tax purposes to Banco Santander, S.A., (EUR 1,861 thousand as of 31 December 2021).

Note 44 contains a detail of the terms to maturity and estimated fair value of these financial liabilities on 31 December 2022 and 2021.

Lease liabilities

The cash outflow of leases in 2022 was EUR 37,017 thousand (EUR 36,762 thousand in 2021).

The analysis of the maturities of lease liabilities as of 31 December 2022 and 2021 is shown below:

	EUR Thousands	
	2022	2021
Maturity Analysis – Discounted payments		
Within 1 year	45,351	54,615
Between 1 year and 3 years	93,687	74,101
Between 3 years and 5 years	43,577	60,547
More than 5 years	75,522	94,960
Recognised lease liabilities as of December 31	258,137	284,223

No significant variable payments not included in the valuation of lease liabilities have been made during 2022 and 2021.

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 2022 and 2021 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:

	2022	2021
	Days	Days
Average period of payment to suppliers	20.82	15.09
Ratio of transactions settled	20.80	14.91
Ratio of transactions not yet settled	21.26	20.10
	EUR Thousands	EUR Thousands
Total payments made	349,897	312,822
Total payments outstanding	12,410	11,049

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.

Additionally, in accordance with Law 18/2022 of September 28, listed commercial companies must report in the average payment period to suppliers, additionally, the monetary volume and number of invoices paid in a period less than the maximum established in the delinquency regulations and the percentage that it represents over the total number of invoices and over the total monetary payments to its suppliers.

	EUR Thousands
	2022
Paid Invoices	39,693
Invoices paid in a period less than the maximum over the total number of invoices paid	98.97%
Total payments made	1,330,871
Invoices paid in a period less than the maximum on the total amount of invoices paid	96.71%

Suppliers, for the exclusive purpose of providing the information provided for in this Resolution, are considered to be commercial creditors for debts with suppliers of goods or services.

"Average period of payment to suppliers" is understood to be the period that elapses from the delivery of the goods or the provision of services by the supplier and the material payment of the operation.

21. Provisions

The detail of "Provisions" in the accompanying consolidated balance sheets as of 31 December 2022 and 2021 is as follows:

	EUR Thousands	
	2022	2021
Provision for pensions and other employment defined benefit obligations	414,385	598,456
Provisions for other long-term employee benefits	31,488	44,442
Provisions for taxes and other legal contingencies	10,089	9,576
Provisions for commitments and guarantees given	28,010	39,403
Other provisions	126,903	134,033
	610,875	825,910

The changes in 2022 and 2021 in the balances of these items in the accompanying consolidated balance sheets were as follows:

	2022					
	Pensions and similar obligations	Other long term employee benefits	Taxes and other legal contingencies	Contingent liabilities and commitments	Other provisions (****)	Total
<i>Balances at beginning of period</i>	598,456	44,442	9,576	39,403	134,033	825,910
<i>Net inclusion (exclusion) of Entities in (from) the Group</i>	—	—	—	—	—	—
<i>Additions/(Reversals) charged (credited) to income:</i>	17,850	(2,447)	12,939	(11,332)	25,449	42,459
<i>Interest expense (Note 31)</i>	8,105	575	—	—	—	8,680
<i>Other Interest</i>	—	—	—	—	—	—
<i>Staff costs (Note 39)</i>	11,999	1,313	—	—	—	13,312
<i>Net additions to provisions (amounts used) (*) (**)</i>	(2,254)	(4,335)	12,939	(11,332)	25,449	20,467
	616,306	41,995	22,515	28,071	159,482	868,369
<i>Changes in value recognised in equity</i>	(177,950)	—	—	—	—	(177,950)
<i>Payments to retired employees and pre-retirees with a charge to internal provisions (**)</i>	(15,232)	(10,193)	—	—	—	(25,425)
<i>Insurance premiums paid, return premiums received and payments to external funds</i>	(2,935)	—	—	—	—	(2,935)
<i>Amounts used</i>	—	—	(13,106)	—	(47,964)	(61,070)
<i>Transfers, exchange differences and other changes</i>	(5,804)	(314)	680	(61)	15,385	9,886
	(201,921)	(10,507)	(12,426)	(61)	(32,579)	(257,494)
<i>Balances at end of year</i>	414,385	31,488	10,089	28,010	126,903	610,875

(**) 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.

	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 Entities in (from) the Group	—	—	—	—	2,655	2,655
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

(*) The balance of net allocations (applications) to provisions for pensions and other post-employment defined benefit obligations, as well as long-term employee remuneration, related in the years 2022 and 2021 is broken down as follows:

	EUR Thousands	
	2022	2021
	Expenses / (revenue)	
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)	(1,370)	(246)
Pre-retirements	—	4,984
Past service cost	45	1
Curtailments/settlements	—	(133)
	(1,325)	4,606
Foreign entities:		
Recognised actuarial losses/(gains) (obligations and assets)	(4,804)	155
Past service cost	—	283
Pre-retirements	—	(15)
Curtailments/settlements	(459)	(1,108)
	(5,263)	(685)
	(6,588)	3,930

The detail of "Payments to Retired Employees and Pre-retirees with a Charge to Internal Provisions" is as follows:

	EUR Thousands	
	2022	2021
Post-employment benefits - Spanish entities	2,024	2,081
Other long-term benefits - Spanish entities	9,712	10,813
Foreign entities	13,689	16,171
	25,425	29,065

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 2022 and 2021 (see Note 2-r).

Spanish entities

The Collective Agreement of the Spanish entities of the Group, signed on February 2, 2012, has established a complementary social welfare system for active personnel who meet certain conditions, which has been implemented through a defined contribution Pension Plan. Said Pension Plan covers the following contingencies: retirement, death, and permanent disability (total, absolute or severe disability). The Spanish entities of the Group have assumed the commitment to make an annual contribution of 900 euros for each of the participants. In 2022, contributions were made for this concept for an amount of 716 thousand euros (439 thousand euros in 2021), which have been recorded under the heading "Administration expenses - Personnel expenses" of the attached consolidated profit and loss account (see Note 39).

Additionally, some of the branches abroad have defined contribution plans (mainly Santander Consumer Holland, Santander Consumer Benelux). The contributions made to these plans, in the years 2022 and 2021 have amounted to 3,034 and 1,015 thousand euros, respectively, which are recorded under the heading "Administrative expenses - Personnel expenses" of the consolidated profit and loss account 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.

Additionally, to the post-employment defined benefit commitments of the foreign branches acquired during 2021 (Greece and Belgium), the post-employment defined benefit commitments of the branch in France incorporated in 2022.

The present value of the commitments assumed by the consolidated Spanish entities in terms of post-employment benefits, as of December 31, 2022 and 2021, are shown below:

	EUR Thousands	
	2022	2021
Present value of the obligations: To current employees		
Active employees	—	—
Vested obligations to retired employees and pre-retirees	21,006	22,351
Other obligations to retired employees	—	9
Provisions - Pensions and similar obligations for defined contribution plans (Note 2-r)	21,006	22,360

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:

	2022	2021
Annual discount rate	3.70%	0.70%
Mortality tables	PERM/F-2020	PERM/F-2020
Cumulative annual CPI growth	2%	1%
Annual salary increase rate	N/A	N/A
Annual social security pension increase rate	2%	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 2022 and 2021 were as follows:

	EUR Thousands	
	2022	2021
	Expenses/ (Income)	
Current service cost (Notes 2-r and 39)	374	333
Net interest cost (Note 31)	369	124
Expected return on assets	—	—
Extraordinary charges	—	—
Past service cost	—	9
Amount recognised in the year	743	466

Additionally, during financial year 2022, the heading "Other accumulated comprehensive income - Actuarial gains or losses in defined benefit pension plans" has recorded a net credit amounting to 1,945 thousand euros with respect to defined benefit commitments (net charge of 1,126 thousand euros in 2021).

The movement that has occurred, during the years 2022 and 2021, in the present value of the obligation accrued for defined benefit commitments of the Spanish entities of the Group, has been as follows:

	EUR Thousands	
	2022	2021
Present value of the obligations at beginning of year	27,513	25,019
Increase or decrease by acquisition	206	5,563
Current service cost (Notes 39 and 2-r)	374	333
Interest cost (Note 31)	429	164
Pre-retirements	—	—
Effect of curtailments/settlements	—	—
Benefits paid	(2,429)	(2,643)
Past service cost	—	9
Actuarial (gains)/losses (Note 2-r) (*)	(5,097)	(932)
Other	10	—
Present value of the obligations at end of year	21,006	27,513

- (*) In 2022 includes demographic actuarial losses of 185 thousand euros and actuarial gains for financial assumptions of 5,283 thousand euros (demographic actuarial gains of 177 thousand euros and financial actuarial losses of 755 thousand euros in post-employment plans in financial year 2021).

The movement that has occurred, during the years 2022 and 2021, 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	
	2022	2021
Present value of the obligations at beginning of year	6,341	5,871
Increase or decrease by acquisition	—	—
Expected return on plan assets	59	40
Actuarial (gains)/losses	(874)	658
Contributions	408	439
Benefits paid	(405)	(595)
Other	(105)	(72)
Fair value of plan assets at the end of year	5,424	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 2022 and 2021 was as follows:

	EUR Thousands	
	2022	2021
Present value of the obligations:		
To pre-retirees	20,921	31,527
Long-service	145	130
Provisions - Pensions and similar obligations for defined contribution plans (Note 2-r)		
	21,066	31,657

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:

	2022	2021
Annual discount rate	3.70%	0,70%-0,55%
Mortality tables	PERM/F-2020	PERM/F-2020
Cumulative annual CPI growth	2%	1%
Annual salary increase rate	N/A	N/A
Annual social security pension increase rate	2%	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 2022 and 2021 in relation to these long-term obligations were as follows:

	EUR Thousands	
	2022	2021
	Expenses/(Income)	
Current service cost (Note 39)	26	9
Net interest cost (Note 31)	472	171
Expected return on insurance contracts linked to pensions	—	—
Extraordinary charges		
Actuarial (gains)/losses recognised in the year	(1,370)	(246)
Past service cost	45	—
Pre-retirement cost	—	4,984
Curtailments/settlements	—	(132)
Amount recognised in the year	(827)	4,786

The changes in 2022 and 2021 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	
	2022	2021
Present value of the obligations at beginning of year	31,657	37,684
Current service cost (Note 39)	26	9
Interest cost (Note 31)	472	171
Pre-retirement cost	—	4,984
Effect of curtailments/settlements	—	(132)
Benefits paid	(9,712)	(10,813)
Past service cost	45	—
Actuarial (gains)/losses recognised in the year	(1,370)	(246)
Other	(52)	—
Present value of the obligations at end of year	21,066	31,657

The table that follows shows the estimated benefits payable at 31 December 2021 for the next ten years:

	EUR Thousands
2023	9,996
2024	7,691
2025	6,870
2026	4,828
2027	3,284
2028 a 2032	8,980

iv. *Post-employment benefits – Other foreign subsidiaries*

Some of the consolidated foreign entities have acquired obligations with their employees similar to postemployment benefits and other long-term defined 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 2022 and 2021, 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	
	2022	2021
Present value of the obligations	502,741	734,375
Of which:		
Germany	404,410	583,341
Nordics (Scandinavia)	27,576	40,000
Less-		
Plan assets	(111,764)	(168,735)
Provisions - Provisions for pensions and similar obligations (Note 2-r)		
	390,977	565,640
Of which:		
Internal pension funds	406,972	588,520
Net plan assets	(15,995)	(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:

	2022	2021
Equity instruments	9%	6%
Debt instruments	47%	53%
Investment property	18%	17%
Other	26%	24%

The most significant actuarial assumptions used by the Group companies located in Germany to estimate the value of their commitments are detailed below:

	2022	2021
Annual technical interest rate	4.21%	1.45%
Mortality tables	Heubeck RT 2018	Heubeck RT 2018
I.P.C. cumulative annual	1.90%	1.90%
Annual growth rate of	2.75%	2.75%
Annual Social Security pension review rate	2.00%	2.00%
Estimated retirement age	60/63(M/F)	60/63(M/F)

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 2022 and 2021 in relation to these defined benefit pension obligations of the Germany's foreign entities were as follows:

	EUR Thousands	
	2022	2021
	Expenses / (Income)	
Current service cost (Note 39)	9,486	10,042
Net interest cost (Note 31)	8,271	7,069
Extraordinary charges	—	—
Actuarial gains or losses recognised	(2,530)	—
Past service cost	—	—
Early retirements	—	—
Effect of curtailments/settlements	(134)	(1,131)
Expected return on plan assets (Note 31)	(417)	(336)
Other interests	—	—
Amount recognised in the year	14,676	15,644

The movement that has occurred, during the years 2022 and 2021, in the current value of the obligation accrued for defined benefit commitments of foreign entities in Germany:

	EUR Thousands	
	2022	2021
Present value of the obligations at beginning of year	583,341	612,226
Net inclusion/(exclusion) of entities in/(from) the Group	—	121
Current service cost (Note 39)	9,486	10,042
Interest cost	7,854	6,733
Effect of curtailments/settlements	(134)	(1,131)
Benefits paid	(13,720)	(13,469)
Actuarial (gains)/losses (*)	(182,821)	(30,972)
Exchange differences, transfers and other items	404	(209)
Present value of the obligations at end of year	404,410	583,341

(*) In 2022 includes demographic losses amounting to 15,024 thousand euros (demographic actuarial gains amounting to 9,040 thousand euros in 2021) and financial actuarial gains amounting to 197,845 thousand euros (financial actuarial losses amounting to 21,932 thousand euros in financial year 2021).

The movement that has occurred, during the years 2022 and 2021, in the fair value of the plan assets associated with these defined benefit commitments of the foreign entities dependent on Germany, has been as follows:

	EUR Thousands	
	2022	2021
Fair value of plan assets at beginning of year	30,057	30,754
Expected return on plan assets	417	336
Actuarial gains/(losses) arising in the year	(9,199)	(748)
Contributions	786	503
Benefits paid	(1,096)	(788)
Fair value of plan assets at end of year	20,965	30,057

The table below shows the estimated benefits payable at 31 December 2022 for the next ten years:

	EUR Thousands
2023	15,114
2024	16,112
2025	17,705
2026	18,995
2027	20,106
2028 a 2032	117,244

The amounts recognised in the consolidated income statements for 2022 and 2021 in relation to these defined benefit pension obligations of the Group's foreign entities (without Germany) were as follows:

	EUR (Thousands)	
	2022	2021
	Expenses / (Income)	
Current service cost (Note 39)	3,426	3,032
Net interest cost (*)	2,357	2,023
Extraordinary endowments	—	—
Actuarial Gains/losses during period	(2,274)	283
Past service cost	—	—
Effect of curtailments/settlements	(325)	(259)
Expected return on plan assets (*)	(2,371)	(1,656)
Other interests	—	—
Amount recognised in the year	813	3,423

(*) These items are recorded for their net amount (15 thousand euros in the 2022 financial year and 367 thousand euros in the 2021 financial year) under the heading "Interest expenses" of the consolidated profit and loss accounts for said years (see Note 31).

The changes in the present value of the accrued obligation from defined benefit pension plans in 2022 and 2021 of all foreign entities, excluding Germany, as well as in the plan assets is as follows:

	EUR (Thousands)	
	2022	2021
Present value of the obligations at beginning of year	151,034	112,823
Net inclusion/(exclusion) of entities in/(from) the Group	—	49,843
Current service cost (Note 39)	3,426	3,032
Interest cost	2,357	2,023
Pre-retirements	—	—
Effect of curtailments/settlements	(325)	(259)
Benefits paid	(5,111)	(8,143)
Benefits paid in case of liquidation	(2,040)	—
Past service cost	—	—
Actuarial (gains)/losses (*)	(48,281)	(7,335)
Exchange differences, transfers and other items	(2,730)	(950)
Present value of the obligations at end of year	98,330	151,034

(*) In 2022 includes demographic actuarial gains amounting to 5,665 thousand euros (demographic actuarial losses amounting to 572 thousand euros in 2021) and financial actuarial gains amounting to 42,616 thousand euros (financial actuarial losses amounting to 7,907 thousand euros in fiscal year 2021).

The changes in 2022 and 2021 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	
	2022	2021
Fair value of plan assets at beginning of year	138,679	67,967
Net additions / (disposals) of Group's companies	—	64,695
Expected return on plan assets	2,371	1,656
Actuarial gains/(losses) arising in the year	(43,372)	7,180
Contributions	2,383	3,617
Benefits paid	(4,045)	(4,653)
Exchange differences and other items	(5,217)	(1,783)
Fair value of plan assets at end of year	90,799	138,679

The table below shows the estimated benefits payable at 31 December 2022 for the next ten years:

	EUR Thousands
2023	3,668
2024	3,719
2025	3,183
2026	3,818
2027	4,768
2028 a 2032	28,100

Additionally, during the year 2022, the heading "Other accumulated comprehensive income - Items that will not be reclassified in results - Actuarial gains or losses in defined benefit pension plans" has recorded a net credit amounting to 119,532 thousand euros with respect to the defined benefit commitments of the foreign companies of the Group (net payment amounting to 54,659 thousand euros in 2021).

Also, some foreign entities have defined contribution plans (mainly Santander Consumer Bank, S.p.A., Santander Consumer Bank AS, Santander Consumer Bank, AG, Compagnie Generale de Credit Aux Par). The contributions made to these plans, in the years 2022 and 2021 have amounted to 37,868 and 37,214 thousand euros, respectively, which are recorded under the heading "Administrative expenses - Personnel expenses" of the consolidated profit and loss account for both years (See Note 39).

v. Sensitivity analysis

Variations in the main assumptions used in the valuation may affect the calculation of the commitments. As of December 31, 2022, if the discount interest rate had decreased or increased by 50 b.p., there would have been an increase or decrease in the present value of post-employment obligations of +6.61% and -7.40%, 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 2022 and the four preceding years was as follows:

1. Spanish entities

	EUR Thousands									
	Post-employment benefits					Other long-term employee benefits				
	2022	2021	2020	2019	2018	2022	2021	2020	2019	2018
Present value of the obligation:										
To current employees	—	—	—	—	—	—	—	—	—	—
Vested obligations to retired employees	21,006	27,512	25,023	25,601	26,149	20,921	31,527	—	—	—
To pre-retirees	—	—	—	—	—	—	—	31,527	33,766	42,253
Long-service bonuses and other obligations	—	—	—	—	—	145	130	130	141	138
Other	—	—	—	113	120	—	—	—	—	—
Fair value of plan assets	5,424	6,341	—	—	—	—	—	—	—	—
Provisions for pensions	15,582	21,171	25,023	25,714	26,269	21,066	31,657	31,657	33,907	42,391
Of which:										
Internal pension funds	16,997	22,360	—	—	—	21,066	—	—	—	—
Net pension assets	(1,415)	(1,188)	—	—	—	—	—	—	—	—

2. Foreign entities-

	EUR Thousands				
	2022	2021	2020	2019	2018
Present value of the obligation	502,741	734,375	725,050	687,925	576,177
Fair value of plan assets	(111,764)	(168,735)	(98,721)	(95,192)	(79,034)
Provisions for pensions	390,977	565,640	626,329	592,733	497,143
Of which:					
Internal pension funds	406,972	588,520	—	—	—
Net pension assets	(15,995)	(22,880)	—	—	—

b) Other provisions

The balance of the headings "Procedural issues and pending tax litigation" and "Remaining provisions" in the "Provisions" chapter, which, among other concepts, include those corresponding to provisions for restructuring and tax and legal litigation, have been estimated by applying calculation procedures prudent and consistent with the conditions of uncertainty inherent in the obligations they cover, the definitive moment of the outflow of resources being determined that incorporate economic benefits for the Group for each one of the obligations in some cases without a fixed term for cancellation, and in other cases, depending on ongoing litigation.

The balance of this item by geographic area is as follows:

	EUR Thousands	
	2022	2021
Recognised in Spanish companies	55,779	56,113
Recognised in other European Union companies	81,212	87,496
	136,991	143,609

The breakdown of the balance as of December 31, 2022 and 2021 is shown below, under the headings "Provisions for taxes and other legal contingencies" and "Remaining provisions" for each type of provision. The types of provisions have been determined by grouping those items of a similar nature

	EUR Thousands	
	2022	2021
Provisions for taxes	7,862	7,655
Provisions for other proceedings of a legal nature	2,227	1,921
Provisions for operational risks	65,107	49,935
Provisions for restructuring	18,097	32,188
Other	43,698	51,910
	136,991	143,609

Likewise, relevant information is broken down below for each of the types of provision shown in the table above:

- 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 of December 31, 2022, the main processes of a legal nature that affect the Group are the following:

Mortgage portfolio in Swiss francs (CHF) in Poland: on October 3, 2019, the Court of Justice of the European Union (CJEU) resolved a preliminary ruling in relation to legal proceedings instituted against a bank unrelated to Grupo Santander, declaring abusive certain clauses in the loan contracts indexed to CHF. The CJEU has left in the hands of the Polish courts the decision regarding whether the contract can subsist without the abusive clause, for which they must in turn decide if the effects of the cancellation of the contract are detrimental to the consumer. In case of subsistence of the contract, the court may only integrate it with supplementary provisions of national law and decide, according to them, the applicable rate.

As of December 31, 2022, Santander Consumer Bank S.A. presents a portfolio of mortgages denominated in or indexed to CHF for an approximate amount of 1,891 million zlotys (EUR 404 million). On the same date, there is a provision in the amount of PLN 745 million (EUR 159 million) to cover the CHF mortgage portfolio

In December 2020, the Chairman of the Financial Supervisory Authority (hereinafter "KNF") announced a high-level proposal for voluntary agreements between banks and borrowers under which Swiss franc-denominated loans would be subject to settlement as loans in zlotys with interest referenced to the WIBOR rate plus the corresponding margin. The Bank has been testing the KNF proposal in relation to different client groups in parallel with its own settlement solutions. The results of the current tests have been incorporated into the provision calculation model.

On February 16, 2023, the CJEU General Advocate ("AG") issued his opinion in case no. C-520/21 pending before the CJEU, concerning the right of the parties to exercise claims that go beyond the reimbursement of the monetary benefit of a loan contract in Swiss francs that has been declared null. In the opinion of the AG, Directive 93/13/EEC (Directive) does not prevent consumers from exercising additional claims against the bank as a result of the declaration of invalidity, but the legitimacy of such claims should be decided by national courts from Poland. With respect to the claims of the banks, the AG's opinion is that the Directive prevents the Bank from exercising additional claims against the consumer as a consequence of such a declaration of nullity. The opinion is not binding and does not definitively resolve these issues, a CJEU ruling in this case is expected in 2023. As of the date of the consolidated annual accounts, it is not possible to predict a reliable estimate of the potential impact for the Group if the CJEU were to assume AG's opinion.

The Group integrates its participation in Santander Consumer Bank, S.A. (Poland) by the equity method, being its percentage of participation in it as of December 31, 2022 and 2021 40%.

In addition, provisions for other operational risks include mainly provisions for risks derived from the business operations of Group companies, the most significant amounts as of December 31, 2022 corresponding to those registered in Santander Consumer S.A. for an amount of 27,107 thousand euros (18,394 thousand euros at December 31, 2021), Santander Consumer Bank, A.G. (Germany) for the amount of 12,367 thousand euros (17,855 thousand euros at December 31, 2021) and Santander Consumer Bank A.S. (Norway) in the amount of 14,400 thousand euros (149 thousand euros at December 31, 2021).

Provisions for restructuring include only the expenses derived from restructuring processes carried out by the different entities of the Group. During 2020 and 2021, the Group carried out different restructuring processes in some companies to adapt the business to the current market conditions in said geographies. In these cases, the Group companies offer their employees the possibility of leaving by means of early retirement offers and incentivized redundancies. As of December 31, 2022, the outstanding balance for this concept corresponds mainly to the companies Santander Consumer Bank, A.G. (Germany), for the amount of 15,678 thousand euros (25,917 thousand euros at December 31, 2021), and Compagnie Generale de Credit Aux Particuliers - Credipar S.A. (France), which amounts to 1,898 thousand euros (2,312 thousand euros at December 31, 2020).

The Group's general policy consists of recording provisions for processes of a tax and legal nature in which the risk of loss is assessed as probable and no provisions are recorded when the risk of loss is possible or remote. The amounts to be provisioned are calculated in accordance with the best estimate of the amount necessary to settle the corresponding claim, based, among other things, on an individualized analysis of the facts and legal opinions of internal and external advisors or taking into consideration the historical average figure. of losses derived from claims of this nature. The final date for the outflow of resources that incorporate economic benefits for the Group depends on each of the obligations. In some cases, the obligations do not have a fixed settlement term and, in other cases, they depend on ongoing legal processes.

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 2022 and 2021 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 2022 and 2021 is as follows:

	EUR Thousands	
	2022	2021
	Continuing operations	Continuing operations
Consolidated profit (loss) before tax	2,207,893	2,023,932
Accounting profit multiplied by income tax rate (*)	662,368	607,180
Permanent differences and adjustments (**)	(56,098)	(73,909)
Consolidated income tax expense	606,270	533,271
Effective tax rate	27.46%	26.35%

(*) Computed using nominal tax rate applicable to the Bank (30%)

(**) These include the net tax effect of permanent differences at the consolidated entities, differences resulting from the existence of different tax rates in the countries in which the Group operates, the effects of consolidation, prior years' tax adjustments, and the effect of considering the exemptions, tax credits and tax relief based on the jurisdictions in which the Group companies carry on their business.

c) Years open for review by the Tax Authorities

The Bank forms part of the Tax Group headed by Banco Santander, S.A. Under current legislation, taxes cannot be deemed to have been definitively settled until the tax returns filed have been reviewed by the tax authorities or until the four-year statute-of-limitations period has expired.

In June and November 2021 the conformity and non-conformity acts relating to the Corporate Income Tax financial years 2012 to 2015 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 2011), 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 2011) and the Economic Administrative Court (tax years 2012-2015). Consequently, no provision has been recorded for this concept. On the other hand, it should be noted that, in those cases in which it has been considered appropriate, the mechanisms available to avoid international double taxation have been used.

As of the date of formulation of these accounts, the Corporate Income Tax and other tax concepts for the years 2017 to 2019 are being verified, with subsequent years up to 2022, included, being subject to review.

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 rest 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.

d) *Regulatory changes*

On the other hand, during 2022, Law 38/2022 was approved, which establishes a non-tax patrimonial benefit payable to credit institutions and financial credit establishments in the years 2023 and 2024, the amount of which will be 4.8% of the sum of net interest income and commissions from the previous year derived from the activity carried out in Spain. The payment obligation will arise on the first day of each financial year (see Note 1.h). Likewise, said Law establishes a 50% limitation on the integration of negative individual tax bases in the tax base of the Consolidated Tax Group. This limitation is expected to be in force only in 2023, setting a 10-year term for the reversal of this positive adjustment.

e) Deferred taxes

The detail of the deferred taxes on 31 December 2022 and 2021 is as follows:

	EUR Thousands					
	2022			2021		
	Monetisable	Other	Total	Monetisable	Other	Total
Tax assets (*)	263,740	294,794	558,534	283,871	304,041	587,912
Tax losses and tax credits	—	8,569	8,569	—	5,546	5,546
Temporary differences	263,740	286,225	549,965	283,871	298,495	582,366
<i>Of which:</i>						
Non-deductible provisions	—	48,333	48,333	—	38,458	38,458
Valuation of financial instruments	—	23,419	23,419	—	37,081	37,081
Credit losses	217,068	20,054	237,122	237,199	22,770	259,969
Pensions	34,655	107,431	142,086	34,655	103,893	138,548
Valuation of tangible and intangible assets	12,017	75,435	87,452	12,017	70,251	82,268
Tax liabilities		1,283,474	1,283,474	—	1,072,514	1,072,514
Temporary differences	—	—	—	—	—	—
<i>Of which:</i>						
Valuation of financial instruments	—	181,899	181,899	—	132,351	132,351
Valuation of tangible and intangible assets	—	690,442	690,442	—	610,981	610,981
Gains on disposal of investments	—	—	—	—	—	—
Valuation of Group investments	—	134,495	134,495	—	126,857	126,857

(*) As at 31 December 2022 and 2021, 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 31-12-2021	(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 31-12-2022
Deferred tax assets	587,912	(24,177)	(1,439)	(3,762)	—	558,534
BIN's and deductions	5,546	2,872	151	—	—	8,569
Temporary differences	582,366	(27,049)	(1,590)	(3,762)	—	549,965
<i>Of which monetisable</i>	283,871	(20,131)	—	—	—	263,740
Deferred tax liabilities	(1,072,514)	(167,717)	18,685	(61,928)	—	(1,283,474)
Temporary differences	(1,072,514)	(167,717)	18,685	(61,928)	—	(1,283,474)
Total	(484,602)	(191,894)	17,246	(65,690)	—	(724,940)

	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 31-12-2021
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
<i>Of which monetisable</i>	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)

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 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:

- 1) 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.
- 2) Macroeconomic variables: the estimated growths are based on the evolution of the economic environment considering the expected evolution of the Gross Domestic Product of each location and the forecasts of the behaviour of interest rates, inflation and exchange rates. Said data are provided by the Group's Research Department, which are based on external information sources.

In addition, the Group performs backtesting on the variables projected in the past. The differential behaviour of these variables with respect to the actual market data is considered in the projections estimated in each year. Thus, in relation to Spain, the deviations identified by management in recent years are due to 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.

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.

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	
	2022	2021
Actuarial gains and losses on pension plans	12,289	12,289
Cash flow hedges	5,036	5,036
Debt instruments at fair value through other comprehensive income	677	(99)
Other	(2,910)	(2,133)
Total	15,092	15,093

23. Registered share capital and equity instruments other than capital

a) Registered share capital

As of December 31, 2022 and 2021, the Bank's capital stock consisted of 1,879,546,172 registered shares, each with a par value of EUR 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, 2022 and 2021, 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 2022 and 31 December 2021 amounted to EUR 325,375 thousand and EUR 252,500 thousand, respectively, and was recognised under "Retained Earnings" having accrued EUR 72,875 thousand and EUR 72,873 thousand in the years 2022 and 2021, respectively.

24. Share premium

The balance of "Share Premium" in the accompanying consolidated balance sheets as of 31 December 2022 and 2021 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 2022 and 2021 is as follows:

	EUR Thousands	
	2022	2021
Retained earnings:		
Legal reserve of the Bank	716,069	652,428
Unrestricted, voluntary and other reserves	575,350	452,176
Consolidation reserves attributable to the Bank	166,373	162,982
Reserves of subsidiaries	2,171,545	1,718,272
	3,629,337	2,985,858
Other reserves		
Other	(419,035)	(344,926)
Reserves or accumulated losses from investments in:		
<i>Joint ventures and associates</i>	439,882	398,835
	20,847	53,909

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	
	2022	2021
Santander Consumer Holding GmbH	(1,243,743)	(1,431,523)
Santander Consumer Bank S.p.A.	134,787	96,549
Auto Abs UK Loans PLC	(65,982)	(3,938)
PSA Finance UK Limited	90,913	(15,356)
Santander Consumer Bank GmbH	213,468	178,840
Compagnie Generale de Credit Aux Particuliers - Credipar S.A.	321,492	196,393
PSA Financial Services, Spain, EFC, SA	37,253	8,725
Santander Consumer Finance OY	255,561	201,697
Andaluza de Inversiones, S.A. Unipersonal	9,723	65,037
Santander Consumer Bank A.S.	1,391,900	1,364,381
Santander Consumer Bank AG	575,757	496,070
PSA Banque France	106,062	131,656
Financiera el Corte Inglés, E.F.C., S.A.	52,359	37,761
Banca PSA Italia S.P.A.	42,528	96,070
PSA Bank Deutschland GmbH	85,985	81,446
Other	163,484	214,463
	2,171,547	1,718,271

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	
	31-12-2022	31-12-2021
Other comprehensive income	(582,107)	(645,973)
Items that will not be reclassified to profit or loss	(33,865)	(155,201)
Actuarial gains or losses on defined benefit pension plans	(41,487)	(163,721)
Assets included in disposal groups classified as held for sale	—	—
Other recognised income and expense in investments in joint ventures and associates	195	160
Changes in the fair value of equity instruments at fair value through other comprehensive income	7,427	8,360
Other valuation adjustments	—	—
Items that may be reclassified to profit or loss	(548,242)	(490,772)
Hedges of net investments in foreign operations (effective portion)	(46,397)	(100,443)
Currency translation differences	(495,612)	(351,791)
Derivatives – hedge accounting. Cash flow hedges (effective portion)	62,111	10,170
Changes in the fair value of debt instruments measured at fair value with changes in other comprehensive income	(1,149)	256
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	(67,195)	(48,964)

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

The balance of "Other comprehensive income - Items not reclassified to profit or loss - Actuarial gains or (-) losses on defined benefit pension plans" 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 2022 relate mainly to the variations in the main actuarial assumptions of the German subsidiary – actuarial gains by experience and increase of interest rates from 1.45% to 4.21%-, as well as actuarial earnings, mainly financial, in Nordics (Scandinavia) – increases in interest rates from 2.00% to 3.50% in Sweden and with actuarial gains from Spanish entities – increase in the interest rate from 0.70% to 3.70% and gains on affected assets (in 2021 changes related mainly due to the variations in the main actuarial assumptions of the German subsidiary – increase in interest rates from 1.17% to 1.45%, and mainly financial actuarial earnings in Nordics due to the increase in interest rates from 1.50% to 2.00% 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 2022 and 2021 were as follows:

	EUR Thousands	
	2022	2021
Balance at beginning of period	100,443	11,864
Valuation gains/(losses)	(54,046)	88,579
Transferred to the income statement	—	—
Balance at end of period	46,397	100,443

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 2022 and 2021 were as follows:

	EUR Thousands	
	2022	2021
Balance at beginning of period	10,170	(3,587)
Valuation gains/(losses)	41,409	796
Amounts transferred to the income statement	31,593	17,997
Taxation	(21,061)	(5,036)
Balance at end of period (Note 29)	62,111	10,170

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 2022 and 2021 were as follows:

	EUR Thousands	
	2022	2021
Balance at beginning of period	256	526
Valuation gains/(losses)	(1,797)	(6,062)
Transferred to the consolidated income statement	(285)	5,693
Taxation	677	99
Balance at end of period	(1,149)	256

27. Non-controlling interests

"Non-Controlling Interests" in the accompanying consolidated balance sheets as of 31 December 2022 and 2021 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 2022 and 2021 is as follows:

	EUR Thousands	
	2022	2021
Suzuki Servicios Financieros, S.L.	5,668	4,246
PSA Banque France S.A	884,248	716,790
Financiera El Corte Inglés, E.F.C., S.A.	136,517	129,221
PSA Financial Services, Spain, E.F.C., S.A.	340,674	369,637
PSA Finance Belux S.A.	(10,273)	(5,633)
PSA Financial Services Nederland B.V.	(6,253)	(5,600)
PSA Bank Deutschland GmbH	276,059	283,792
Banca PSA Italia S.P.A.	196,277	160,170
Transolver Finance E.F.C., S.A.	34,813	33,085
PSA Renting Italia S.P.A.	3,581	1,358
Hyundai Capital Bank Europe GmbH	352,332	351,605
Allane SE	(41,627)	(47,331)
TIMFin S.p.A.	22,233	25,952
PSA FINANCE UK LIMITED	1,847	4,576
Other	(34)	(61)
	2,196,062	2,021,807
Profit attributable to non-controlling interests:		
Suzuki Servicios Financieros, S.L.	1,003	1,422
PSA Banque France S.A.	180,290	165,079
Financiera El Corte Inglés, E.F.C., S.A.	28,639	27,387
PSA Financial Services, Spain, E.F.C., S.A.	24,200	26,653
PSA Finance Belux S.A.	7,362	7,860
PSA Financial Services Nederland B.V.	6,279	8,341
PSA Bank Deutschland GmbH	26,080	29,534
Banca PSA Italia S.P.A.	30,922	33,713
Transolver Finance E.F.C., S.A.	1,646	1,728
PSA Renting Italia S.P.A.	5,706	4,468
Hyundai Capital Bank Europe GmbH	8,108	541
Allane SE	3,501	1,629
TIMFin S.p.A.	(1,690)	(3,722)
PSA FINANCE UK LIMITED	36,685	11,277
Other	32	62
	358,763	315,972
	2,554,825	2,337,779

The changes in 2022 and 2021 in “Non-Controlling Interests” in the consolidated balance sheets were as follows:

	EUR Thousands	
	2022	2021
Balance at beginning of period	2,337,778	2,131,896
Dividends	(135,837)	(233,406)
Currency translation differences and other (*)	(5,876)	123,317
Profit/(loss) attributable to NCIs	358,760	315,971
Balance at end of period	2,554,825	2,337,778

(*) Mainly includes the balances of the business combination PSA Banque France S.A.

28. Memorandum items

The detail of the balances recognised under “Memorandum Items” in the consolidated balance sheets as of 31 December 2022 and 2021 is as follows:

	EUR Thousands	
	31/12/2022	31/12/2021
Loan commitments granted	25,756,041	24,122,179
<i>Memorandum item: of which, doubtful</i>	56,500	62,600
Financial guarantees granted	84,997	189,841
<i>Memorandum item: of which, doubtful</i>	—	—
Financial guarantees	84,997	187,253
Credit derivatives sold	—	2,588
Other commitments granted	1,211,006	1,183,948
<i>Memorandum item: of which, doubtful</i>	2,604	3,367
Technical guarantees	552,398	531,497
Other commitments	658,608	652,451

The breakdown as at 31 December 2022 of the exposures and the provision fund (see Note 10) out of balance sheet by impairment stage under IFRS 9 is EUR 26,865,725 and EUR 21,000 thousand in stage 1, EUR 127,214 thousand and EUR 1,570 thousand in stage 2 and EUR 59,105 thousand and EUR 5,440 thousand in stage 3, respectively (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 at 31 December 2021).

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 granting 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 Euro.

	EUR Thousands				
	2022				
	NOMINAL VALUE	MARKET VALUE		Changes in fair value used to calculate hedge ineffectiveness	Balance sheet line items
		ASSETS	LIABILITIES		
Fair value hedges:	20,979,888	876,854	143,424	679,319	
Interest rate risk	19,694,967	869,796	113,915	705,127	
Interest Rate Swap	19,694,967	869,796	113,915	705,127	Derivatives - hedge accounting
Exchange rate risk	456,210	7,058	1,258	—	
Fx Forward	456,210	7,058	1,258	—	Derivatives - hedge accounting
Interest rate and exchange rate risk	828,710	—	28,251	(25,808)	
Currency Swap	828,710	—	28,251	(25,808)	Derivatives - hedge accounting
Cash flow hedges	5,646,185	209,136	49,584	74,001	
Inherent rate risk	1,663,660	51,038	3,000	84,861	
Interest Rate Swap	1,663,660	51,038	3,000	84,861	Derivatives - hedge accounting
Exchange rate risk	695,276	2,405	46,137	2,787	
Currency swap	695,276	2,405	46,137	2,787	Derivatives - hedge accounting
Interest rate and exchange rate risk	3,287,249	155,692	3,444	(13,647)	
Currency swap	3,287,249	155,692	3,444	(13,647)	Derivatives - hedge accounting
Hedges of net investments in foreign operations	1,960,672	45,080	778	20	
Exchange rate risk	1,960,672	45,080	778	20	
Fx Forward	1,960,672	45,080	778	163	Derivatives - hedge accounting
Collected deposits	—	—	—	(143)	Deposits
	28,586,744	1,131,071	193,786	753,341	

	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	

Group entities mainly have long-term loan portfolios at fixed interest rates and are therefore exposed to changes in fair value due to movements in market interest rates. Entities manage this risk by contracting Interest Rate Swaps in which they pay a fixed rate and receive a variable rate. Only the interest rate risk is covered and, therefore, other risks, such as credit risk, are managed, but not covered by the entities. The interest rate risk component is determined as the change in the fair value of fixed rate loans that arise solely from changes in a reference rate. This strategy is designated as a fair value hedge and its effectiveness is assessed by comparing changes in the fair value of the loans attributable to changes in the benchmark interest rates with changes in the fair value of the 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					
	2022					
	Up to 1 month	1-3 months	3-12 months	1-5 years	5+ years	Total
Fair value hedges:	524,238	905,355	3,602,301	15,247,675	700,319	20,979,888
Interest rate risk	310,862	595,102	3,469,411	14,619,273	700,319	19,694,967
Interest Rate Swap	310,862	595,102	3,469,411	14,619,273	700,319	19,694,967
Exchange rate risk	213,375	109,944	132,891	—	—	456,210
Fx Forward	213,375	109,944	132,891	—	—	456,210
Interest rate and exchange rate risk	—	200,308	—	628,402	—	828,710
Currency Swap	—	200,308	—	628,402	—	828,710
Cash flow hedges	285,796	625,702	2,373,983	2,360,704	—	5,646,185
Inherent rate risk	40,180	92,465	629,612	901,403	—	1,663,660
Interest Rate Swap	40,180	92,465	629,612	901,403	—	1,663,660
Exchange rate risk	63,332	27,332	283,388	321,223	—	695,275
Currency swap	63,332	27,332	283,388	321,223	—	695,275
Interest rate and exchange rate risk	182,284	505,905	1,460,983	1,138,077	—	3,287,249
Currency swap	182,284	505,905	1,460,983	1,138,077	—	3,287,249
Hedges of net investments in foreign operations	181,047	648,059	1,131,566	—	—	1,960,672
Exchange rate risk	181,047	648,059	1,131,566	—	—	1,960,672
Fx Forward	181,047	648,059	1,131,566	—	—	1,960,672
	991,081	2,179,116	7,107,850	17,608,379	700,319	28,586,745

	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	15,022,346
Interest rate risk	230,144	540,440	1,928,538	9,031,990	1,845,599	13,576,711
Interest Rate Swap	230,144	540,440	1,928,538	9,031,990	1,845,599	13,576,711
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	—	3,209,089
Currency swap	121,895	326,678	1,585,873	1,174,643	—	3,209,089
Hedges of net investments in foreign operations	217,203	499,269	1,420,495	—	—	2,136,967
Exchange rate risk	217,203	499,269	1,420,495	—	—	2,136,967
Fx Forward	217,203	499,269	1,420,495	—	—	2,136,967
	869,146	1,612,591	6,753,792	12,502,877	1,845,625	23,584,031

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.

	2022					
	EUR Thousands					
	Up to 1 month	1-3 months	3-12 months	1-5 years	5+ years	Total
Fair Value Coverages						
Interest rate risk						
Interest rate instruments						
Nominal	310,862	595,102	3,469,411	14,619,273	700,319	19,694,967
Average fixed interest rate (%) EUR	(0.002)	—	0.002	0.006	0.002	—
Average fixed interest rate (%) CHF	(0.627)	(0.628)	1.200	1.419	—	—
Average fixed interest rate (%) GBP	0.015	0.014	0.013	0.019	—	—
Exchange rate risk						
exchange rate instruments						
Nominal	213,375	109,944	132,891	—	—	456,210
Average exchange rate DKK/EUR	—	—	7	—	—	—
Average NOK/EUR exchange rate	—	—	—	—	—	—
Average CHF/EUR exchange rate	1.034	—	—	—	—	—
SEK/EUR average exchange rate	0.000	1.027	0.992	—	—	—
Average CAD/EUR exchange rate	—	—	10.767	—	—	—
Average GBP/EUR exchange rate	—	1.412	—	—	—	—
Exchange rate and interest risk						
Interest rate instruments						
Nominal	—	200,308	—	628,402	—	828,710
Average exchange rate DKK/EUR	0.000	—	—	0.004	—	—
Average fixed interest rate (%) DKK	0.000	—	—	7.439	—	—
Average fixed interest rate (%) SEK	0.000	—	—	0.001	—	—
Cash Flow Hedges						
Interest rate risk						
Interest rate instruments						
Nominal	40,180	92,465	629,612	901,403	—	1,663,660
Average fixed interest rate (%) EUR	0.121%	0.541%	0.299%	1.465%	—%	—
Exchange rate risk						
exchange rate instruments						
Nominal	63,332	27,332	283,388	321,223	—	695,276
Average NOK/EUR exchange rate	—	—	—	10.590	—	—
Average CHF/EUR exchange rate	1.077	1.084	1.064	1.059	—	—
Average CAD/EUR exchange rate	0.000	—	1.454	1.427	—	—
Average JPY/EUR exchange rate	—	—	—	121.570	—	—
Exchange rate and interest risk						
exchange rate instruments						
Nominal	182,284	505,905	1,460,983	1,138,077	—	3,287,249
SEK/EUR average exchange rate	10.360	10.390	10.580	10.700	—	—
Average NOK/EUR exchange rate	9.600	9.940	10.310	10.280	—	—
Average CHF/EUR exchange rate	—	—	—	1.090	—	—
Average CAD/EUR exchange rate	—	—	—	1.370	—	—
Average exchange rate DKK/EUR	—	—	7.410	—	—	—
Average exchange rate PLN/EUR	—	—	4.290	—	—	—
Average fixed interest rate (%) EUR	0%	0%	0%	0%	0%	—
Average fixed interest rate (%) CHF	0%	0%	0%	2%	0%	—
Hedges of net investments in foreign businesses						
Exchange rate risk						
exchange rate instruments						
Nominal	181,047	648,059	1,131,566	—	—	1,960,672
Average NOK/EUR exchange rate	10.225	10.084	10.458	—	—	—
Average CNY/EUR exchange rate	—	7.059	—	—	—	—

	2021					
	EUR Thousands					
	Up to 1 month	1-3 months	3-12 months	1-5 years	5+ years	Total
Fair Value Coverages						
Interest rate risk						
Interest rate instruments						
Nominal	230,144	540,440	1,928,538	9,031,990	1,845,599	13,576,711
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)	0.000	
Average fixed interest rate (%) GBP	0.540	0.529	0.504	0.498	0.000	
Exchange rate risk						
exchange rate instruments						
Nominal	53,100	77,535	662,990	—	—	793,625
Average NOK/EUR exchange rate	—	—	1.041	—	—	
Average CHF/EUR exchange rate	1.017	—	—	—	—	
SEK/EUR average exchange rate	0.862	0.848	0.858	—	—	
Average CAD/EUR exchange rate	—	—	9.907	—	—	
Exchange rate and interest risk						
Interest 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 Hedqes						
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 NOK/EUR exchange rate	0.000	—	—	10.59	—	
Average CHF/EUR exchange rate	1.077	1.08	1.131	1.094	—	
Average CAD/EUR exchange rate	1.570	1.51	1.52	1.548	—	
Average JPY/EUR exchange rate	—	—	77.139	121.57	—	
Exchange rate and interest risk						
exchange rate instruments						
Nominal	121,895	326,678	1,585,873	1,174,643	—	3,209,090
SEK/EUR average exchange rate	10.200	10.14	10.18	10.18	—	
Average NOK/EUR exchange rate	—	—	9.85	9.95	—	
Average CHF/EUR exchange rate	—	—	—	1.07	—	
Average CAD/EUR exchange rate	—	—	—	1.46	—	
Average exchange rate DKK/EUR	—	—	—	—	—	
Average exchange rate PLN/EUR	—	—	4.63	4.29	—	
Average USD/EUR exchange rate	—	—	—	—	—	
Average JPY/EUR exchange rate	—	—	—	—	—	
Average fixed interest rate (%) EUR	—	0.01 %	—	0.89 %	—	
Average fixed interest rate (%) CHF	—	—	—	0.15 %	—	
Hedges of net investments in foreign businesses						
Exchange rate risk						
exchange rate instruments						
Nominal	217,203	499,269	1,420,495	—	—	2,136,966
Average NOK/EUR exchange rate	10.247	10.235	10.211	—	—	
Average CNY/EUR exchange rate	—	7.548	—	—	—	

The following table contains details of the hedged exposures covered by the Group's hedging strategies of 31 December 2022:

	EUR Thousands							
	2022							
	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	18,103,217	4,288,729	(766,024)	151,263	Loans and advances	(568,406)	—	—
Interest rate risk	17,635,515	3,460,019	(766,024)	104,224		(615,816)	—	—
Exchange rate risk	467,703	—	—	—		—	—	—
Interest rate risk and Exchange rate risk	—	828,710	—	47,039	Equity Portfolio	47,409	—	—
Cash flow hedges	—	—	—	—	Financial liabilities at amortized cost	(112,488)	43,197	43,450
Interest rate risk	—	—	—	—		18,087	51,093	43,416
Exchange rate risk	—	—	—	—		43,731	3,980	—
Interest rate risk and Exchange rate risk	—	—	—	—		(174,307)	(11,876)	34
Hedges of net investments in foreign operations	1,958,236	—	—	—	Equity instruments	—	—	—
Exchange rate risk	1,958,236	—	—	—		—	—	—
	20,061,454	4,288,729	(766,024)	151,263		(680,894)	43,197	43,451

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, 2022 is EUR (4) million.

	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)	Equity Portfolio	5,901	—	—
Cash flow hedges	—	—	—	—	Financial liabilities at amortized cost	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 at December 31, 2021 is EUR (7) million.

The net impact of the hedges is as follows:

	EUR Thousands				
	2022				
	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	Income statement line item including the reclassified items
<u>Fair value hedges</u>	—	86,252	Gains/(losses) financial assets and financial liabilities	—	Net interest income/Assets Gains/(losses)/ Financial Liabilities
Interest rate risk	—	89,020		—	
Interest rate risk and Exchange rate risk	—	(2,768)		—	
<u>Cash flow hedges</u>	73,003	348	Gains/(losses) financial assets and financial liabilities	(31,593)	Net interest income/Assets Gains/(losses)/ Financial Liabilities
Interest rate risk	84,513	348		5,650	
Exchange rate risk	2,645	—		(7,705)	
Interest rate risk and Exchange rate risk	(14,155)	—		(29,538)	
<u>Hedges of net investments in foreign operations</u>	—	—	Gains/(losses) financial assets and financial liabilities	—	Net interest income/Assets Gains/(losses)/ Financial Liabilities
Exchange rate risk	—	—		—	
	73,003	86,600		(31,593)	

	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	Income statement line item including the reclassified items
<u>Fair value hedges</u>	—	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)		—	
<u>Cash flow hedges</u>	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)	
<u>Hedges of net investments in foreign operations</u>	—	—	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 doesn't include EUR 332 thousand corresponding to Non-controlling interests from 2020.

The impact in shareholder's equity in 2022 is as follows:

	EUR Thousands
Balance at beginning of period 2021	(3 506)
<u>Cash flow hedges</u>	10 317
Interest rate risk	0 633
<i>Transferred to the income statement</i>	7 056
<i>Other reclassifications</i>	6 777
Exchange rate risk	1 056
<i>Transferred to the income statement</i>	6 751
<i>Other reclassifications</i>	(1 705)
Interest rate and exchange rate risk	1 732
<i>Transferred to the income statement</i>	8 300
<i>Other reclassifications</i>	(3 667)
Non-controlling interests	(530)
Taxation	(5 036)
Balance at end of period 2021	10,170
<u>Cash flow hedges</u>	73,003
Interest rate risk	84,513
<i>Changes in equity transferred to the income statement</i>	(5,650)
<i>Other equity movements</i>	90,163
Exchange rate risk	2,645
<i>Changes in equity transferred to the income statement</i>	6,891
<i>Other equity movements</i>	(4,246)
Interest rate and exchange rate risk	(14,155)
<i>Changes in equity transferred to the income statement</i>	29,538
<i>Other equity movements</i>	(43,693)
Non-controlling interests	(6,334)
Taxation	(14,727)
Balance at end of period 2022	62,112

30. Interest income

"Interest Income" in the consolidated income statements for 2022 and 2021 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 2022 and 2021 is as follows:

	EUR Thousands	
	2022	2021
Loans and advances – Central banks	—	—
Loans and advances – Credit institutions	26,960	32,110
Debt instruments	39,031	8,290
Loans and advances - Customers	4,018,879	3,825,903
Non – performing assets	3,548	3,514
Rectification of income as a result of heading transactions and other interest (*)	106,815	151,547
	4,195,233	4,021,364

(*) Includes de recognized amount corresponding to TLTRO III (see note 17).

Most of the interest income was generated by the Group's financial assets that are measured at amortised cost or at fair value through accumulated other comprehensive income.

31. Interest expenses

"Interest Expense" in the consolidated income statements for 2022 and 2021 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 2022 and 2021 is as follows:

	EUR Thousands	
	2022	2021
Deposits from the Bank of Spain and other central banks	29,514	41,270
Deposits from credit institutions	55,488	31,834
Customer deposits	165,595	125,637
Marketable debt securities	318,350	201,476
Subordinated liabilities	13,633	14,560
Provisions for pensions (Notes 2-r, 2-s and 21) (*)	8,680	7,395
Rectification of expenses as a result of hedging transactions	801	(1,399)
Other interest	31,965	42,619
	624,026	463,392

(*) Includes the interest on post-employment and other long-term benefits of Spanish entities amounting to 369 y 472 thousand, respectively in 2022 (EUR 124 y 171 thousand respectively in 2021) and of foreign entities, amounting to EUR 7,837 thousand (EUR 7,100 thousand in 2021) - 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 2022 and 2021 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 2022 and 2021 is as follows (see Note 12):

	EUR Thousands	
	2022	2021
Santander Consumer Bank S.A. (Polonia)	32,941	9,730
Fortune Auto Finance Co., Ltd.	28,335	28,549
PSA Insurance Europe, Ltd	20,260	12,794
PSA Life Insurance Europe Ltd	12,032	9,867
Santander Consumer Multirent, S.A.	2,093	1,719
PSA Finance Polska SP. Z O.O.	1,060	1,026
Other	15	105
	96,736	63,790

33. Income from entities accounted for using the equity method

The balance of "Commission Income" in the consolidated income statements for 2022 and 2021 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 2022 and 2021 is as follows:

	EUR Thousands	
	2022	2021
Collection and payment services:		
Bills	5,543	5,078
Demand accounts	17,794	18,916
Cards	65,237	58,539
Checks and orders	25,240	24,183
	113,814	106,716
Marketing of non-banking financial products:		
	876,323	846,187
Securities services:	876,323	846,187
Securities trading		
Administration and custody	24,261	28,913
Equity management	1,046	1,396
	8,599	6,622
Other:	33,906	36,931
Financial guarantees		
Commitment fees	6,065	6,112
Other fees and commissions	4,899	4,524
Collection and payment services:	98,018	95,186
	108,982	105,822
	1,133,025	1,095,656

34. Commission expenses

The balance of "Commission Expense" in the consolidated income statements for 2022 and 2021 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 2022 and 2021 is as follows:

	EUR Thousands	
	2022	2021
Brokerage fees on lending and deposit transactions	771	628
Fees and commissions assigned in respect of off-balance-	15,928	24,532
Fees and commissions assigned for collection and return of	7,640	7,517
Fees and commissions assigned in other concepts	16,275	12,556
Fees and commissions assigned for cards	11,084	5,934
Fees and commissions assigned for securities	17,045	20,575
Fees and commissions assigned to intermediaries	71,782	67,181
Other fees and commissions for placement of insurance	164,298	161,212
Other fees and commissions	44,666	34,047
	349,489	334,182

35. Gains or losses on financial assets and liabilities

The detail of this item of the consolidated income statements for 2022 and 2021, by nature of the instrument that originates the change, is as follows:

	EUR Thousands	
	2022	2021
	Income/(Expenses)	
Gains/(losses) on financial instruments not at fair value through profit or loss, net	807	(6,654)
<i>Financial assets at amortised cost</i>	2	(841)
<i>Other</i>	805	(5,813)
Gains/(losses) on financial instruments held for trading, net	(10,077)	1,413
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	—	—
Gains/(losses) from hedge accounting, net (Note 29)	86,600	10,889
	77,330	5,655

36. Currency translation differences (net)

"Currency translation differences (net)" in the consolidated income statements for 2022 and 2021 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 2022 and 2021 is as follows:

	EUR Thousands	
	2022	2021
Sales and income from non-financial services (*)	436,344	215,027
Other operating income	114,734	168,048
	551,078	383,075

(*) As of December 31, 2022, primarily to operating lease income in Germany from Allane SE, Allane Mobility Consulting GmbH, in Holland from Riemersma Leasing B.V. and Santander Consumer Leasing GmbH.

38. Other operating expenses

The detail of "Other Operating Expenses" in the consolidated income statements for 2022 and 2021 is as follows:

	EUR Thousands	
	2022	2021
Contributions to deposit guarantee funds and other national resolution funds (Note 1-d)	81,891	82,156
Changes in inventories (*)	216,568	23,233
Other	117,529	219,947
	415,988	325,336

(*) Relates mainly to the expenses related to the vehicle operating lease business in Germany and the Netherlands.

39. Staff costs

"Staff Costs" in the consolidated income statements for 2022 and 2021 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 2022 and 2021 is as follows:

	EUR Thousands	
	2022	2021
Wages and salaries	649,661	620,502
Social security costs	101,065	99,850
Additions to pension provisions (Note 21) (*)	13,312	13,932
Contributions to defined contribution pension funds (Note 21)	40,902	39,566
Contributions to plans - Spanish entities	3,034	2,223
Contributions to plans - foreign entities	37,868	37,343
Share-based payment costs	7	—
Other staff costs	77,280	67,332
Termination benefits	1,955	1,448
	884,182	842,630

(*) Of which:

- In 2022, EUR 374 thousand relate to "current service cost of defined benefit post-employment obligations Spanish entities" (EUR 333 thousand in 2021) (see Notes 2-r and 21).
- In 2022, EUR 9,486 thousand relate to "current service cost of defined benefit post-employment obligations Germany" (EUR 10,042 thousand in 2021) (see Notes 2-r and 21).
- In 2022, EUR 3,426 thousand relate to "current service cost of defined benefit post-employment obligations foreign entities" (EUR 3,032 thousand in 2021) (see Notes 2-r and 21).
- In 2022, EUR 26 thousand relate to "current service cost of other long-term defined benefit obligations - Spanish entities" (EUR 9 thousand in 2021) (see Notes 2-s and 21).

The average number of employees at the Group in 2022 and 2021, by professional category, was as follows:

	Avg no. of employees	
	2022	2021
The Bank:		
Senior executives	43	145
Middle management	237	484
Clerical staff	829	371
	1,109	1,000
Other companies	10,168	10,281
	11,277	11,281

The functional breakdown, by gender, of the number of employees at the Group on 31 December 2022 and 2021 is as follows:

	2022			2021		
	Total	Men	Women	Total	Men	Women
Senior executives	97	73	24	87	70	17
Middle management	1,262	772	490	1,326	823	503
Clerical staff and other	10,061	4,914	5,147	9,794	4,651	5,143
	11,420	5,759	5,661	11,207	5,544	5,663

On 31 December 2022 the Board of Directors of the Bank had 12 members (13 in 2021), of whom 1 were women (2 women in 2021).

The work relations between employees and the various Group companies are governed by the related collective agreements or similar regulations.

As 31 December 2022 and 2021, 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 2022 and 2021 is as follows:

	EUR Thousands	
	2022	2021
Property, fixtures and supplies	46,235	43,899
Other administrative expenses	8,408	39,119
Communications	37,325	37,731
Taxes other than income tax	55,737	55,730
Technology and systems	319,454	288,043
Public relations, advertising and publicity	80,634	68,723
Per diems and travel expenses	13,436	8,005
External services	214,419	191,455
Technical reports	86,194	79,836
Insurance premiums	7,584	6,089
Other	2,624	2,688
	872,050	821,318

"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 Thousands	
	2022	2021
Audit	17.4	15.0
Services related with the audit	0.6	0.6
Tax Services	—	0.1
Other services	0.2	0.3
Total	18.2	16.0

The heading "Audit" 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 "Services related with the audit" 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" and "Services related with the audit" captions include 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 or reversal of impairment of non-financial assets

The detail of "Impairment charges or reversal of non-financial assets" for the years 2022 and 2021 is as follows:

	EUR Thousands	
	2022	2021
Tangible Assets (*)	985	(2,701)
Intangible Assets (Nota 14 y 15)	11,647	11,662
Other	9,227	5,911
	21,859	14,872

(*) As of 31 December 2022 and 2021, 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 2022 and 2021 corresponds mainly to impairment charges derived from the obsolescence of intangible assets.

The amounts registered under "impairment charges or reversal of non-financial assets – intangible assets" for the years ended 31 December 2022 and 2021 corresponds mainly to impairment charges derived from the obsolescence of intangible – see Note 15.

42. Gains or losses on non-financial assets and investments, net

The detail of "gains or losses on non-financial assets and investments, net" for the years ended 31 December 2022 and 2021 is as follows:

	EUR Thousands	
	2022	2021
	Income/(Expenses)	
Gains		
Property, plant and equipment and intangible assets	791	803
	632	—
	1,423	803
Losses		
Property, plant and equipment and intangible assets	(221)	(567)
	(221)	(567)
	1,202	236

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 2022 and 2021 is as follows:

	EUR Thousands	
	2022	2021
	Income/(Expenses)	
Net gains/(losses) on disposals:	(780)	(2,680)
Impairment losses (net) (Note 11)	652	(545)
	(128)	(3,225)

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 2022 and 2021 is as follows:

	2022						
	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	6,826,225	—	—	—	—	—	6,826,225
Financial assets at fair value through other comprehensive income	—	19,144	409,678	296,686	—	1,000	726,508
Debt instruments (Note 7)	—	19,144	409,678	296,686	—	1,000	726,508
Financial assets at amortised cost	6,957,723	5,517,489	7,836,587	22,883,416	56,688,948	13,210,385	113,094,548
Debt instruments (Note 7)	—	105,025	1,086,118	2,106,033	2,887,885	—	6,185,061
Loans and advances	6,957,723	5,412,464	6,750,469	20,777,383	53,801,063	13,210,385	106,909,487
Central banks	—	19,736	—	—	—	—	19,736
Credit institutions (Note 6)	248,388	13,777	11,483	18,282	98,279	97	390,306
Customers (Note 10)	6,709,335	5,378,951	6,738,986	20,759,101	53,702,784	13,210,288	106,499,445
	13,783,948	5,536,633	8,246,265	23,180,102	56,688,948	13,211,385	120,647,281
Liabilities:							
Financial assets at amortised cost-Deposits							
Deposits	31,982,008	2,789,937	3,198,629	12,254,331	20,370,972	252,193	70,848,070
Central banks (Note 17)	—	13	66	9,140,720	8,750,588	9,254	17,900,641
Credit institutions (Note 17)	487,358	330,687	1,558,296	788,927	8,304,618	150,316	11,620,202
Customers (Note 18)	31,494,650	2,459,237	1,640,267	2,324,684	3,315,766	92,623	41,327,227
Debt instruments in issue (Note 19)	—	274,496	4,272,678	7,616,878	17,583,722	9,107,986	38,855,760
Other financial liabilities (Note 20)	426,276	750,831	602	30,698	87,623	77,370	1,373,400
	32,408,284	3,815,264	7,471,909	19,901,907	38,042,317	9,437,549	111,077,230
Difference (assets – liabilities)	(18,624,336)	1,721,369	774,356	3,278,195	18,646,631	3,773,836	9,570,051

	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

For a proper understanding of the information included in the tables above, it should be noted that 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 2022 and 2021, based on the nature of the related items, is as follows:

	Equivalent value in EUR millions			
	2022		2021	
	Assets	Liabilities	Assets	Liabilities
Cash and balances at central banks	865	—	766	—
Financial instruments held for trading	38	39	19	20
Financial assets at fair value through other comprehensive income	1	—	2	—
Derivatives - hedge accounting	63	31	16	2
Assets included in disposal groups	7	—	6	—
Investments in joint ventures and associates	686	—	643	—
Tangible assets	104	—	104	—
Intangible assets	221	—	230	—
Tax assets and liabilities	261	212	169	195
Financial instruments at amortised cost	17,999	11,650	18,063	12,683
Liabilities included in disposal groups classified as held for sale	—	—	—	—
Provisions	—	25	—	19
Others	51	264	118	264
	20,296	12,221	20,136	13,183

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 2022 and 2021 of the Group's financial assets measured at other than fair value and their respective fair values at the end of 2022 and 2021:

Assets	EUR Thousands									
	2022					2021				
	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	106,909,487	104,883,727	—	246,580	104,637,147	100,190,958	101,768,244	—	240,620	101,527,624
Debt instruments	6,185,061	6,097,660	6,097,660	—	—	3,472,396	3,501,586	3,501,586	—	—
	113,094,548	110,981,387	6,097,660	246,580	104,637,147	103,663,354	105,269,830	3,501,586	240,620	101,527,624

ii) *Financial liabilities at other than fair value*

Following is a comparison of the carrying amounts on 31 December 2022 and 2021 of the Group's financial liabilities measured at other than fair value and their respective fair values at the end of 2022 and 2021:

Liabilities	EUR Thousands									
	2022					2021				
	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	70,848,070	69,483,115	—	33,413,317	36,069,798	70,866,247	70,688,225	—	35,495,682	35,192,543
Debt securities in issue and other financial liabilities (*)	38,855,760	37,826,675	4,979,748	29,533,203	3,313,724	40,652,231	40,969,477	6,920,769	30,431,583	3,617,125
	109,703,830	107,309,790	4,979,748	62,946,520	39,383,522	111,518,478	111,657,702	6,920,769	65,927,265	38,809,668

(*) Additionally, other financial liabilities are registered amounting to EUR 1,373,400 thousand and EUR 1,751,553 thousand at December 2022 and 2021 respectively.

3. *Valuation methods and inputs used*

The main valuation methods and inputs used in the estimates as of 31 December 2022 and 2021 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:
 - The fair value of deposits from central banks was taken to be their carrying amount since they are mainly short-term balances.
 - Deposits from credit institutions: the fair value was obtained by the present value method using market interest rates and spreads.

- 3) 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.
- 4) 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															
	2022								2021							
	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	13,435,196	10,180,074	38,654,354	17,394,410	16,353,163	5,794,708	6,643,981	108,455,886	13,035,276	8,917,503	35,653,570	17,087,823	14,561,647	7,076,402	3,227,062	99,559,283
Financial assets held-for-trading	3,540	—	120,854	9,916	3,394	—	356,960	494,664	(456)	139	7,649	1,449	—	455	42,240	51,476
Debt instruments	1,926,404	450,751	3,619,344	492,215	249,295	1,000	174,004	6,913,013	(3,675)	674,085	1,681,037	968,561	70,162	1,000	1,138,579	4,529,749
Financial assets at amortised cost – Central banks and credit institutions	2,444,141	944,262	2,451,564	1,807,037	209,173	853,300	(8,299,435)	410,042	713,698	370,482	276,132	1,866,363	148,170	1,066,920	(3,810,090)	631,675
Tangible and intangible assets	150,372	71,370	2,990,795	129,642	31,549	55,075	1,832,747	5,261,550	72,481	60,403	2,222,982	149,818	34,479	52,452	1,777,237	4,369,852
Cash and other	1,352,435	519,595	3,143,859	1,088,397	1,711,537	657,028	271,688	8,744,539	386,014	926,770	12,061,011	991,718	1,490,685	620,474	5,312,482	21,789,154
Total assets	19,312,088	12,166,052	50,980,770	20,921,617	18,558,111	7,361,111	979,945	130,279,694	14,203,338	10,949,382	51,902,381	21,065,732	16,305,143	8,817,703	7,687,510	130,931,189
Customer deposits	304,790	1,390,953	25,209,910	7,217,679	3,386,021	3,899,821	(81,947)	41,327,227	576,421	1,358,711	23,497,129	7,340,655	3,467,653	2,993,973	(146,064)	39,088,478
Debt securities in issued	1,791,678	684,647	6,901,467	4,476,361	4,775,402	384,083	19,842,122	38,855,760	2,655,633	832,392	7,701,052	5,105,356	5,123,137	506,108	18,728,553	40,652,231
Deposits from central banks and credit institutions	15,490,700	8,172,755	11,124,669	5,904,385	7,175,670	1,830,484	(20,177,820)	29,520,843	8,830,912	7,006,931	13,655,489	5,259,407	4,667,523	4,276,266	(11,918,761)	31,777,767
Other liabilities and equity accounting	1,258,558	749,020	2,816,140	478,134	2,573,047	244,552	236,943	8,356,394	1,080,610	610,427	2,507,292	486,877	2,098,248	344,553	582,182	7,710,189
Shareholders' equity	466,362	1,168,677	4,928,585	2,845,057	647,970	1,002,171	1,160,648	12,219,470	1,059,761	1,140,919	4,541,418	2,873,438	948,582	696,804	441,602	11,702,524
Total funds under management	19,312,088	12,166,052	50,980,771	20,921,616	18,558,110	7,361,111	979,946	130,279,694	14,203,337	10,949,380	51,902,380	21,065,733	16,305,143	8,817,704	7,687,512	130,931,189

Consolidated income statement (Condensed)	2022							2021						
	Spain	Italy	Germany	Nordics	France	Other (*)	Total	Spain	Italy	Germany	Nordics	France	Other (*)	Total
NET INTEREST INCOME	540,404	357,183	1,025,770	668,299	532,357	447,194	3,571,207	579,292	357,740	1,032,130	697,293	514,898	376,619	3,557,972
Income from entities accounted for using the equity method	16,049	3,489	28,486	1,865	10,115	36,732	96,736	14,792	3,200	27,172	2,583	10,702	5,341	63,790
Net commissions	62,799	80,755	439,316	36,344	104,558	59,764	783,536	57,620	74,389	432,734	31,252	109,348	56,131	761,474
Profit/(loss) from financial operations	8,244	12,277	12,215	(3,273)	48,989	(18,766)	59,686	189	(225)	1,086	3,003	1,655	(4,384)	1,324
Other operating income/(expense)	9,618	(5,564)	152,164	(1,972)	(15,614)	(3,306)	135,326	7,321	(11,185)	88,089	(3,483)	(7,115)	(15,613)	58,014
OPERATING INCOME	637,114	448,140	1,657,950	701,262	680,405	521,620	4,646,491	659,214	423,919	1,581,211	730,648	629,488	418,094	4,442,574
Administrative and general expenses	(229,462)	(145,216)	(708,889)	(242,502)	(194,244)	(235,919)	(1,756,232)	(222,765)	(129,993)	(681,992)	(269,036)	(190,675)	(169,487)	(1,663,948)
Staff costs	(92,691)	(72,383)	(418,797)	(134,750)	(87,748)	(77,813)	(884,182)	(91,862)	(65,484)	(397,702)	(140,352)	(84,249)	(62,981)	(842,630)
Other	(136,771)	(72,833)	(290,092)	(107,752)	(106,496)	(158,106)	(872,050)	(130,903)	(64,509)	(284,290)	(128,684)	(106,426)	(106,506)	(821,318)
Amortisation	(14,150)	(16,716)	(101,587)	(25,451)	(8,003)	(23,276)	(189,183)	(14,503)	(15,250)	(105,050)	(24,423)	(7,341)	(24,753)	(191,320)
Provisions or reversal from provisions and impairment loss charges (net)	(118,174)	(47,661)	(157,005)	(73,645)	(48,466)	(48,232)	(493,183)	(169,313)	(38,016)	(149,045)	(115,206)	(37,164)	(54,630)	(563,374)
PROFIT OR LOSS BEFORE TAX	275,329	238,547	690,470	359,664	429,692	214,191	2,207,893	252,633	240,660	645,124	321,983	394,308	169,224	2,023,932
PROFIT OR LOSS IN RESPECT OF CONTINUING OPERATIONS	205,405	165,600	469,856	272,881	340,528	147,353	1,601,623	183,724	157,682	438,460	247,299	310,260	153,236	1,490,661
Profit or loss in respect of discontinued operations	—	—	—	—	—	—	—	—	—	—	—	—	—	—
CONSOLIDATED PROFIT OR LOSS	205,405	165,600	469,856	272,881	340,528	147,353	1,601,623	183,724	157,682	438,460	247,299	310,260	153,236	1,490,661
Attributable to the parent	149,887	129,422	433,407	272,881	160,238	1,241,714,165	1,242,860	126,381	125,112	404,848	247,299	145,162	125,888	1,174,689

(*) 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 2022 and 2021:

	EUR Thousands	
	2022	2021
Spain	761,812	776,504
Abroad:		
European Union	1,546,563	2,525,109
OECD countries	886,859	719,751
Other countries	—	—
	2,433,422	3,244,860
Total	3,195,234	4,021,364

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 from 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, 2022 and 2021.

	Revenue (EUR Thousand)					
	Revenue from external customers		Inter-segment revenue		Total Revenue	
	2022	2021	2022	2021	2022	2021
Spain and Portugal	969,368	959,559	206,602	118,184	1,175,970	1,077,743
Italy	599,648	547,300	23,652	14,548	623,300	561,848
Germany	2,051,454	2,006,721	441,713	448,935	2,493,167	2,455,656
Scandinavia	845,036	799,749	94,663	64,979	939,699	864,728
France	798,404	734,574	523,491	507,853	1,321,895	1,242,427
Other	702,770	458,122	256,753	183,501	959,523	641,623
Inter-segment revenue adjustments and eliminations	—	—	(1,546,874)	(1,338,000)	(1,546,874)	(1,338,000)
Total	5,966,680	5,506,025	—	—	5,966,680	5,506,025

2) 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 2022 and 2021, by business, are as follows:

Consolidated income statement (Condensed)	EUR Thousand			
	2022			
	Vehicles	Consumer Financing	Other (*)	Total
NET INTEREST INCOME	2,263,273	972,172	335,762	3,571,207
Income from entities accounted for using the equity method	71,275	12,293	13,168	96,736
Net commissions	450,423	282,422	50,691	783,536
Profit/(loss) from financial operations	16,649	6,878	36,159	59,686
Other operating income	202,696	8,648	(76,018)	135,326
OPERATING INCOME	3,004,316	1,282,413	359,762	4,646,491
Administrative and general expenses	(961,574)	(472,428)	(322,230)	(1,756,232)
Staff cost	(453,899)	(229,598)	(200,685)	(884,182)
Other	(507,675)	(242,830)	(121,545)	(872,050)
Amortisation	(65,290)	(43,210)	(80,683)	(189,183)
Provisions, Impairment losses on financial assets	(171,312)	(283,029)	(38,842)	(493,183)
PROFIT/(LOSS) BEFORE TAX	1,806,140	483,746	(81,993)	2,207,893
PROFIT/(LOSS) IN RESPECT OF CONTINUING OPERATIONS	1,350,989	342,973	(92,339)	1,601,623
Profit/(loss) in respect of discontinued operations	—	—	—	—
CONSOLIDATED PROFIT/(LOSS)	1,350,989	342,973	(92,339)	1,601,623

Consolidated income statement (Condensed)	EUR Thousand			
	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)
Impairment losses on financial assets (net)	1,740,002	497,734	(213,804)	2,023,932
PROFIT/(LOSS) BEFORE TAX	1,257,492	353,329	(120,161)	1,490,660
PROFIT/(LOSS) IN RESPECT OF CONTINUING OPERATIONS	—	—	—	—
CONSOLIDATED PROFIT/(LOSS)	1,266,492	356,329	(132,160)	1,490,661

* 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 2022 and 2021, 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 2022 and 2021. Related party transactions were made on terms equivalent to those prevailing in arm's-length transactions.

	EUR Thousand							
	2022				2021			
	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	—	727,896	—	—	—	810,307	—	—
Debt instruments	—	—	—	—	—	—	—	—
Loans and advances:	58,675	584,591	—	—	149,421	411,127	—	1,659
Customers	37,111	341,326	14	7	40,597	305,347	—	1,659
Credit institutions	21,564	243,265	—	—	108,824	105,780	—	—
Trading Derivatives (Note 9)	—	334,747	—	—	—	29,519	—	—
Hedging derivatives	—	580,245	—	—	—	55,849	—	—
Other assets	9,710	7,369	—	—	6,431	8,920	—	2
Liabilities:								
Financial liabilities at amortized cost	59,398	9,827,561	—	—	112,786	9,942,182	—	3,086
Deposits from credit institutions (Note 17)	—	9,761,171	—	—	—	9,895,822	—	—
Customer deposits	59,398	66,390	—	259	112,786	46,360	—	3,086
Marketable debt securities	—	6,720,540	—	—	—	5,259,465	—	—
Other financial liabilities	25,603	17,327	—	—	23,206	624,434	—	—
Trading Derivatives (Note 9)	—	307,105	—	—	—	35,449	—	—
Hedging Derivatives	—	150,346	—	—	—	69,301	—	—
Other liabilities	1,989	42,959	—	—	695	33,374	—	—
Income statement								
Interest income	5,160	7,908	—	—	815	7,483	—	—
Interest expenses	—	(105,415)	—	—	—	(42,673)	—	—
Commission income	135,902	158,051	—	—	137,676	36,547	—	—
Commission expense	(2)	(5,758)	—	—	(181)	(5,074)	—	—
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	—	1,161	—	—	—	285	—	—
Gains or losses from hedge accounting, net	—	319,060	—	—	—	19,375	—	—
Exchange differences	—	152,469	—	—	—	(160,298)	—	—
Other operating income	353	10,735	—	—	353	4,785	—	—
Other operating expenses	—	(3)	—	—	—	(122)	—	—
Administrative expenses	(3,386)	(167,230)	—	—	(4,117)	(149,982)	—	—
Other gains/losses	—	—	—	—	—	—	—	—
Memorandum items								
Contingent commitments	—	29,298	—	—	82,964	26,318	—	—
Contingent liabilities	—	—	—	—	—	—	—	—
Other commitments	—	750,238	—	—	—	737,237	—	—

(*) 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 forms 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.

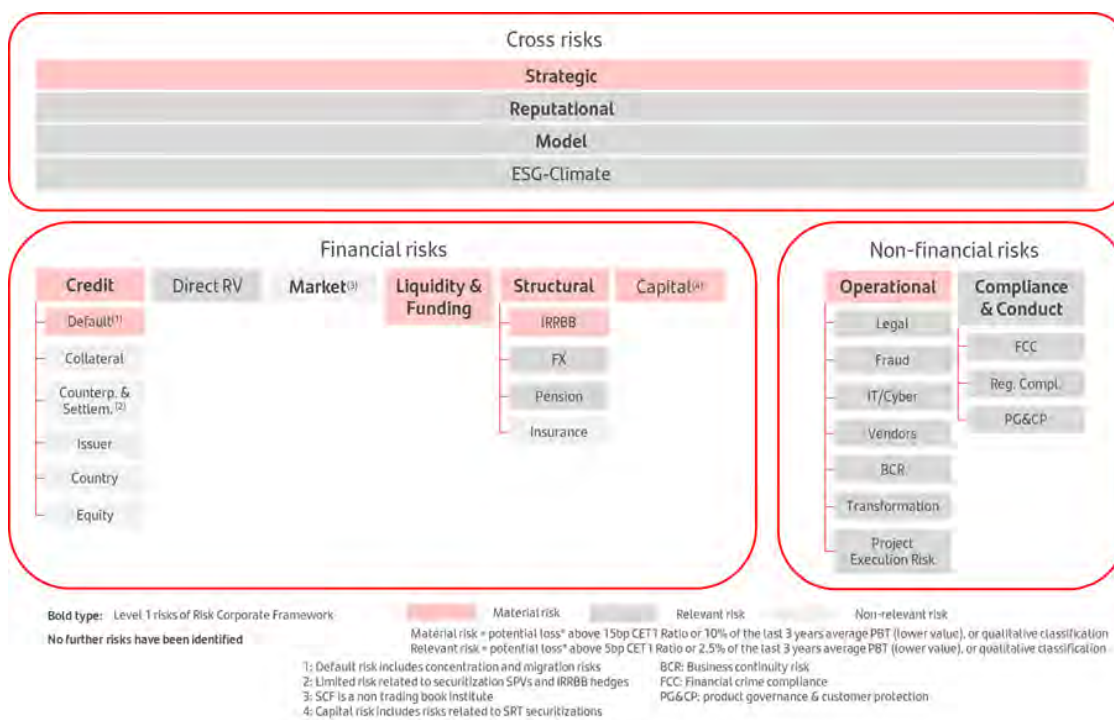
Therefore, the risk function is more important than ever for the Santander Group to remain a solid, safe and sustainable bank, an example for the entire financial industry and a benchmark for all that aspire to turn risk leadership into a competitive advantage.

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 behavioural 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.
- **Financial crime risk** is the risk derived from actions or the use of the group's means, products and services in activities of a criminal or illegal nature. These activities include, but are not limited to, money laundering, terrorist financing, violation of international sanctions programs, corruption, bribery, and tax evasion.
- **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** is defined as the risk of a current or potential adverse economic impact due to a less favourable perception of the bank by employees, customers, shareholders/ investors and society in general.
- **Model risk** is the risk of loss arising from misuse of a model or inaccurate predictions that may result in sub-optimal decisions by the Bank.

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, technology and cyber risk, suppliers, business continuity, transformation, project execution, people, data, processes 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 affect the traditional types of risk (credit, liquidity, operational, reputational, etc.) due to the physical effects of climate change, generated by specific events as well as chronic changes on the environment, or the process of transition to a development model with lower emissions, including changes in legislation, technology or the behavior of economic agents, as well as failure to meet the expectations and commitments acquired.

Corporate Risk Governance

The objective of the governance of the risk function is to ensure adequate and efficient decision-making and effective risk control, and to ensure that these functions are managed in accordance with the risk appetite 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 defence in risk-management and control functions.
 - Alignment of objectives, monitoring to ensure they are being achieved and implementing corrective measures when necessary.
 - The existence of an adequate management and control environment for all risks.

To achieve these objectives, the Committee structure in the management model must ensure an adequate:

- Structure, with stratification by levels of relevance, balanced delegation capacity and protocols for escalating incidents.

- Composition, with members of sufficient rank and representation of business and support areas.
- Operations, i.e. frequency, minimum attendance levels and appropriate procedures.

The governance of risk activity must establish and facilitate coordination channels between the units and 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, the Silver and Bronze Committee at Santander Consumer Finance has monitored the war in Ukraine and the microchip/supply chain crisis and its impact on the entity's business.

Roles and responsibilities

The Risk function is structured into three lines of defense, in accordance with corporate policy, to manage and control risks effectively:

- First line of defence: Business functions that take or generate exposure to risk constitute the first line of defence. The first line of defence identifies, measures, controls, monitors and reports the risks that originate and applies the internal regulations that regulate risk management. The generation of risks must be adjusted to the approved risk appetite and the associated limits.
- Second line of defence: made up of the Risk functions, which independently supervise and question the risk management activities carried out by the first line of defence. This second line of defense must ensure, within their respective areas of responsibility, that risks are managed in accordance with the risk appetite defined by senior management and promote a strong risk culture throughout the organization.
- Third line of defence: the Internal Audit function is independent to ensure the board of directors, and senior management, the quality and effectiveness of internal controls, governance and risk management systems, helping to safeguard our value, solvency and reputation.

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 of 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 (or any other risk if it were necessary), 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.

The structure of the Risk Committees of the Western Hub branches:

Pursuant to the merger agreements and for the purpose of ensuring proper governance and continuing the risk function of the Western Hub branches by Santander Consumer Finance, S.A. (absorbing company):

- Any powers, faculties and attributions in terms of risks that were granted individually or collectively in the branches, will remain in force under the same terms and conditions.
- What is particularly established in its approval and risk control committees will continue to be in force with the same functions, unless one or more powers are expressly claimed for itself by a higher-ranking body.
- Any discrepancy in the understanding of the attributions and competence of the committees will be interpreted in the sense that best favors the governance functions of the company as a whole and, in any case, subject to the practices and uses of the governing bodies superior hierarchy of the entity Santander Consumer Finance S.A.

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 2022

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.

As of December 2022, the default rate was 2.06%, due to the good performance of the different portfolios, despite the adverse situations that have been experienced throughout 2022, the measures applied in the units and the Santander Consumer Finance risk appetite. Doubtful loans (2,239 million euros) are distributed by units as follows: Nordics represents 22% of the total, Spain 26%, Germany 28%, France 9%, Italy 7%, Austria 6% and others 2%. Regarding the type of portfolio, Auto represents 45% of the total, Direct 31%, Cards 7%, Stock Finance 3%, Mortgages 3%, Durables 2% and others 9%.

Despite the uncertainty and instability generated by the post-pandemic situation, as well as the semiconductor crisis and the war between Russia and Ukraine, the non-performing loan ratio has remained stable, compared to the December 2021 data, being 2.06% in both years.

In terms of cost of credit, this ratio has 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 2022 was 0.42%.

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.

Global Credit Risk Map 2022

The following table details the global map of Santander Consumer Finance's gross credit exposure by geographic area:

SCF Group - Gross Credit risk exposure			
	2022 (EUR million)	Change on December 2021	% portfolio
Spain and Portugal (*)	14,952	2.39%	13.79%
Italy	10,352	14.02%	9.53%
France	15,940	8.19%	14.70%
Germany and Austria	42,099	8.57%	38.82%
Nordics (Scandinavia)	17,815	1.32%	16.43%
United Kingdom	2,819	(5.20)%	2.60%
Other	4,479	14.02%	4.13%
Total	108,456	6.67%	100.00%

In terms of outlook by product at December 2022, Auto represents 63% of the total gross exposure, Direct 12%, Mortgages 3%, Durables 2%, Stock Finance 10% and Others 10%. Germany concentrates the highest percentage of the portfolio with 39% along with Austria and their respective JVs. On the other hand, Nordics (Scandinavia) represents 16%, and includes units from Norway, Denmark, Sweden and Finland. France, including the PSA Joint Ventures, represents 10% of the total. Spain, Portugal and their respective units resulting from the cooperation with PSA, represent 14% of the total.

Estimation of impairment losses

Calculation of expected credit losses:

Grupo Santander Consumer Finance calculates expected credit losses using parameters (mainly PD and LGD) based on internal models according to specific requirements of IFRS 9 and other guidelines by regulators, supervisors and other international organizations (EBA, NCAs, BIS, GPPC). Models are built using internal information with sufficiently representative historical depth and granularity, regulatory and management experience, as well as forward-looking information based on macroeconomic scenarios, and allow estimating losses throughout the life of the operation. They follow a defined life cycle that includes, among others, a process of internal validation, monitoring and governance models to ensure their robustness and suitability for use.

Determination of significant increase in credit risk

In order to determine the classification in stage 2, the Group assesses whether there has been a significant increase in credit risk (SICR) since the initial recognition of the transactions, considering a series of common principles throughout the Group that guarantee that all financial instruments are subject to this assessment, which considers the particularities of each portfolio and type of product on the basis of various quantitative and qualitative indicators. Furthermore, transactions are subject to the expert judgement of the analysts, who set the thresholds under an effective integration in management and implemented according to the approved governance. The criteria thresholds used by the Group are based on a series of principles, and develop a set of techniques. The principles are as follows:

- **Universality:** all financial instruments subject to a credit rating must be assessed for their possible SICR.
- **Proportionality:** the definition of the SICR must take into account the particularities of each portfolio.
- **Materiality:** its implementation must be also consistent with the relevance of each portfolio so as not to incur in unnecessary costs or efforts.
- **Holistic vision:** the approach selected must be a combination of the most relevant credit risk aspects (e.g. quantitative and qualitative).
- **Application of IFRS 9:** the approach must take into consideration IFRS 9 characteristics, focusing on a comparison with credit risk at initial recognition, as well as considering forward-looking information.

- Risk management integration: the criteria must be consistent with those metrics considered in the day-to-day risk management.
- Documentation: Appropriate documentation must be prepared. The techniques are summarised below:
 - Stability of stage 2: in the absence of significant changes in the portfolios credit quality, the volume of assets in stage 2 should maintain a certain stability as a whole.
 - Economic reasonableness: at transaction level, stage 2 is expected to be a transitional rating for exposures that could eventually move to a deteriorating credit status at some point or stage 3, as well as for exposures that have suffered credit deterioration and whose credit quality is improving and returns to stage 1.
 - Predictive power: it is expected that the SICR definition avoids, as far as possible, direct migrations from stage 1 to stage 3 without having been previously classified in stage 2.
 - Time in stage 2: it is expected that the exposures do not remain categorized as stage 2 for an excessive time.

The application of the aforementioned techniques, conclude in the setting of one or several thresholds for each portfolio in each geography. Likewise, these thresholds are subject to a regular review by means of calibration tests, which may entail updating the thresholds types or their values. Identifying a significant increase in credit risk: when classifying financial instruments under stage 2, Santander considers:

- Quantitative criteria: Santander Consumer Finance reviews and quantifies changes in the risk of default during their expected life based on their credit risk level on initial recognition. To recognize significant changes so instruments can be classified in stage 2, each subsidiary set quantitative thresholds for its portfolios based on Santander's guidelines for consistent interpretation across all our footprint.

Of those quantitative thresholds, Grupo Santander considers two: the relative threshold, which shows the difference in credit quality since the transaction was approved as a percentage of change; and the absolute threshold, which calculates the total difference in credit quality. All subsidiaries apply them (with different values) in the same manner. The use of one or both depends on portfolio type and other aspects, such as the starting point for average credit quality.

- Qualitative criteria: Several indicators aligned with ordinary credit risk management indicators (e.g. past due for over 30 days, forbearance, etc.). Each subsidiary defined these criteria for its portfolios. Santander supplements these qualitative criteria with expert opinions. When the presumption of a significant deterioration of credit risk is removed, due to a sufficient improvement of the credit quality, the obligor can be re-classified to Stage 1, without any probationary period in Stage 2.
- Definition of default: Santander incorporated the new definition to provisions calculation according to the EBA's guidelines; the Group is also considering applying it to prudential framework. In addition, the default definition and stage 3 have been aligned.

This definition considers the following criteria to classify exposures as stage 3: financial instruments with one or more payments more than 90 consecutive days past due, representing at least 1% of the client's total exposure or the identification of other criteria demonstrating, even in the absence of defaults, that it is unlikely that the counterparty is unlikely to meet all of its financial obligations. The Group applies the default criteria to all exposures of the impaired client. Where an obligor belongs to a group, the default criteria may also be applied to all exposures of the group. The default classification is maintained during the 3-month test period following the disappearance of all default indicators described above, and this period is extended to one year for forbearances that have been classified as default.

- Expected life of financial instruments: Santander estimates the expected life of financial instruments according to their contractual terms (e.g. prepayments, duration, purchase options, etc.). The contractual period (including extension options) is the maximum time frame for measuring the expected credit loss. If financial instruments have an undefined maturity period and available balance (e.g. credit cards), Santander estimates its expected life based on the total exposure period and effective management practices to mitigate exposure.

The context and monitoring of the expected credit loss was analysed and reviewed during the health crisis by covid-19, and was reinforced with collective analysis, monitoring of government measures, monitoring of the evolution of the Group's customers, as well as remedial management actions if necessary. In terms of classification, Grupo Santander has maintained the criteria and thresholds for classification applied prior to the start of the pandemic, eliminating regulatory criteria of the effect of moratorium classification as they have expired, as well as the collective analyses associated with these groups of loans. Regarding moratorium measures, a rigorous identification and periodic monitoring of the credit quality of the clients and their payment behaviour have been carried out and, through a specific individual or collective evaluation, the timely detection of the significant increase in credit risk. At the end of December 2022 the credit risk provisions not included any special measures or adjustments in relation to health crisis by covid-19.

1. Forward-looking vision

To estimate expected losses, Grupo Santander requires a great deal of expert analysis as well as past, present and future data. Santander quantifies expected losses from credit events using an unbiased, weighted consideration of up to five future scenarios that could affect our ability to collect contractual cash flows. These scenarios take into account the time value of money, the relevant information available about past events and current conditions, and projections of macroeconomic factors that are considered important to estimate this amount (e.g. GDP, house prices, rate of unemployment, among others).

Santander uses forward-looking information in internal management and regulatory processes under several scenarios. The Group's guidelines and governance ensure synergy and consistency between these different processes.

During 2022, the Group has updated the macroeconomic scenarios included in the provision models with the most up-to-date information on the current environment. The IASB already indicated in 2021 that the macroeconomic uncertainty surrounding the pandemic made it difficult to regularly apply the expected loss calculation models of IFRS9. The European Central Bank recommended the use of a stable and long-term view (long-term). run) of macroeconomic forecasts. In 2022, the economic recovery that was expected after the end of the pandemic has been affected by the effects of the war in Ukraine, which introduces an additional effect of volatility in the scenarios. Consequently, the Group uses a prospective vision to estimate expected losses.

2. Additional elements

Additional elements such as an analysis of sectors or other pillars of credit risk analysis are included when necessary if they have not been captured by the two elements explained in the paragraph above, and their impacts have not been captured sufficiently by the macroeconomic scenarios. Collective analysis techniques are also used, when the potential impairment in a group of clients cannot be identified individually.

Based on the elements described above, Grupo Santander Consumer Finance has evaluated the performance of the credit quality of its customers in each of the geographical areas, for the purposes of their staging classification and consequently, the expected credit loss calculation.

Additional expected loss provisions due to the current macroeconomic environment

In the context of the covid-19 pandemic, during 2022 the authorities decided to gradually relax the social distance measures. From an economic point of view, when the measures were softened and economic activity resumed, new imbalances emerged in the economy. Accumulated savings caused a rapid increase in demand, but there were supply restrictions due, in part, to the different speeds of incorporation into global supply chains and the scarcity of some materials, such as semiconductors, with great impact on the automotive industry. The money supply was still high and interest rates low, which caused inflation to begin to accelerate, very visibly from the second half of 2022. Additionally, in February 2022 the Russian invasion of Ukraine began, to which the Community International reacted by imposing harsh economic sanctions against Russia. The fact that Russia is the main player in the oil and gas market caused further distortions that put pressure on the energy market and further boosted inflation, especially in Europe (highly dependent on Russian gas). In these circumstances, the updating of the macroeconomic scenarios has been accompanied by great uncertainty.

During 2021, following the recommendations of different organizations and international supervisors, accounting and prudential policies were applied and adapted, under a criterion of responsibility, to the containment measures put in place to combat the effects of the covid-19 health crisis, which were of a temporary and exceptional nature. Long-term stable forecasts were taken into account and additional adjustments were made to the models (or overlays) to recognize the increase in expected loss, since the mechanical application of the methodology for estimating expected loss due to credit risk in that context could have led to unexpected results.

Throughout 2022, the adjustments have been continuously monitored, recalculating or reformulating them, in such a way that the changes caused by overcoming the pandemic and the start of the war in Ukraine and the inflationary effects and interest rate rises are adequately reflected in the account of each entity/geography of the Group. In total, at the end of 2022, the additional adjustments recorded by the Santander Consumer Finance Group due to macroeconomic aspects amount to EUR 104.9 million and are mainly due to the inclusion of additional effects derived from inflation and interest rates, interest, which do not respond to the historical casuistry included in the projection models. The Group geographies most affected by these additional adjustments are Spain, Nordics, France and Italy.

The detail of the exposure and the impairment losses associated with each of the phases as of December 31, 2022 is shown below. In addition, based on the current credit quality of the operations, the exposure is divided in three degrees (investment, speculation and default):

Exposure and impairment losses by stage 2022 (EUR millions)				
Credit quality (*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	116,422	—	—	116,422
Speculation grade	12,674	4,172	—	16,846
Default	—	—	2,239	2,239
Total Risk (**)	129,096	4,172	2,239	135,508
Impairment losses	477	—	1,229	1,956

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	—	1,307	1,858

(*) Detail of credit quality rating calculated for Group's management purposes.

(**) Amortised cost assets, Loans and advances - Customers + Loan commitments granted

As of December 31, 2022 and 2021, the Group does not present significant amounts of impaired assets purchased with impairment.

Provision sensitivity test

Regarding the evolution of losses due to credit risk, the Group carries out a sensitivity analysis through simulations in which immediate variations (shocks) of +/- 100 bps take place in the main macroeconomic variables, assuming constant distribution phases of each portfolio of financial assets. In this way, a set of specific and complete scenarios is used, where different impacts that affect both the reference variable and the rest of the macroeconomic variables are simulated. These impacts may originate from productivity factors, taxes, wages or exchange rates and interest rates. Sensitivity is measured as the average variation of the expected loss corresponding to the aforementioned scenarios. Following a conservative approach, negative movements take into account an additional standard deviation to reflect the possible greater variability of losses. Finally, in order to provide a measure of comparable sensitivity between

portfolios, when using the statistical models for scenario analysis, the advances and lags of the model are eliminated, thus avoiding capturing only part of the simulated shock.

Additionally, the Group performs stress test exercises and sensitivity analysis on a recurring basis in exercises such as ICAAP, strategic plans, budgets and recovery and resolution plans. In these exercises, a prospective vision of the sensitivity of each of the Group's portfolios is created in the event of a possible deviation from the baseline scenario, considering both the macroeconomic evolution materialized in different scenarios, and the three-year business evolution. These exercises include potentially more adverse scenarios as well as more plausible scenarios.

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 2022 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 2022				
(EUR millions)				
Credit Quality (*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	37,009	12	—	37,021
Speculation grade	—	1,145	—	1,145
Default	—	—	566	566
Total exposure (**)	37,009	1,157	566	38,732
Impairment losses	88	38	272	398

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

(*) 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 1.47% at the end of December 2022 (1.55% at the end of 2021).

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 in 2022 of the main macroeconomic indicators used to estimate expected losses at Santander Consumer Bank AG and Santander Consumer Leasing, GmbH is presented below:

Magnitudes	5-year scenario (2023-2027)				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	4.04 %	3.19 %	2.33 %	1.71 %	1.09 %
Unemployment rate	7.70 %	6.42 %	5.14 %	4.84 %	4.54 %
GDP growth	(0.45 %)	0.45 %	1.36 %	2.08 %	2.80 %
Housing market price surges	(4.54 %)	(2.55 %)	1.70 %	3.73 %	5.80 %

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 %

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 2022 and 2021 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 2022, based on what is detailed in the *Provisions Sensitivity Exercise* section is shown below:

	Change in expected loss (IFRS9)			
	Vehicles New	Vehicles Used	Leasing New	Direct
GDP growth:				
(100) b.p.s.	5.60%	4.98%	4.71%	2.61%
100 b.p.s.	(3.71%)	(3.28%)	(2.85%)	(1.61%)
Unemployment rate:				
(100) b.p.s.	(9.97%)	(8.95%)	(7.84%)	(4.33%)
100 b.p.s.	14.73%	13.21%	14.08%	7.16%

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 credit risk profile characteristics of the products that form the portfolio.

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 2022 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 2022				
(EUR millions)				
Credit Quality (*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	14,738	6	—	14,744
Speculation grade	1,701	575	—	2,276
Default	—	—	391	391
Total exposure (**)	16,439	581	391	17,411
Impairment losses	77	57	222	356

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

(*) 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 2.70% at the end of December 2022 (3.18% at the end of 2021).

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 2022 is presented below:

Magnitudes	5-year scenario (2023-2027)				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	4.23 %	4.05 %	3.30 %	3.10 %	2.80 %
Unemployment rate	5.24 %	4.82 %	3.85 %	3.39 %	3.03 %
Housing market price surges	(1.22 %)	(0.49 %)	0.22 %	0.55 %	1.06 %
GDP growth	0.36 %	1.06 %	1.90 %	2.52 %	3.10 %

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 %

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, both in 2022 and 2021, 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 as of 31 December 2022, based on what is detailed in the *Provisions Sensitivity Exercise* section is shown below:

	Change in expected loss (IFRS9)
	Auto Individuals
GDP growth	
(100) bps	5.05 %
100 bps	(2.00 %)
Housing market price surges	
(100) bps	2.72 %
100 bps	(1.62 %)

- **Denmark**

The projected evolution for the next five years of the main macroeconomic indicators for estimating expected losses as of 31 December 2022 is presented below:

Magnitudes	5-year scenario (2023-2027)				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	3.88 %	3.23 %	2.58 %	1.96 %	1.34 %
Unemployment rate	5.74 %	5.24 %	4.72 %	4.22 %	3.90 %
Housing market price surges	(1.67 %)	0.27 %	2.17 %	4.15 %	5.87 %
GDP growth	0.19 %	0.80 %	1.59 %	2.11 %	2.60 %

The projected evolution for the next five years of the main macroeconomic indicators 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%

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, both in 2022 and 2021, 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 as of 31 December 2022, based on what is detailed in the *Provisions Sensitivity Exercise* section is shown below:

	Change in expected loss (IFRS9)
	Auto Individuals
GDP Growth	
(100) p.b.	3.76 %
100 p.b.	(2.62 %)

- Sweden

The projected evolution for the next five years of the main macroeconomic indicators for estimating expected losses as of 31 December 2022 is presented below:

Magnitudes	5-year scenario (2023-2027)				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	4.33 %	3.51 %	3.19 %	2.74 %	2.11 %
Unemployment rate	7.61 %	7.36 %	7.08 %	6.80 %	6.48 %
Housing market price surges	(0.57 %)	0.39 %	1.60 %	2.70 %	3.73 %
GDP growth	0.45 %	0.95 %	1.78 %	2.33 %	2.83 %

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 %

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, both in 2022 and 2021, 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 as of 31 December 2022, based on what is detailed in the *Provisions Sensitivity Exercise* section is shown below:

	Change in expected loss (IFRS9)	
	Auto individuals	Direct
GDP growth:		
(100) bps	6.27 %	1.81 %
100 bps	(1.30 %)	(0.19 %)

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.

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 2022 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 2022 (EUR millions)				
Credit Quality (*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	4,069	5	—	4,074
Speculation grade	10,967	236	—	11,203
Default	—	—	477	477
Total exposure (**)	15,035	241	477	15,753
Impairment losses	121	32	288	441

(*) 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 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

The delinquency rate in the case of Spain has increased to 3.44% at the end of December 2022 (3.09% at the end of 2021).

Prospective information has been considered for the estimation of the expected losses. Specifically, regarding in Santander Consumer Finance, S.A. portfolio, five prospective macroeconomic scenarios are considered, which are updated periodically, during a time horizon of 5 years.

The projected performance in the years to follow of the macroeconomic indicators used during 2022 regarding the estimation of the expected credit losses for Santander Consumer Finance, S.A. portfolios in Spain is as follows:

Magnitudes	5-year scenario (2023-2027)				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	3.39 %	2.98 %	2.59 %	2.25 %	2.00 %
Unemployment rate	19.43 %	16.61 %	12.20 %	10.65 %	9.46 %
Housing market price surges	1.72 %	2.34 %	3.31 %	3.83 %	4.29 %
GDP growth	(0.57 %)	0.53 %	2.05 %	3.34 %	4.15 %

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 %

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, both in 2021 and 2022, 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 2022, based on what is detailed in the *Provisions Sensitivity Exercise* section is shown below:

	Change in expected loss (IFRS9)			
	Auto New	Auto Used	Mortgages	Cards
GDP growth:				
(100) bps	5.03%	2.99%	0.91%	2.61%
100 bps	(3.42%)	(2.1%)	(0.65%)	(1.84%)

Regarding Stage 2 classification, the quantitative criteria that have been applied in the entity are based in identifying if any increase in the PD for the whole operation life expectancy is greater than a series of absolute and relative thresholds. Each portfolio has its own thresholds depending on the characteristics and credit risk profile of the products that form this portfolio.

As an example, regarding the main portfolios of Santander Consumer Finance S.A., it is considered that a transaction should be classified as stage 2 when the PD for the whole life expectancy of the operation at any given moment is greater than its PD at initial recognition in absolute and relative thresholds, depending on the sub-segment.

Furthermore, there are a series of specific qualitative criteria that signal if the exposure has had a significant increase in credit risk, regardless of the performance of its PD at initial recognition. The entity, among other criteria, considers that a given transaction presents significant increase in credit risk when it is 30 days past due. These criteria depend on management practices depending on portfolio credit risk.

II. Credit risk

Changes in 2022

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 2022(*):

	EUR Thousands								
	Unsecured loans	Secured credit							
		Net exposure		Loan to Value (***)					
		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	136,345	—	12,683	37	305	1,040	5,074	6,227	149,028
Other financial institutions	711,093	736	156,638	2,344	5,835	15,755	53,936	79,504	868,467
Non-financial companies and individual traders	14,235,811	100,505	19,145,123	180,124	455,899	1,184,261	12,289,895	5,135,449	33,481,439
Of which:									
Construction and property development	79,637	—	131,929	180	638	2,819	125,203	3,089	211,566
Civil engineering construction	—	—	6,675	—	—	—	6,675	—	6,675
Large companies	6,087,747	45,847	6,191,419	76,711	200,148	510,680	3,369,847	2,079,880	12,325,013
SMEs and individual traders	8,068,427	54,658	12,815,100	103,233	255,113	670,762	8,788,170	3,052,480	20,938,185
Other households and non-profit institutions serving households	43,632,578	3,618,739	24,165,622	1,959,454	2,380,446	2,463,870	12,275,055	8,705,536	71,416,939
Of which:									
Residential	335,960	3,373,757	2,018	1,356,494	902,311	501,296	343,124	272,550	3,711,735
Consumer loans	43,225,042	76,473	23,971,430	447,471	1,459,818	1,944,024	11,773,101	8,423,489	67,272,945
Other purposes	71,576	168,509	192,174	155,489	18,317	18,550	158,830	9,497	432,259
Total (*)	58,715,827	3,719,980	43,480,066	2,141,959	2,842,485	3,664,926	24,623,960	13,926,716	105,915,873
Memorandum item									
Refinancing, refinanced and restructured transactions (**)	314,772	23,693	97,304	3,947	7,074	17,549	53,987	38,440	435,769

(*) The distribution of credit does not include 583,959 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, 2022 over the last valuation of the collateral.

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.

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 with Santander Consumer Finance 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 is adapted to the bank regulation established by the EBA, like it is said in the "Guidelines relating to the management of non-performing and restructured or refinanced exposures" (EBA/GL/2018/06) of October, 31 2018. It is also adapted to the Bank of Spain Circular 6/2021 that modifies 4/2017.

This policy establishes strict prudential criteria for the assessment of these loans:

- The use of this practice is restricted, and any actions that might defer the recognition of impairment must be avoided.
- The main aim must be to recover the amounts owed, and any amounts deemed unrecoverable must be recognised as soon as possible.
- Forbearance must always envisage maintaining the existing guarantees and, if possible, enhance them. Not only can effective guarantees serve to mitigate losses given default, but they might also reduce the probability of default.
- This practice must not give rise to the granting of additional funding or be used to refinance debt of other entities or as a cross-selling instrument.
- All the alternatives to forbearance and their impacts must be assessed, making sure that the results of this practice will exceed those which would foreseeably be obtained if it were not performed.
- Forborne transactions are classified using more stringent criteria which prudentially ensure that the customer's ability to pay is restored from the date of forbearance and for an adequate period of time thereafter.
- In addition, in the case of customers that have been assigned a risk analyst, it is particularly important to conduct an individual analysis of each specific case, for both the proper identification of the transaction and its subsequent classification, monitoring and adequate provisioning.

The forbearance policy also sets out various criteria for determining the scope of transactions qualifying as forborne exposures by defining a detailed series of objective indicators that permit identification of situations of financial difficulty.

Accordingly, transactions not classified as non-performing at the date of forbearance are generally considered to be experiencing financial difficulty if at that date, they were more than one month past due. Where no payments have been missed or there are no payments more than one month past due, other indicators of financial difficulty are taken into account, including most notably the following:

- Transactions with customers who are already experiencing difficulties in other transactions.
- Situations where a transaction has to be modified prematurely, and the Group has not yet had a previous satisfactory experience with the customer.
- Cases in which the necessary modifications entail the grant of special conditions, such as the establishment of a grace period, or where these new conditions are deemed to be more favourable for the customer than those which would have been granted for an ordinary loan approval.
- Where a customer submits successive loan modification requests at unreasonable time intervals. In Consumer Finance's case, a maximum of 1 restructuring agreement is established in a year or 3 in a period of 5 years.

- 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 forbore 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 managed 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.

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. In the case that it is justified that, while an operation is in the 24-month Cure Period of Phase 2, there is no longer a Significant Increase in its Credit Risk, said operation may be reclassified as Phase 1 and Non-Default. risk, without the need to complete the aforementioned Cure Period. However, it is important to note that restructurings at the time of origination can only be classified as Stage 2 or Stage 3, never as Stage 1.

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.

The renewals can be long or short term (less than two years). Carrying out renewals with terms not exceeding two years will be taken into account, when the borrower meets the following criteria:

- That experiences temporary liquidity restrictions, for which the recovery of the client will be evidenced in the short term
- That the application of long-term redirection measures was not effective given the temporary financial uncertainty of a general or specific nature of the client.
- That they have been complying with the contractual obligations before the reinstatement
- Demonstrates a clear willingness to cooperate with the entity.

As a consequence of the analysis that is carried out, both of the client's situation and of the characteristics of the redirection operation that is used, it must be ensured that the redirection will facilitate the reduction of the client's debt, and therefore it will be viable. In this sense, to assess the feasibility of the operation, the following will be taken into account:

- a. That it can be demonstrated with evidence that the proposed renewal is within the customer's reach, that is, that a full refund is expected.
- b. The payment by the client of the outstanding amounts, in full or in their majority, and the considerable reduction of exposure in the medium-long term.
- c. The non-existence of repeated breaches of the payment plans that have given rise to successive renewals (more than three renewals in a period of three years)
- d. In the temporary application of short-term renewal measures, it can be proven through evidence that the client has sufficient payment capacity to meet the debt, principal and interest, once the period of application of the temporary renewal has expired.

- e. The measure does not give rise to the successive application of several refinancing or restructuring measures for the same exposure.

In the event that operations are carried out that do not comply with the above, they will be considered non-viable operations and will form part of the Non-performing refinancing category.

The quantitative information required by Bank of Spain is shown below, in relation to the restructured operations in force as of December 31, 2022 and 2021, taking into account the above criteria:

Current restructuring balances at 31 December 2022:

	TOTAL							Of which: Non-performing/Doubtful							TOTAL				Of which: Non-performing/Doubtful			
	Without real guarantee (a)		With real guarantee				Impairment of accumulated d value or accumulated d losses in fair value due to credit risk	Without real guarantee		With real guarantee				Impairment of accumulated d value or accumulated losses in fair value due to credit risk	TOTAL				Of which: Non-performing/Doubtful			
	Number of transactions	Gross amount	Number of transactions	Gross amount	Maximum amount of the actual collateral that can be considered.			Number of transactions	Gross amount	Number of transactions	Gross amount Real estate guarantee	Maximum amount of the actual collateral that can be considered.			Gross amount	Total Guarantees	Impairment of accumulated d value or accumulated losses in fair value due to credit risk	Net Amount	Gross amount	Total Guarantees	Impairment of accumulated d value or accumulated losses in fair value due to credit risk	Net Amount
					Real estate guarantee	Rest of real guarantees						Real estate guarantee	Rest of real guarantees									
REFINANCING AND RESTRUCTURING																						
1. Credit entities	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Public sector	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Other financial institutions and: individual shareholder	63	699	20	276	—	200	344	24	289	8	85	—	67	256	975	200	344	631	374	67	256	118
4. Non-financial institutions and individual shareholder	7,632	76,197	6,055	77,004	3,209	39,386	33,122	2,519	22,466	1,631	17,156	1,611	6,408	24,171	153,201	42,595	33,122	120,079	39,622	8,019	24,171	15,451
Of which: Financing for constructions and property development	299	2,740	26	285	—	213	805	36	364	7	41	—	23	323	3,025	213	805	2,220	405	23	323	82
5. Other warehouses	107,193	418,382	4,224	71,992	19,844	30,641	175,315	51,861	215,346	1,954	34,282	6,869	11,582	152,590	490,374	50,485	175,315	315,059	249,628	18,451	152,590	97,038
6. Total	114,888	495,278	10,299	149,272	23,053	70,227	208,781	54,404	238,101	3,593	51,523	8,480	18,057	177,017	644,550	93,280	208,781	435,769	289,624	26,537	177,017	112,607
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 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 accumulated value or accumulated losses in fair value due to credit risk											
	Number of transactions	Gross amount	Number of transactions	Gross amount	Maximum amount of the actual collateral that can be considered.		Number of transactions	Gross amount	Number of transactions	Gross amount	Maximum amount of the actual collateral that can be considered.												
													Real estate guarantee	Rest of real guarantees	Real estate guarantee	Rest of real guarantees							
REFINANCING AND RESTRUCTURING																							
1. Credit entities	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Public sector	3	74	1	1	—	—	5	1	7	1	1	—	—	2	75	—	5	70	8	—	2	—	—
3. 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	—	—
4. 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	—	—
5. 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	—
6. Total	163,149	629,014	7,502	142,475	26,448	77,183	260,170	94,519	252,757	2,846	51,800	10,519	13,353	211,553	771,489	103,631	260,170	511,319	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)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

The transactions presented in the foregoing table were classified at 31 December 2022 and 2021 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 scantily 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.



e1) 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.

e2) Sales

– Decisions and 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.

e3) 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 manage 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 behaviour of non-performing loans.

– EL (expected loss) and capital

Expected loss is an estimate of the financial loss that will occur over the next year from the portfolio existing at the given time. It is a further cost of business, and must be reflected in the pricing of transactions.

2.- Evaluation of control processes

A systematic scheduled review of procedures and methods, implemented throughout the entire credit risk cycle, to ensure control process effectiveness and validity.

In 2006, within the corporate framework established across the Group for compliance with the Sarbanes Oxley Act, a corporate methodology was created for the documentation and certification of the Control Model, specified in terms of tasks, operating risks and controls. The risk division annually evaluates the efficiency of internal control of its activities.

Moreover, the internal validation function, as part of its mission to supervise the quality of the Group's risk management, ensures that the management and control systems for the different risks inherent in the Group's business comply with the most stringent criteria and best practices seen in the industry and/or required by regulators. In addition, internal audit is responsible for ensuring that policies, methods and procedures are adequate, effectively implemented and regularly reviewed.

g) Recoveries management

Recovery activity is an important function within the Group's risk management area. The area responsible is Collection and Recoveries, which frames a global strategy and a comprehensive approach to recovery management.

The Group combines a global model with local execution, taking account of the specific features of the business in each area.

The main objective of the recovery activity is to recover outstanding debts and obligations by managing our customers, thus contributing to a lesser need for provisions and a lower cost of risk.

The specific targets of the recovery process are guided as follows:

- Achieve collection or regularisation of outstanding balances, so that an account returns to its normal state; if this is not possible, the objective is total or partial recovery of debts, whatever their accounting or management status.
- Maintain and strengthen our relationship with the customer by addressing their behaviour with an offer of management tools, such as refinancing products according to their needs, consistently with careful corporate policies of approval and control, as established by the risk areas.

In the recovery activity, Standardised customers and Individually Managed customers are segmented or differentiated with specific and comprehensive management models in each case, according to basic specialisation criteria.

Management is articulated through a multichannel customer relationship strategy. The telephone channel is oriented towards standardised management, with a focus on achieving contact with customers and monitoring payment agreements, prioritising and adapting management actions based on the state of progress of their situation of "in arrears", "doubtful" or "in default", their balance sheet and their payment commitments.

The commercial network of recovery management operates alongside the telephone channel. It is a means of developing a closer relationship with selected customers, and is composed of teams of agents with a highly commercial focus, specific training and strong negotiation skills. They conduct personalised management of their own portfolios of high-impact customers (large balance sheets, special products, customers requiring special management).

Recovery activities at advanced stages of non-performance are guided by a dual judicial and extra judicial management approach. Commercial and follow-up activities by telephone and via agent networks are continued, applying strategies and practices specific to the state of progress.

The management model encourages proactivity and targeted management through continuous recovery campaigns with specific approaches for customer groups and non-performance states, acting with predefined goals through specific strategies and intensive activities via appropriate channels within limited time frames.

Suitable local production and analysis of daily and monthly management information, aligned with corporate models, have been defined as the basis of business intelligence for ongoing decision-making for management guidance and results monitoring.

h) Concentration risk

Concentration risk is a key component of credit risk management. The Santander Group, which Santander Consumer Finance Group belongs, continuously monitors the degree of credit risk concentration, by geographical area/country, economic sector, product and customer group.

The Board of Directors, by reference to the risk appetite, determines the maximum levels of concentration, and the executive risk committee establishes the risk policies and reviews the appropriate exposure limits to ensure the adequate management of credit risk concentration.

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 2022 and 2021 is as follows:

2022					
	EUR Thousands				
	Spain	Other EU Countries	Americas	Rest of the world	Total
Credit institutions	2,940,703	6,497,642	—	242,744	9,681,089
Public sector	924,475	5,504,140	—	42,951	6,471,566
Of which:					
Central government	921,804	4,255,960	—	60	5,177,824
Other	2,671	1,248,180	—	42,891	1,293,742
Other financial institutions	10,863	1,145,014	338,628	246,749	1,741,254
Non-financial companies and individual traders	3,171,286	28,351,567	—	2,673,489	34,196,342
Of which:					
Construction and property development	—	211,566	—	—	211,566
Civil engineering construction	—	6,678	—	—	6,678
Large companies	1,034,445	10,699,079	—	986,488	12,720,012
SMEs and individual traders	2,136,841	17,434,244	—	1,687,001	21,258,086
Other households and non-profit institutions serving households	10,121,975	54,814,108	14	6,575,205	71,511,302
Of which:					
Residential	1,318,606	2,394,903	—	—	3,713,509
Consumer loans	8,714,320	52,074,766	14	6,575,205	67,364,305
Other purposes	89,049	344,439	—	—	433,488
Total					123,601,553

(*) The definition of risk for the purposes of this table includes the following items on the public consolidated balance sheet: 'Loans and advances: to credit institutions', 'Loans and advances: central banks', 'Loans and advances: to customers', 'Debt securities', 'Equity instruments', 'Derivatives', 'Derivatives - Hedge accounting', 'Participations and guarantees granted'.

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

(*) 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 perimeter, control and monitoring of the Market Risks function covers those operations where equity risk is assumed, as consequence of changes in market factors.

These risks are generated through two fundamental types of activities:

- The trading activity, which includes both the provision of financial services in markets for clients, in which the entity is the counterparty, as well as the activity of buying and selling and own positioning in fixed income, variable income and currency products.

Santander Consumer Finance does not do negotiation activities (trading), it limits its treasury activity to manage the structural risk of the balance sheet and its coverage, as well as to manage the liquidity necessary to finance the business.

- The management activity of the balance sheet or ALM, which involves managing the risks inherent in the entity's balance sheet, excluding the trading portfolio.

The risks generated in these activities are;

- Market: risk incurred because of the possibility of changes in market factors that affect the value of the positions that the entity maintains in its trading portfolios (trading book).
- Structural: risk caused by the management of the different balance sheet items. This risk includes both the losses from price fluctuations that affect the available-for-sale and held-to-maturity portfolios (banking book), as well as the losses derived from the management of the Group's assets and liabilities valued at amortized cost.
- Liquidity: risk of not meeting payment obligations on time or doing so at an excessive cost, as well as the ability to finance the growth of its volume of assets. Among the types of losses caused by this risk are losses due to forced sales of assets or impacts on margin due to the mismatch between forecast cash outflows and cash inflows.

Trading and structural market risks, depending on the market variable that generates them, can be classified as:

- Interest rate risk: identifies the possibility that variations in interest rates may adversely affect the value of a financial instrument, a portfolio or the Group.
- Credit spread risk: identifies the possibility that variations in credit spread curves associated with specific issuers and types of debt may adversely affect the value of a financial instrument, a portfolio or the Group. The spread is a differential between financial instruments that trade with a margin over other reference instruments, mainly IRR (Internal Rate of Return) 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 may adversely affect the value of a financial instrument, a portfolio or the Group.
- Inflation risk: identifies the possibility that variations in inflation rates may adversely affect the value of a financial instrument, a portfolio or the Group.
- Volatility risk: identifies the possibility that variations in the listed volatility of market variables may adversely affect the value of a financial instrument, a portfolio or the Group.
- Liquidity risk: identifies the possibility that an entity or the Group will not be able to undo or close a position on time without impacting the market price or the cost of the transaction.
- Prepayment or cancellation risk: identifies the possibility that early cancellation without negotiation, in operations whose contractual relationship explicitly or implicitly allows it, generates cash flows that must be reinvested at a potentially lower interest rate.

There are other variables that exclusively affect market risk (and not structural risk), so that it can be further classified into:

- Variable income risk: identifies the possibility that changes in the value of prices or in the expectations of dividends of variable income instruments may adversely affect the value of a financial instrument, a portfolio or the Group.
- Raw materials risk: identifies the possibility that changes in the value of merchandise prices may adversely affect the value of a financial instrument, a portfolio or the Group.
- Correlation risk: identifies the possibility that changes in the correlation between variables, whether of the same type or of a different nature, quoted by the market, may adversely affect the value of a financial instrument, a portfolio or the Group.
- Underwriting risk: identifies the possibility that the placement objectives of securities or other types of debt will not be achieved when the entity participates in underwriting them.

Liquidity risk can be classified into the following categories:

- Financing risk: identifies the possibility that the entity is unable to meet its obligations as a result of the inability to sell assets or obtain financing.
- Mismatch risk: identifies the possibility that the differences between the maturity structures of assets and liabilities generate an extra cost to the entity.
- Contingency risk: identifies the possibility of not having adequate management elements to obtain liquidity as a result of an extreme event that implies greater financing or collateral needs to obtain it.

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 securitisation considering eligible assets available, in addition to potential growth in customer deposits. This information is used to establish an issue and securitisation plan for the year. Throughout the year, regular monitoring is carried out of actual trends in funding requirements, thus giving rise to the revisions of the plan.

- Contingency Funding Plan

The purpose of the Liquidity Contingency Plan is to set out the processes (governance structure) to be followed in the event of a potential or real liquidity crisis, as well as the analysis of contingency actions or levers available to Management should such a situation arise.

The Liquidity Contingency Plan is underpinned by, and must be designed in line with, two key elements: liquidity stress tests and the early warning indicator (EWI) system. Stress tests and different scenarios are used as the basis for analysing available contingency actions and for determining such actions are sufficient. The EWI system monitors and potentially triggers the escalation mechanism for activating the plan and subsequently monitoring the situation.

– Regulatory Reporting

Santander Consumer Finance applies the Liquidity Coverage Ratio (LCR) as required by the European Banking Authority (EBA) for the consolidated sub-group on a monthly basis, and the net stable funding ratio (NSFR) on a quarterly basis.

In addition, Santander Consumer Finance has produced an annual Internal Liquidity Adequacy and Assessment Process (ILAAP) report as part of the consolidated document of the Santander Group, although the supervisor does not require this report at sub-group level.

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 with the sensitivity that implies a greater loss among those calculated for different scenarios of parallel rise and fall of the interest rate curve. During 2022, these limits applied to the scenarios of plus and minus 25 basis points, and as of January 2023 they have been established on the most adverse loss among 8 scenarios of parallel increases and decreases of up to 100 basis points. In addition, other parallel and non-parallel scenarios are calculated, including those defined by the European Banking Authority (EBA). Using various scenarios allows for better control of interest rate risk. In the lowering interest rates scenarios, negative interest rates are contemplated.

During 2022, the level of exposure at the consolidated level in the SCF Group, both on the financial margin and on economic value, is low in relation to the budget and the amount of own resources respectively, being in both cases less than 1% throughout the year, year, and within the established limits.

With regard to liquidity risk, the main limits at the Santander Consumer Finance Group level include regulatory liquidity metrics such as the LCR and NSFR, as well as liquidity stress tests under different adverse scenarios previously mentioned.

At the end of December 2022, all liquidity metrics are above the internal limits in force, as well as regulatory requirements. Both for the LCR and for the NSFR at the consolidated Group level, it has been at levels 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, securitisation, deposits and interest rate and/or currency hedges, and management of ALCO portfolios and the minimum liquidity buffer.
- Compliance with risk limits and with risk appetite

e. IBOR reform

Since 2013, various supranational bodies and authorities (IOSCO and FSB) have driven and monitored reform initiatives to ensure more robust interest rate benchmarks. In this context, central banks and regulators in several jurisdictions organised work groups to recommend risk-free indices so that the transition would be non-disruptive and progressive.

The main aim was to facilitate the shift to the risk-free indices identified in various countries, particularly the SONIA index, as the Libor's sterling index replacement, the SOFR for the USD Libor and the €STR for the euro Libor.

As a result of the combined efforts of market authorities and participants, this transition process led to various milestones during the period from 2019 to 2022, leaving only the implementation of the sterling Libor and USD Libor plans for 2023.

According to the regulatory transition milestones, the USD Libor terms (overnight, 1M, 3M, 6M and 12M) will still be calculated using contributions from the panel banks until mid-2023, although their use in new operations has been limited since the end of 2021. The final USD Libor publication date for the overnight and 12M terms will be 30 June 2023. For the 1, 3 and 6-month terms, on 23 November 2022 the FCA announced a consultation on its proposal to require the Libor administrator IBA to carry on publishing these terms for the USD Libor using a non-representative "synthetic" method until end-September 2024. Publication would be permanently discontinued from then on.

Publication of the sterling Libor using the synthetic method for the 3-month term has been confirmed until end-March 2024, while the 1 and 6-month terms will cease to be published in March 2023.

According to the milestones mentioned, the Group and its entities have been focusing on making all the contractual, commercial, operational and technological changes necessary to shift to these benchmarks. Work will continue in 2023 to meet the next transition milestones in each of the Group's jurisdictions. There follows a breakdown of the carrying amount of financial assets, financial liabilities, derivatives and loan commitments that remain referenced to the indices pending transition at 31 December 2022.

EUR Thousand	Loans and advances	Debt Securities (Assets)	Deposits	Debt securities issued (Liabilities)	Derivatives (Assets)	Derivatives (Liabilities)	Loan commitments granted
Referenced to EONIA	—	—	—	—	—	—	—
Referenced to LIBOR	40,000	—	—	977,612	41,533	25,713	—
Of which USD	40,000	—	—	—	—	—	—
Of which GBP	—	—	—	977,612	41,533	25,713	—

IV. Operational risk

a. Definition and objectives

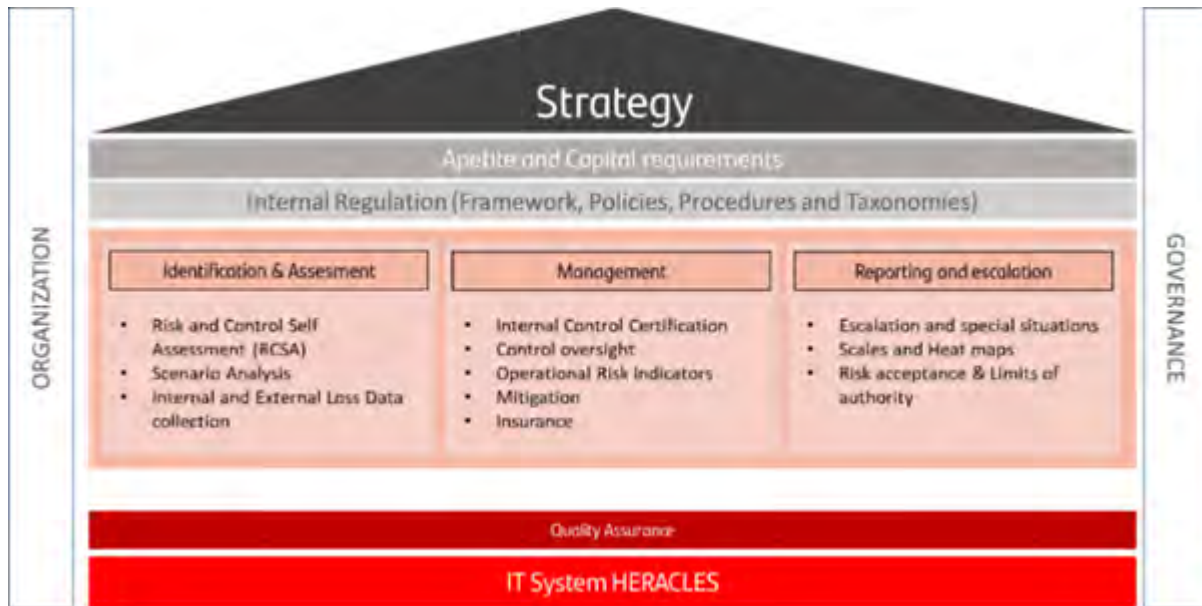
The Bank defines operational risk (OR) as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

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 Bank in operational risk control and management is primarily to identify, measure/ assess, monitor, control, mitigate and report this risk.

The Bank'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.

Managing and mitigating risks sources is a priority to the Bank, regardless of whether these risks have originated losses or not. Measurement has also contributed to establishing priorities in managing operational risk. To improve and promote adequate operational risk management, Santander Consumer Finance has developed an advanced loss distribution model (LDA) based on internal event database 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.

Models	Policies	Procedures
<ul style="list-style-type: none"> ▪ Management and control of operational risk 	<ul style="list-style-type: none"> ▪ Fraud management and control ▪ Business Continuity Management ▪ Cyber Security Risk ▪ IT risk oversight 	<ul style="list-style-type: none"> ▪ Management of Internal Events ▪ Relation Between own Insurance and Operational Risk ▪ Management of external data ▪ Risk Control Self-Assessment (RCSA) ▪ Internal Control Model Assurance ▪ Taxonomy definition and maintenance ▪ Control oversight and Cross check of outputs between OR instruments ▪ Communication and escalation of relevant operational risk events ▪ Development and management of ORIs ▪ Identification and management of mitigation measures ▪ Booking the operational risk financial impacts ▪ Non-Financial risk perimeter review ▪ Supervising Management of Operational Risks in Agreements with Suppliers ▪ Operational Risk Scenario Analysis ▪ SCIIF and S-OX Compliance

The model of operational risk management and control implemented by the Group provides the following benefits:

- It promotes the development of an operational risk culture.
- It allows for comprehensive and effective management of operational risk (identification, measurement / assessment, control / mitigation, and reporting).
- It improves knowledge of both actual and potential operational risks and their assignment to businesses and support lines.
- Information on operational risk helps improve processes and controls and reduce losses and income volatility.
- It facilitates the setting of limits for operational risk appetite.

c. Risk identification, measurement and assessment model

In November 2014, the Group adopted the new management system of the Santander Group, in which three lines of defence are defined:

- 1st line of defence: integrated in areas of business or support areas. Its tasks are to identify, measure or assess, control (primary control) mitigate and report the risks inherent to the activity or function for which it is responsible.

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:

OR 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 defence: Exercised by the Non-Financial Risks Department and reporting to the CRO. Its functions are the design, maintenance and development of the local adaptation of the Operational Risk Management Framework (BIS), and control and challenge on the first line of defense of Operational Risk. Their main responsibilities include:
- Design, maintain and develop the Operational Risk management and control model, promoting the development of an operational risk culture throughout the Group.
 - Safeguard the adequate design, maintenance and implementation of the Operational Risk regulations.
 - Encourage the business units to effectively supervise the identified risks.
 - Guarantee that each key risk that affects the entity is identified and duly managed by the corresponding units.
 - Ensure that the Group has implemented effective RO 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 a global vision of all relevant risks, guaranteeing adequate communication and reports to Senior Management and the Board of Directors, through the established governing bodies.

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

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

- 3rd line of defence: Exercised by Internal Audit, which evaluates the compliance of all activities and units of the entity with its policies and procedures. His 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 compliance, effectiveness and efficiency of the internal control systems for operations in the Group, as well as the quality of accounting information.
 - Carry out an independent review and challenge the OR controls, as well as the Operational Risk management processes and systems.
 - Evaluate the state of implementation of the OR management and control model in the Group.
 - Recommend continuous improvement for all functions involved in operations management.



Management at the Bank is carried out based on the following elements:



To carry out the identification, measurement and evaluation of operational risk, a set of quantitative and qualitative corporate techniques / tools have been defined, which are combined to carry out a diagnosis based on the identified risks and obtain an assessment through the measurement / evaluation of area / unit.

The quantitative analysis of this risk is carried out mainly through tools that record and quantify the level of losses associated with operational risk events.

- Internal events database, whose objective is to capture all the Bank's operational risk events. The capture of events related to operational risk is not restricted by establishing thresholds, that is, there are no exclusions based on the amount, and it contains both events with an accounting impact (including positive impacts) and non-accounting ones.

There are accounting reconciliation processes that guarantee the quality of the information collected in the database. The most relevant events of the Bank and of each operational risk unit thereof are specially documented and reviewed.

- External database of events, since the Bank, through the Santander Group, participates in international consortiums, such as ORX (operational risk exchange). In 2016, the use of external databases that provide quantitative and qualitative information and that allow a more detailed and structured analysis of relevant events that have occurred in the sector was reinforced.
- Analysis of RO scenarios. Expert opinion is obtained from the business lines and risk and control managers, whose objective is to identify potential events with a very low probability of occurrence, but which, in turn, may entail a very high loss for an institution. Its possible effect on the entity 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 try to evaluate aspects (coverage / exposure) linked to the risk profile, thereby allowing the capture of the existing control environment. These tools are mainly:

- RCSA: Methodology for the evaluation of operational risks, based on the expert criteria of the managers, serves to obtain a qualitative vision of the main sources of risk of the Bank, regardless of whether they have materialized previously.

Advantages of the RCSA:

- a. Encourage the responsibility of the first lines of defense: The figures of risk owner and control owner in the first line are determined.

- b. Favor the identification of the most relevant risks: Risks that are not pre-defined, but arise from the areas that generate risk.
 - c. Improve the integration of RO tools: Root cause analysis is incorporated.
 - d. Improve exercise validation. It is developed through workshops or workshops, instead of questionnaires.
 - e. Make the exercises have a more forward-looking approach: The financial impact of risk exposure is evaluated.
- Corporate system of operational risk indicators, in continuous evolution and in coordination with the corresponding corporate area. They are statistics or parameters of various kinds that provide information on an entity's exposure to risk. These indicators are reviewed periodically to warn of changes that may reveal problems with 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 Consumer Group including Bank.

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 Bank, 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 Bank.
- Satisfy the Bank's obligations to its employees, customers, shareholders and other interested third parties.

f. Corporate information

The Santander Group's and Bank's corporate operational risk control area has an operational risk management information system that provides data on the Bank'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.

g. The role of insurance un 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 Bank.
- Monitoring of claims reported under the policies, as well as those not reported or not recovered due to incorrect reporting.
- 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.
- Analysis of the adequacy of the group's policies to the risks covered, taking the appropriate corrective measures for the deficiencies detected.
- Active participation of both areas in the global insurance sourcing table, the highest technical body in the Group for the definition of insurance coverage and contracting strategies.

Cyber risk

Cybersecurity risk (also known as cyber risk) is defined as any risk that produces financial loss, business interruption or damage to the reputation of Santander Consumer derived from the destruction, misuse, theft or abuse of systems or information. This risk comes from inside and outside the corporation.

In the event of a cyber incident, the main cyber risks for the Bank are made up of three elements:

- Unauthorized access or misuse of information or systems (eg. theft of business or personal information).
- Theft and financial fraud.
- Interruption of business service (eg, sabotage, extortion, denial of service).

During 2022, the Bank has continued to pay full attention to risks related to cybersecurity. This situation, which generates concern in entities and regulators, prompts them to adopt preventive measures to be prepared for attacks of this nature.

The Bank has evolved its cyber regulations with the approval of a new cybersecurity framework and the cyber risk supervision model, as well as different policies related to this matter.

Similarly, a new organizational structure has been defined and governance for the management and control of this risk has been strengthened. For this purpose, specific committees have been established and cybersecurity metrics have been incorporated into the Bank's risk appetite.

The main instruments and processes established to control cybersecurity risk are:

- Compliance with the cyber risk appetite, the objective of this process being to guarantee that the cyber risk profile is in line with the risk appetite. The cyber risk appetite is defined by a series of metrics, risk statements and indicators with their corresponding tolerance thresholds and where existing government structures are used to monitor and escalate, including Risk committees, as well as Cybersecurity committees. .
- Cybersecurity risk identification and assessment: The cyber risk identification and assessment process is a key process to anticipate and determine risk factors that could estimate their probability and impact. Cyber risks are identified and classified in line with the control categories defined in the latest relevant industry security standards (such as ISO 27k, the NIST Cybersecurity Framework, etc.). The methodology includes the methods used to identify, qualify and quantify cyber risks, as well as to evaluate the controls and corrective measures that the first line of defense function develops. Cyber risk assessment exercises are the fundamental tool for identifying and evaluating cyber security risks in the Bank. The cybersecurity and technological risk assessment will be updated when reasonably necessary taking into account changes in information systems, confidential or business information, as well as the entity's business operations.

- Control and mitigation of cyber risk: processes related to the evaluation of the effectiveness of controls and risk mitigation. Once the cyber risks have been assessed and the mitigation measures have been defined, these measures are included in a Santander Consumer Finance cybersecurity risk mitigation plan and the residual risks identified are formally accepted. Due to the nature of cyber risks, a periodic evaluation of risk mitigation plans is carried out. A key process in the face of a successful cybersecurity attack is the business continuity plan. The Bank has mitigation strategies and measures related to business continuity and disaster recovery management plans. These measures are also linked to cyber attacks, based on defined policies, methodologies and procedures.
- Monitoring, supervision and communication of cyber risk: Santander Consumer Finance carries out control and monitoring of cyber risk in order to periodically analyze the information available on the risks assumed in the development of the Bank's activities. For this, the key risk indicators (KRI) and the key performance indicators (KPI) are controlled and supervised to assess whether the risk exposure is in accordance with the agreed risk appetite. Escalation and reporting: The proper escalation and communication of cyber threats and cyber attacks is another key process. Santander Consumer Finance has tools and processes to detect internal threat signals and potential compromises in its infrastructure, servers, applications and databases. Communication includes the preparation of reports and the presentation to the relevant committees of the information necessary to assess the exposure to cyber risk and the profile of cyber risk and take the necessary decisions and measures. For this, they prepare reports on the cyber risk situation for the management committees. Also, there are mechanisms for internal escalation independent of the bank's management team of technological and cybersecurity incidents and, if necessary, the corresponding regulator.

Other emerging risks

In addition to the aforementioned Cyber Risk, the Santander Consumer Group is increasingly strengthening the supervision of new emerging risks derived from 1) supplier management and 2) transformation projects.

- Regarding 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 and Regulations such as DORA through implementation of specific risk instruments throughout the different phases of the supplier's life cycle
- The Transformation Operational Risk is that derived from changes in the organization, launch of new products, services, systems or processes derived from imperfect design, construction, testing, deployment of projects and initiatives, as well as the transition to the day- a-day (BAU). The transformation constitutes a root cause, which can manifest itself in a variety of risks and impacts, not restricted to Operational Risk, (for example, Credit, Market, Financial Crimes...)

Compliance and conduct risk

The compliance function includes all issues relating to regulatory compliance, prevention of money laundering and terrorist financing, governance of products and consumer protection, and reputational risk according to the General Corporate Compliance and Conduct Framework (Marco Corporativo General de Cumplimiento y Conducta).

The compliance function promotes the adhesion of Santander Consumer Finance, S.A. ("SCF") to standards, supervisory requirements, and the principles and values of good conduct by setting standards, debating, advising and reporting, in the interest of employees, customers, shareholders and the wider community. In accordance with the current corporate configuration of the Santander Group's three lines of defence, the compliance function is a second-line independent control function that reports directly to the Board of Directors and its committees through the CCO. This configuration is aligned with the requirements of banking regulation and with the expectations of supervisors.

The SCF Group's objective in the area of compliance and conduct risk is to minimise the probability that 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 Obligation Compliance.

Climate and environmental risk

Santander Consumer Finance's ESG strategy (environmental, climate, social and governance factors) consists of doing business in a responsible and sustainable way, supporting the green transition, building a more inclusive society and doing business correctly, following the most rigorous government standards.

On the other hand, ESG factors can carry traditional types of risk (for example, credit, liquidity, operational or reputational) due to the physical impacts of a changing climate, the risks associated with the transition to a new, more sustainable economy and the Failure to meet expectations and commitments. For this reason, they are included in the Santander Consumer Finance risk map as relevant risk factors.

In recent times, climate risks (physical risks and transition risks) have become very relevant, and for this reason Santander Consumer Finance is reinforcing its management and control in coordination with the Santander Group corporate teams within the framework of the Climate Project, being Some of the priorities are as follows:

- a. EWRM (Enterprise-Wide Risk Management) approach, which provides a holistic and anticipatory vision of climatic aspects as a basis for their proper management.
- b. Availability of relevant data (for example, CO2 emissions from financed assets, financing ratio of green assets, sectoral classification and location of companies, energy efficiency certificates and location of collaterals, etc.).
- c. Integration of climatic risks in the day-to-day management and control of risks.

The relevance of the data and its quality is, if possible, even greater in this area than in the rest, given that some data that until recently was not very relevant and perhaps was not even collected has become essential for issues such as Alignment of portfolios to environmental objectives, information disclosure or climate risk management. Therefore, one of the pillars of the Climate Project is to collect said data with the required quality.

Regarding the EWRM approach, first of all, a fundamentally qualitative evaluation has been carried out on the implications and materiality of climatic aspects for Santander Consumer Finance, with special focus on the auto portfolio, which is summarized in the following paragraphs.

As previously mentioned, for Banking in general, the climate is a transversal issue with multiple angles, but with two main interrelated dimensions:

1. Banks have a key role in mitigating climate change and the transition towards a new green economy.
2. Weather aspects can cause losses to Banks through different transmission mechanisms.

With regard to Santander Consumer Finance in particular, our vision is as follows:

1. Our role in sustainable financing: the alignment of our portfolios to the ambition of net zero emissions is happening naturally and gradually thanks to the policies of the European Union and the short duration of our contracts. In any case, Santander Consumer Finance is becoming more sustainable and proactively helping clients to become more sustainable. In this path, the effort that is being made in terms of data and information dissemination is essential.
2. Potential impacts of climate risks on Santander Consumer Finance: from the materiality analysis carried out, it is concluded that the types of risk most affected for SCF are credit, residual value, reputational and strategic (business model). The potential impacts are greatly mitigated thanks to the context (gradual transformation of the automobile industry) and the business model of Santander Consumer Finance (whose portfolios are mainly retail, of good quality, short-term and diversified). On the other hand, climate issues could be the trigger for a general economic crisis, for example due to a disorderly transition to the new green economy. We are already managing these risks, but we will continue to strengthen their management and control.

Climate risks have been progressively incorporated into the different EWRM processes:

- "Top Risks": framed within the event of evolution of the automotive sector, which has historically been identified as one of the main ones in the matrix,
- Risk map: as a transversal risk, included as such since 2021,
- Assessment of the risk profile: through a questionnaire related to the control environment, as well as a qualitative assessment,
- Risk appetite: through stress metrics, as well as the opening of the residual value by the type of engine,
- Risk strategy,
- Strategic risk, as a driver of changes in market trends,
- Capital risk and stress tests. The stress tests included in the strategic plans and in the ICAAP of Santander Consumer Finance take into account climate risks through idiosyncratic events, in addition to a specific scenario included in this exercise to reflect the potential impact of a disorderly transition towards an economically low emissions. The results of these stress tests form part of the entity's risk appetite.

Stress test scenarios and methodologies will become more sophisticated as more information becomes available. In 2022, Santander Consumer Finance has participated, together with the Santander Group teams, in the first ECB climate stress test and in the thematic review of climate risks.

Finally, with regard to day-to-day integration of risk management and control, Santander Consumer Finance's EWRM team prepares an internal climate risk monitoring report quarterly, which will also be incorporated from its publication the results of the exercise of Pillar III ESG. In parallel, work is being done on the integration of climate risks in all phases of the risk cycle, ensuring compliance with the commitments acquired and supervisory expectations. The initiatives for calculating emissions are framed within this axis, as a basis for the commitments of the Net Zero Banking Alliance.

g) Compliance with regulatory framework

In 2022, 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, 2022, the Bank meets the minimum capital requirements required by current regulations.

Reconciliation of accounting capital with regulatory capital (EUR millions)

	2022	2021
Subscribed capital	5,639	5,639
Share premium account	1,140	1,140
Reserves	3,649	3,040
Other equity instruments	1,200	1,200
Attributable profit	1,243	1,175
Approved dividend	—	—
Interim dividend	(652)	(491)
Shareholders' equity on public balance sheet	12,219	11,703
Valuation adjustments	(582)	(646)
Non- controlling interests	2,555	2,337
Total Equity on public balance sheet	14,192	13,394
Goodwill and intangible assets	(1,849)	(1,783)
Accrued dividend	(1,243)	(1,175)
Eligible preference shares and participating securities	—	—
Other adjustments (*)	33	143
Tier 1 (Phase-in)	11,133	10,579

(*) The distribution of the result obtained in fiscal year 2022 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:

	2022	2021
Capital coefficients		
Level 1 ordinary eligible capital (millions of euros)	9,706	9,167
Level 1 additional eligible capital (millions of euros)	1,427	1,412
Level 2 eligible capital (millions of euros)	1,669	1,045
Risk-weighted assets (millions of euros)	77,480	72,898
Level 1 ordinary capital coefficient (CET 1)	12.53%	12.58%
Level 1 additional capital coefficient (AT1)	1.84%	1.93%
Level 1 capital coefficient (TIER1)	14.37%	14.51%
Level 2 capital coefficient (TIER 2)	2.15%	1.44%
Total capital coefficient	16.52%	15.95%

Eligible capital (EUR millions)

	2022	2021
Eligible capital		
Common Equity Tier I	9,706	9,167
Capital	5,639	5,639
Share Premium	1,140	1,140
Reserves	3,649	3,040
Other retained earnings	(645)	(645)
Minority interests	1,456	1,306
Profit net of dividends	591	684
Deductions	(411)	(213)
<i>Goodwill and intangible assets</i>	(1,714)	(1,783)
<i>Others</i>	—	—
Additional Tier I	1,427	1,412
Eligible instruments AT1	1,200	1,200
T1- excesses-subsidaries	227	212
Residual value of dividends	—	—
Others	—	—
Tier II	1,669	1,045
Eligible instruments T2	1,471	871
Gen. funds and surplus loans loss prov. IRB	—	—
T2-excesses- subsidiaries	199	175
Others	—	—
Total eligible capital	12.802	11.624

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 the ratio of Tier 1 divided by leverage exposure.

The ratio mentioned is calculated as the quotient between Tier 1 divided by the leverage exposure. This exposure is calculated as the sum of the following elements:

- Accounting asset, without derivatives and without elements considered as deductions in Tier 1 (for example, the balance of the loans is included but not the goodwill).
- Memorandum accounts (guarantees, unused credit limits granted, documentary credits, mainly) weighted by credit conversion factors.

- Inclusion of the net value of derivatives (gains and losses are netted with the same counterparty, less collateral if they meet certain criteria) plus a surcharge for potential exposure
- A surcharge for the potential risk of securities financing operations
- Finally, a surcharge is included for the risk of credit derivatives (CDS).

Santander Consumer Finance maintains a fully loaded leverage ratio at sub consolidated level of 8.93% at the end of 2022, based on a reference ratio of 3%.

EUR Millions	2022	2021
Leverage		
Level 1 Capital	11,133	10,579
Exposure	124,648	112,492
Leverage Ratio	8.93%	9.40%

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	2022	2021		Capital and reserves (a)	Net profit (a)	Participation amount (b)
Andaluz de Inversiones, S.A. Unipersonal	Ciudad Grupo Santander, Av. Cantabria, 28660, Boadilla del Monte - Madrid	Spain	100%	—	100%	100%	Holding Company	37	1	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 Compartment 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 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 ITALIAN RAINBOW LOANS 2020-1 S.R.L.	-	Italy	—	(d)	—	—	Securization	—	—	—
Auto ABS Spanish Loans 2018-1, Fondo de Titulización (d)	-	Spain	—	(d)	—	—	Securization	—	—	—
Auto ABS Spanish Loans 2020-1, Fondo de Titulización (d)	-	Spain	—	(d)	—	—	Securization	—	—	—
Auto ABS Spanish Loans 2022-1, Fondo de Titulización (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	—	—	—

Entity	Domicile	Country	Bank's ownership interest (%)		Voting rights (%) (c)		Line of business	EUR Millions		
			Direct	Indirect	2022	2021		Capital and reserves (a)	Net profit (a)	Participation amount (b)
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	2	—	18
Banca PSA Italia S.p.a.	Via Gallarate 199, 20151 Milano	Italy	—	50%	50%	50%	Banking	392	69	153
Compagnie Generale de Credit Aux Particuliers - Credipar S.A.	9 rue Henri Barbusse 92330 Gennevilliers	France	—	50%	50%	50%	Banking	460	22	855
Compagnie Pour la Location de Vehicules - CLV	9 rue Henri Barbusse 92330 Gennevilliers	France	—	50%	50%	50%	Financial	22	(1)	52
Drive S.r.l.	Via Giovanni Caproni 1, Bolzano	Italy	—	100%	100%	—%	Leasing	5	(1)	5
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Av. António Augusto Aguiar, 31 1069-413 Lisboa	Portugal	—%	51%	51%	51%	Financial	8	1	8
Financiera El Corte Inglés, E.F.C., S.A.	C/ Hermosilla 112, 28009, Madrid	Spain	51%	—%	51%	51%	Financial	278	58	140
Fondation Holding Auto ABS Belgium Loans (d)	-	Belgium	—	(d)	—%	—%	Securization	—	—	—
Guaranty Car, S.A.	Nacional II, Km 16,500 – 28830 San Fernando de Henares (Madrid)	Spain	—	100%	100%	100%	Auto	3	—	2
Santander Consumer Mobility Services, S.A.	Ciudad Grupo Santander Av. Cantabria s/n, 28660 Boadilla del Monte	Spain	—	100%	—	—	Renting	12	(4)	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	—	—	—
One Mobility Management GmbH	Dr.-Carl-von-Linde-Straße,2 - Pullach i.Isartal	Germany	47%	47%	—	—	Other Management Services	—	—	—
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	497	47	229
PSA Banque France	9 rue Henri Barbusse 92330 Gennevilliers	France	—	50%	50%	50%	Banking	1,142	62	881

Entity	Domicile	Country	Bank's ownership interest (%)		Voting rights (%) (c)		Line of business	EUR Millions		
			Direct	Indirect	2022	2021		Capital and reserves (a)	Net profit (a)	Participation amount (b)
PSA Finance Belux S.A.	Parc L'Alliance Avenue Finlande 4-8 1420 Braine Lalleud Belgium	Belgium	—	50%	50%	50%	Financial	95	14	93
PSA Financial Services Nederland B.V.	Hoofdweg 256, 3067 GJ Rotterdam	Holland	—%	50%	50%	50%	Financial	58	18	53
PSA Finance UK Limited	61 London Road - Londres	United Kingdom	—%	50%	50%	50%	Financial	377	29	317
PSA FINANCIAL SERVICES, SPAIN, EFC, SA	C/ Eduardo Barreiros Nº 110. 28041, Madrid	Spain	50%	—%	50%	50%	Financial	638	60	363
Riemersma Leasing B.V.	Waterman 7ª, 's-Hertogenbosch	Holand	100%	—%	100%	—%	Leasing	7	2	21
Santander Consumer Finance Global Services, S.L.	Ciudad Grupo Santander, Av Cantabria, 28660, Boadilla del Monte - Madrid	Spain	100%	—%	99%	99%	Other services	6	3	5
Santander Consumer Finance Schweiz AG	Brandstrasse 24, 8952 Schlieren	Switzerland	—	—%	100%	100%	Leasing	51	10	60
Santander Consumer Bank AG	Santander Platz I, 41061 (Mönchengladbach)	Germany	—%	—	100%	100%	Banking	2,844	469	5,070
Santander Consumer Bank A.S.	Strandveien 18, 1366 Lysaker, 0219 (Baerum)	Norway	100%	—	100%	100%	Financial	2,817	219	1,980
Santander Consumer Bank GmbH	Andromeda Tower, Donan City, Strów-Wien	Austria	—	100%	100%	100%	Banking	424	58	363
Santander Consumer Bank S.p.A.	Via Nizza 262, I-10126 (Turin)	Italy	100%	—%	100%	100%	Banking	834	92	603
Santander Consumer Finance Oy	Hermannin Rantatie 10, 00580 (Helsinki)	Finland	—%	100%	100%	100%	Financial	368	49	163
Santander Consumer Holding Austria GmbH	Rennweg 17, A 1030 (Wien)	Austria	100%	—%	100%	100%	Holding Company	364	—	518
Santander Consumer Holding GmbH	Santander Platz I, 41061 (Mönchengladbach)	Germany	100%	—%	100%	100%	Holding Company	5,564	317	6,077
Santander Consumer Operations Services GmbH	Madriker Strabe, 1D – 41069, Monchengladbach (Alemania)	Germany	—%	100%	—%	—%	Other services	12	1	18
Santander Consumer Technology Services GmbH	Kaiserstr 74, 41061, Monchengladbach (Alemania)	Germany	—%	100%	—%	—%	Other Services	24	3	22
Santander Consumer Leasing GmbH	Santander Platz I, 41061 (Mönchengladbach)	Germany	—%	100%	100%	100%	Leasing	(23)	93	151
Hyundai Capital Bank Europe GmbH	Friedrich-Ebert-Anlage 35-37 · 60327 Frankfurt am Main	Germany	—%	51%	51%	51%	Financial	702	14	391
Santander Consumer Renting, S.L.	Santa Bárbara 1, 28180, Torrelaguna - Madrid	Spain	100%	—%	100%	100%	Leasing	38	3	38
Santander Consumer Renting S.R.L.	Via Caproni 1, Bolzano	Italy	—%	100%	100%	—%	Renting	4	(1)	4
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%	—%	100%	100%	Financial	13	1	10
SC Austria Finance 2020-1 Designated Activity Company (d)	-	Ireland	—%	(d)	—%	—%	Securization	—	—	—

Entity	Domicile	Country	Bank's ownership interest (%)		Voting rights (%) (c)		Line of business	EUR Millions		
			Direct	Indirect	2022	2021		Capital and reserves (a)	Net profit (a)	Participation amount (b)
SC Austria Consumer Loan 2021 Designated Activity Company (d)	-	Ireland	—%	(d)	—%	—%	Securization	—	—	—
SC Germany Auto 2016-2 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., Compartment Consumer 2021-1 (d)	-	Luxembourg	—%	(d)	—%	—%	Securization	—	—	—
SC Germany S.A., Compartment Consumer 2022-1 (d)	-	Luxembourg	—%	(d)	—%	—%	Securization	—	—	—
SC Germany S.A. (d)	-	Luxembourg	—%	(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 Ajoneuvohallinto XI Limited (d)	-	Ireland	—%	(d)	—%	—%	Securization	—	—	—
SCF Rahoituspalvelut VII DAC (d)	-	Ireland	—%	(d)	—%	—%	Securization	—	—	—
SCF Rahoituspalvelut VIII DAC (d)	-	Ireland	—%	(d)	—%	—%	Securization	—	—	—
SCF Rahoituspalvelut IX DAC (d)	-	Ireland	—%	(d)	—%	—%	Securization	—	—	—
SCF Rahoituspalvelut X DAC (d)	-	Ireland	—%	(d)	—%	—%	Securization	—	—	—
SCF Rahoituspalvelut XI DAC (d)	-	Ireland	—%	(d)	—%	—%	Securization	—	—	—
Silk Finance No. 5 (d)	-	Portugal	—%	(d)	—%	—%	Securization	—	—	—
Secucor Finance 2021-1, DAC (d)	-	Ireland	—%	(d)	—%	—%	Securization	—	—	—

Entity	Domicile	Country	Bank's ownership interest (%)		Voting rights (%) (c)		Line of business	EUR Millions		
			Direct	Indirect	2022	2021		Capital and reserves (a)	Net profit (a)	Participation amount (b)
Fondo de Titulización de Activos Santander Consumer Spain Auto 2014-1 (d)	-	Spain	—%	(d)	—%	—%	Securization	—	—	—
Fondo de Titulización Santander Consumer Spain Auto 2016-1 (d)	-	Spain	—%	(d)	—%	—%	Securization	—	—	—
Fondo de Titulización Santander Consumer Spain Auto 2016-2 (d)	-	Spain	—%	(d)	—%	—%	Securization	—	—	—
Santander Consumer Spain Auto 2019-1, Fondo de Titulización (d)	-	Spain	—%	(d)	—%	—%	Securization	—	—	—
Santander Consumer Spain Auto 2020-1, Fondo de Titulización (d)	-	Spain	—%	(d)	—%	—%	Securization	—	—	—
Santander Consumer Spain Auto 2021-1, Fondo de Titulización (d)	-	Spain	—%	(d)	—%	—%	Securization	—	—	—
Santander Consumer Spain Auto 2022-1, Fondo de Titulización (d)	-	Spain	—%	(d)	—%	—%	Securization	—	—	—
Golden Bar (Securitisation) S.r.l. (d)	-	Italy	—%	(d)	—%	—%	Securization	—	—	—
Golden Bar Stand Alone 2016-1 (d)	-	Italy	—%	(d)	—%	—%	Securization	—	—	—
Golden Bar Stand Alone 2018-1 (d)	-	Italy	—%	(d)	—%	—%	Securization	—	—	—
Golden Bar Stand Alone 2019-1 (d)	-	Italy	—%	(d)	—%	—%	Securization	—	—	—
Golden Bar Stand Alone 2020-1 (d)	-	Italy	—%	(d)	—%	—%	Securization	—	—	—
Golden Bar Stand Alone 2020-2 (d)	-	Italy	—%	(d)	—%	—%	Securization	—	—	—
Golden Bar Stand Alone 2021-1 (d)	-	Italy	—%	(d)	—%	—%	Securization	—	—	—
Golden Bar Stand Alone 2022-1 (d)	-	Italy	—%	(d)	—%	—%	Securization	—	—	—
Suzuki Servicios Financieros, S.L.	C/Carlos Sainz 35, Pol. Ciudad del Automóvil, Leganés - Madrid	Spain	—%	51%	51%	51%	Intermediation	12	2	—
Svensk Autofinans WH 1 Designated Activity Company (d)	-	Ireland	—%	(d)	—%	—%	Securization	—	—	—
Transolver Finance EFC, S.A.	Av. Aragón 402, Madrid	Spain	51%	—%	51%	51%	Leasing	71	3	17
Allane SE	Dr.-Carl-von-Linde-Str. 2, Pullach i. Isartal - Alemania	Germany	—%	47%	47%	47%	Leasing	192	4	343
TIMFin S.p.A.	Corso Massimo D'Azeglio n. 33/E - 20126 Turin	Italy	—%	51%	51%	51%	Financial	45	(4)	28
PSA Renting Italia S.P.A.	Via Nizza 262, I-10126 - Turin	Italy	—%	50%	50%	50%	Renting	13	12	6

Entity	Domicile	Country	Bank's ownership interest (%)		Voting rights (%) (c)		Line of business	EUR Millions		
			Direct	Indirect	2022	2021		Capital and reserves (a)	Net profit (a)	Participation amount (b)
Allane Schweiz AG	Grossmattstrasse 9-Urdorf – Suiza	Switzerland	—%	47%	47%	47%	Renting	13	—	—
Allane Mobility Consulting AG	Grossmattstrasse 9-Urdorf – Suiza	Switzerland	—%	47%	47%	47%	Consulting	1	—	—
Allane Leasing GmbH	Ortsstraße 18a – Vösendorf – Austria	Austria	—%	47%	47%	47%	Renting	(2)	—	—
Allane Mobility Consulting GmbH	Dr.-Carl-von-Linde-Str. 2, Pullach i. Isartal – Alemania	Germany	—%	47%	47%	47%	Consulting	1	1	—
Autohaus24 GmbH	Dr.-Carl-von-Linde-Str. 2, Pullach – Alemania	Germany	—%	47%	47%	47%	Renting	(3)	1	—
Allane Location Longue Durée S.a.r.l.	1 Rue Francois Jacob - Francia	France	—%	47%	47%	47%	Renting	14	3	—
Allane Services GmbH & co. KG	Grubenstrasse, 27 - Alemania	Germany	—%	47%	47%	47%	Services	1	—	—
Allane Mobility Consulting B.V.	Kruisweg 791 - Holanda	Netherlands	—%	47%	47%	47%	Consulting	(3)	—	—
Allane Services Verwaltungs GmbH	Grubenstraße, 27 - Alemania	Germany	—%	47%	47%	47%	Portfolio management	—	—	—
Allane Mobility Consulting Österreich GmbH	Tuchlauben 7ª – Austria	Austria	—%	47%	47%	47%	Consulting	(1)	—	—
Allane Mobility Consulting S.a.r.l	Rue Francois Jacob – Francia	France	—%	47%	47%	47%	Consulting	(1)	—	—

- (a) Data obtained from the financial statements of each associate and/or jointly controlled entity for 2022. 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 o 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 Million(a)		
			Direct	Indirect	2022	2021		Assets	Capital and reserves	Profit / (loss)
Bank of Beijing Consumer Finance Company	Associate	China	20%	—	20%	17%	Financial	1,418	108	—
Fortune Auto Finance Co., Ltd	JV	China	50%	—	50%	50%	Financial	2,039	432	57
Stellantis Insurance Europe Limited	JV	Malta	50%	—	50%	50%	Insurance	267	61	28
Stellantis Life Insurance Europe Limited	JV	Malta	50%	—	50%	50%	Insurance	123	13	17
Santander Consumer Bank S.A.	Associate	Poland	40%	—	40%	40%	Banking	3,650	753	82
Santander Consumer Finanse Sp. z o.o.	Associate	Poland	—	40%	40%	40%	Services	15	15	0
Santander Consumer Multirent Sp. z o.o.	Associate	Poland	—	40%	40%	40%	Leasing	763	58	5
VCFS Germany GmbH	JV	Germany	—	50%	50%	50%	Marketing	1	—	—
PSA Finance Polsja sp.z o.o	Associate	Poland	—	20%	20%	20%	Financial	282	38	5
Payever GmbH	Associate	Germany	10%	—%	10%	10%	Other Services	3	2	—
PSA Consumer Finance Polska sp.zo.o.	Associate	Poland	—	20%	20%	20%	Financial	37	3	1
Santander Consumer Financial Solutions SP. Z O.O.	Associate	Poland	—	40%	40%	40%	Leasing	12	2	(1)

- (a) Data obtained from the financial statements of each associate and/or joint venture for 2022. 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 2022

(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 2022:				
Santander Consumer Renting, S.R.L.	Operating lease	100%	100%	03-30-2022
Drive S.R.L.	Operating lease	100%	100%	04-26-2022
Riemersma Leasing B.V.	Operating lease	100%	100%	04-15-2022

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 2022

Name	Domicile	Post Code	Employer/ National identification number	Date of granting powers	Geographical area of activity	Scope of representation
Palma del Río Finance, S.L.	POGL. IND EL GARROTAL EDF SARA BENITEZ C/ JARA 17 -1 (14700) Palma del Río	14700	B09987843	13-07-2022	Almodóvar del Río, Fuente Palmera, Palma del Río, Posadas, Lora del Río, 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	15-12-2020	Ubrique, Alcalá del Valle, Algodonales, Arcos de la Frontera, Benaocaz, Bornos, El Bosque, El Gastor, Espera, Grazalema, Olivera, Prado del Rey, Setenil, Torre Alhaguine, 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	01-02-2002	Bormujos, Coria del Río, Gelves, Gines, Pilas, Sanlúcar 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)	41400	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	15-12-2020	Alcaucín, Alfarnate, Algarrobo, Almáchar, 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	19-12-2008	Aguilar de la Frontera, Benamejí, Castro del Río, Espejo, Fernán Núñez, Montalbán 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	23400	B023478704	02-01-2004	Alblanchez de Úbeda, Almenara, Arquillos, Baeza, Beas de Segura, Bedmar y Garciez, Begijar, Belmez de la Moraleda, Benatae, Cabra de Santo Cristo, Cambil, Canena, Castellar, Cazorra, Chiclana de Segura, Chilluevar, Escañuela,	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	15-12-2020	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	15-12-2020	Algarnitas, 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	15-12-2020	Aguadulce, Badolatosa, Casariche, Los Corrales, Estepa, Gilena, Herrera, La Lentejuela, Lora de Estepa, Marinaleda, Martín 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	15-12-2020	Arealillo 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	01-02-2012	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	15-12-2020	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	15-12-2020	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	15-12-2020	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	15-12-2020	Albox, Alcontar, Almanzorra, Armuña de Almanzorra, Baces, Bayarque, Benitagla, Bealon, Cantoria, Cobrar, Fines, Laroya, Lijar, Lubrin, Lucar, Macael, Olula del Rio, Partalao, Purchena, Saron, 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	15-12-2020	Alcaracejos, Añora, Belalcázar, 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	01-02-2007	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	01-04-2008	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 Riotinto, 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	01-12-2011	Aldeaquemada, Andújar, Arjona, Arjonilla, Bailén, Baños de Quemada, Carboneros, La Carolina, Cazalilla, Espeluy, Higuera de Arjona, Lopera, Marmolejo, Santa Elena, Villanueva de la Reina, Villardondardo 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	02-01-2009	Agatocin, Alpendeire, Arriate, Atajate, Benalid, Benalauria, Benaolan, 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 El Ejido Almería	04700	B92999846	01-03-2011	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	15-12-2020	Alcanar, Aldover, Alfara de Carles, Amposta, Arbolí, Arnes, Ascó, Falset, Fix, Freginals, Gandesa, García, Ginestar, Godall, Masdenverge, Miravent, Móra d'Ebre, Morá la Nova, Pauls, Pobolada, Porrera, Batea, Bellmunt de Falset, Benicarló, Benifallet, Benissanet, Bot, Cabassers, Camarles, Capcanes, Caseres, Corbera d'Ebre, Cormudella del Montsant, Deltebre, El Lloar, El Masroig, El Molar, El Perelló, El Pinell de Bray, Els Guiments, Gratallops, Horta de Sant Joan, LÁldea, Lámetlla de Mar, L'Ampolla, La Fatarella, La Figuera, La Galera, La Morera de Montsant, La Palma d'Ebre, 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, Ulldacona, 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	15-12-2020	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	15-12-2020	Aiguafreda, Alpens, El Brull, Calldetenes, Centelles, Collsuspina, Espinelles, Folgueroles, Gurb, Els Hostalets De Balenya, Lluça, Perafita, Prats De Lluçanes, Roda De Ter, Rupit-Pruit, Santa Cecília De Vultrega, Santa Eugènia De Berga Santa Eulàlia De Riuprimer, Sant Agustí Del Lluçanes, Santa Maria De Corco L'asquirol, Sant Bartomeu Del Grau, Sant Boi De Lluçanes, Sant Hipòlit De Vultrega	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	01-10-2006	Comarcas del Pla D'urgel, la Noguera, L'urgell y La Segarra	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	25008	B025539123	01-10-2006	Lérida, Balafía; 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, Albatarrac, L'Albi, Alanco, Alcarras, Alcoletge, Alfes, Alguaire, Almatret, Almenar, Alpicat, Artessa de Lleida, Aspa, Aitona, Benavent de Segria, Bovera, Les Borges, Blanquets, Castellldans, Cervia de Garrigues, Corbins, L'Esplugu Calba, La Floresta, Fullea, La Granja D'Escarp, Gimènells 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 GESTIÓ, S.L.	C/ Gran Via, 46 (08600) Berga	08600	B064396476	15-12-2020	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, Arretera, 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)	07702	B55733471	25-12-2020	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	15-12-2003	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.	16001	B016156598	30-06-2007	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	15-12-2020	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	15-12-2020	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	15-12-2020	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	15-12-2020	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	15-12-2020	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
Finanduro 2007, S.L.U.	CALLE EL CARRO, 9, 3ºB -09400 ARANDA DE DUERO (BURGOS)	09400	B009480013	02-11-2007	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.
GASTEIZ FINANCE, SLU	Avda. de los Huetos, 79 Ed. Azucarera. Vitoria 01010 (Álava)	01010	B10818698	02-03-2021	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	15-12-2020	Tudela	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	01-10-2012	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	28300	B85464402	01-03-2014	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	15-12-2020	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	01-10-2005	Riba - Roja de Turia, Llíria, 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	44004	B44224947	02-06-2008	Teruel.	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
Lual Soluciones y Gestión, S.L.	C/ Isabel la Católica Nº 6 03803 Alcoy (Alicante)	03803	B01612019	15-12-2020	Villena, Sax, Biar, Benejama, Salinas, Cañada, Campo de Mirra, Alcoy, Ibi, Castalla, Onil, Bañeres, Tibi, Penáguila, Benifallim, Cocentaina, Muro de Alcoy, Beniarrés, Benilloba, Planes, Lorchá, Agres, Alquería de Aznar, Gayanes, Alfafara,	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, 4ªA (30007) Murcia	30007	B30512446	01-02-2016	Hellín, 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.U.	Av. A Coruña, 439 Bajo (27003) Lugo	27003	B027274216	15-12-2020	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	05004	B05265764	15-12-2020	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	15-12-2020	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 Zauzejo, 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.U.	Av. de Vigo, 65 (36003) Pontevedra	36003	B027380799	01-08-2008	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 Gijón- Vivero de Empresas Carretera de Somio 652 Despacho 3.1(33203) GIJON	33203	B05256375	01-04-2017	Gijón, Cabrales, Cangas de Onís, Caravia, Caso, Colunga, Llanes, Nava, Onís, Parres, Peñamellera Alta, Peñamellera Baja, Pesoz, Piloña, Ponga, Ribadedeva, Rivadesella, Villaviciosa.	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
Asfinza Badajoz, S.L.	Av. Sinforiano Madroño, nº 15 edificio Paraíso 3 entreplanta 4 locales A-B 06011 Badajoz – Badajoz.	06011	B06580708	01-06-2010	Badajoz.	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
Álvarez y garrúes Tres, S.L.U.	c/Salvador Dalí, 12 (32002) Orense	32002	B27412816	01-11-2010	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)	40194	B86080280	03-01-2011	Segovia.	Automotive financing, automotive leasing, automotive renting, consumer loan policies, cobranded cards, general cards.
FINZAMORA SERVICES, SL.	C\ Juan II, 23. 1º Dcha. 49011. Zamora.	49011	B49282403	01-01-2015	Zamora/Palencia	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 2022:

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 scanty 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 433,953 thousand in 2022, which implies an effective tax rate of 19.7%) and, therefore, differ from the income tax expense recognised in the consolidated income statement (EUR 455,696 thousand in 2021, which implies an effective tax rate of 22.5%). 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 2022.

The detail of the information for 2022 is as follows:

Jurisdiction (EUR million)	Turnover	No. of employees on a fulltime equivalent basis	Gross profit/ (loss) before tax	Tax on profit / (loss)
Germany	1,552	4,734	626	138
Austria	198	334	106	21
Belgium	60	160	26	6
Spain	716	1,663	264	19
Denmark	174	208	90	25
Finland	104	150	65	23
France	679	881	428	35
Greece	2	24	(4)	—
Ireland	1	—	(2)	—
Italy	444	957	237	63
Luxembourg	24	—	24	—
Norway	245	502	142	64
Netherlands	82	256	34	5
Portugal	45	223	11	—
United Kingdom	119	902	92	19
Sweden	172	235	58	—
Switzerland	29	71	11	—
Total	4,646	11,300	2,208	418

The return on assets (ROA) of the Group for the year ended 31 December 2022 was estimated at 1.23%.

Appendix VI

Disclosures required pursuant to Royal Decree 716/2009, of April 24, which establishes that entities issuing mortgage bonds or bonds will keep a special accounting record of the mortgage loans and credits that serve as collateral for said issues, of which replacement assets that back them and the derivative financial instruments linked to each issue.

Disclosures relating to mortgage-backed bond issues

As of December 31, 2021, special mortgage bonds issued by the Bank on July 20, 2007 were registered for a nominal amount of EUR 150,000 thousand that matured on July 20 2022 and which were guaranteed by mortgages registered in favor of the Bank. Additionally, on December 31 2021, mortgage bonds issued by the Bank on May 6, 2019 were registered for a nominal amount of EUR 450,000 thousand that matured on May 6, 2019.

The detail of the nominal value of the Bank's mortgage-backed bond issues outstanding on 31 December 2022 and 2021, 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
	2022	2021		
Euros:				
May 2016 issue	—	—	0.125	May 2019
July 2007 issue (Note 18)	—	150,000	5.135	July 2022
May issue 2019	—	450,000	0.000	May 2022
Balance at end of year	—	600,000		

(*) Face value.

On 31 December 2022 and 2021, 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	
	2022	2021
Total mortgage loans and credits	—	1,402,190
Mortgage participation certificates issued	—	—
Mortgage transfer certificates issued	—	—
Mortgage loans securing borrowings	—	—
Mortgage loans backing mortgage and mortgage-backed bond issues (*)	—	1,402,190
i) Non-eligible mortgage loans and credits	—	448,586
• Which comply with the requirements to become eligible, except for the limit established in Article 5,1 of Royal Decree 716/2009	—	448,586
• Other	—	—
ii) Eligible mortgage loans and credits	—	953,604
• Non-computable amounts	—	—
• Computable amounts	—	953,604
1) Mortgage loans and credits covering mortgage bond issues	—	—
2) Mortgage loans and credits eligible to cover mortgage-backed bond issues	—	953,604

(*) On 31 December 2022 and 2021, the Bank had not issued mortgage bonds and, therefore, all the loans and credits back the mortgage-backed bond issues.

The nominal value of the outstanding mortgage credits and loans and the nominal value of the loans and credits that were eligible in accordance with Royal Decree 716/2009 are presented below, without considering the limits to their computation established in article 12 of the aforementioned Royal Decree 716/2009, broken down according to their origin, the currency in which they are denominated, payment status, average residual maturity, interest rate, holders, type of guarantees as of December 31, 2022 and 2021:

	EUR Thousands			
	2022		2021	
	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
Subrogation from other entities	—	—	—	—
Other	—	—	—	—
Currency				
Euro	—	—	1,402,190	953,604
Other currencies	—	—	—	—
Payment status				
Current	—	—	1,334,759	928,321
Past due	—	—	67,431	25,283
Average term to maturity				
Less than 10 years	—	—	163,904	152,795
10 to 20 years	—	—	652,700	516,434
20 to 30 years	—	—	542,133	259,157
More than 30 years	—	—	43,453	25,218
Interest rate				
Fixed	—	—	26	—
Floating	—	—	1,402,164	953,604
Hybrid	—	—	—	—

(*) Including EUR 405,996 as of 31 December 2021, relating to mortgage participation certificates acquired from Banco Santander, S.A. (see Note 10).

	EUR Thousands			
	2022		2021	
	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	—	—	18,770	7,059
<i>Of which: Property developments</i>				
Other individuals and non-profit institutions serving	—	—	1,537,499	1,028,565
Type of guarantee				
Completed buildings				
• Residential	—	—	1,527,388	1,026,810
<i>Of which: Officially sponsored housing</i>				
• Commercial	—	—	28,881	8,814
• Other	—	—	—	—
Buildings under construction	—	—	—	—
• Residential	—	—	—	—
<i>Of which: Officially sponsored housing</i>				
• Commercial	—	—	—	—
• Other	—	—	—	—
Land	—	—	—	—
• Developed	—	—	—	—
• Other	—	—	—	—
	—	—	1,556,269	1,035,624

With regards to the disclosures on guarantees associated with mortgage loans and credits, as well as those loans that were eligible in accordance with the provisions of the aforementioned regulations, following is a detail of the nominal value of these mortgage loans and credits, based on the related loan-to-value ratio, as of 31 December 2022 and 2021:

	LTV ranges				
	2022				
	EUR millions				
	<= 40%	>40%, <= 60%	>60%, <=80%	>80%	Total
Mortgage loans and credits eligible for mortgage and mortgage-backed bond issues					
• Home mortgage	—	—	—	—	—
• Other mortgages	—	—	—	—	—

	LTV ranges				
	2021				
	EUR millions				
	<= 40%	>40%, <= 60%	>60%, <=80%	>80%	Total
Mortgage loans and credits eligible for mortgage and mortgage-backed bond issues					
• <i>Home mortgage</i>	329	372	243	—	944
• <i>Other mortgages</i>	2	8	—	—	10

Following is a detail of the movements in 2021 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 2021	1,035,624	520,645
Disposals in the year	109,530	74,161
<i>Repaid on maturity</i>	—	—
<i>Early repayment</i>	4,856	694
<i>Subrogation by other entities</i>	—	—
<i>Other</i>	104,674	73,467
Additions in the year	27,510	2,102
<i>Originated by the Bank</i>	718	1,352
<i>Subrogation from other entities</i>	—	—
<i>Other</i>	26,792	750
Balance on 31 December 2021	953,604	448,586

The detail of the nominal value of the Bank's mortgage securities outstanding on 31 December 2022 and 2021 is as follows:

	EUR millions		Average term to maturity
	Face value		
	2022	2021	
Mortgage bonds outstanding			
Mortgage-backed bonds	—	600	
Of which: Not recognised in liabilities			
1) Debt instruments. Issued through a public offering	—	600	
Term to maturity of up to 1 year			—
• 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	—	—	—
• Debt instruments. Other issues	—	—	—
2) 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	—	—	—
• Deposits	—	—	—
3) 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	—	—	—
Issued through a public offering	—	—	—
1) Other issues	—	—	—
2) Mortgage transfer certificates issued	—	—	—
Issued through a public offering	—	—	—
1) Other issues	—	—	—
2) Mortgage bonds outstanding	—	—	—

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 bonds issued by the Bank had affected substitution assets.

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

Consolidated Management Report for 2022

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 APMs 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)	$\frac{\text{Profit /loss of the year}}{\text{Average of total assets}}$	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 ratio (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 %)	2022	2021
RoA	1.23%	1.14%
Profit / loss for the year	1,601,623	1,490,661
Total assets	130,279,694	130,931,189
Efficiency ratio (cost to income)	-41,87%	-41,76%
Operating expenses	(1,945,415)	(1,855,268)
Administrative expenses	(1,756,232)	(1,663,948)
Amortization	(189,183)	(191,320)
Gross margin	4,646,491	4,442,574

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	$\frac{\text{Doubtful balances of loans and advances to customers, guarantees to customers and commitments granted to customers}}{\text{Total risk (1)}}$	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	$\frac{\text{Loan loss provisions (2)}}{\text{Doubtful balances of loans and advances to customers, guarantees to customers and commitments granted to customers}}$	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	$\frac{\text{Impairment (3)}}{\text{Financial assets at amortised cost – Loans and advances – Customers}}$	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 + Normal and 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 %)	2022	2021
Delinquency rate	2.06%	2.06%
Impaired assets	2,180,048	2,033,052
Commitments and guarantees granted	59,106	65,966
Loans and advances to customers without considering impairment adjustments	108,455,886	101,674,842
Commitments and guarantees granted total	362,244	355,245
Coverage ratio		
Impairment losses on loans and advances to customers at amortized cost and at fair value through other comprehensive income	88.61%	102.65%
Impaired assets	1,984,064	2,154,583
Commitments and guarantees granted	2,180,048	2,033,052
	59,106	65,966
Cost of credit		
Impairment	0.42%	0.50%
Loans and advances – Customers	(451,931)	(495,060)
	106,499,832	99,559,662

General external framework

Economic, regulatory and competitive context

Santander has carried out its activity in 2022 in an environment dominated by the acceleration of global inflation to levels not seen in several decades, the greater geopolitical tensions derived from the Russian invasion of Ukraine, and the continuity, although decreasing, of bottlenecks and disruptions in global trade chains, as a result of the covid pandemic and the aforementioned geopolitical tension.

In this context, the world's main central banks have raised interest rates to try to contain inflationary pressures. We expect this process of monetary normalization to continue in some countries during 2023, also leading the global economy to a gradual slowdown in the level of economic activity.

The evolution by geographical area is the following:

- **Eurozone** (GDP: 3.4% estimated in 2022). The end of the restrictions due to the pandemic as of 2Q22 meant the takeoff of activity in services. But the war in Ukraine, which has led to a rise in energy and staple food prices, has hampered the post-pandemic recovery and created a risk of recession. Despite this, the labor market has been resilient, as the unemployment rate has continued to fall and is at all-time lows (6.5%). Inflation rose steadily to over 10% during 4Q22, to which the ECB responded with interest rate hikes that began in July and have brought the official rate from -0.50% to 2% at the end of the year.
- **Spain** (GDP: 5.7% estimated in 2022). The normalization in the service sector and in tourism after the pandemic boosted growth in 2022, especially in the first half. The labor market remained robust with a low unemployment rate. Inflation, after reaching its peak at levels above 10%, has fallen for three consecutive months to 5.8% in December, although core inflation is still high (6.3%).
- **Germany** (GDP: 1.9% estimated in 2022). In early 2022, the economy was being fueled by a post-pandemic recovery in private consumption when the Russian invasion of Ukraine began, causing supply chains to suffer persistent disruptions, and affecting exports and investment. Employment is growing at record high rates, and the unemployment rate remained stable, although it increased from 5% to 5.5% due to the inclusion of Ukrainian refugees in the registers. Inflation reached double figures in September. Since then, the moderation in energy prices has allowed it to begin to fall and close the year at 8.6%, also due to the support of government measures.
- **France** (GDP: 2.6% estimated in 2022). GDP growth has been driven by the resilience of domestic demand and the rebound in the services sector after the pandemic, which has offset the slowdown in activity in the second half of the year. Job creation has remained high throughout the year and the unemployment rate has fallen to a record low of (7.3% in 2022). Although they have eased since September, pressures on global commodity prices have pushed up inflation, with the average annual rate expected to be 6.0%.
- **Norway** (GDP: 3.8% estimated in 2022). Economic activity has recovered significantly since March, and the pace has moderated since then. However, in September the continental GDP exceeded the pre-pandemic level of February 2020 by 4.4% and employment by 4.6%. The level of unemployment is low (unemployment rate is 3.2% in 3Q22) and inflation is high (5.9% in December), which has led Norges Bank to raise interest rates to 2.75 %.
- **Finland** (GDP: 1.9% estimated annual average for 2022). The evolution of the Finnish activity during 2022 has been very changeable; they started the year with zero growth, activity rebounded in the second quarter (thanks to public and private consumption and the robustness of the labor market) and there was a deterioration in GDP in the second part of the year. Inflation has continued to rise in the last months of 2022 and closed the year at 9.1% year-on-year (7.1% annual average).
- **Poland** (GDP: 4.7% estimated in 2022). The economy has shown great resilience despite strong headwinds: the war in Ukraine, the drastic increase in energy costs, or the tightening of financial conditions. Wages have grown strongly, which has put even more pressure on high inflation. Everything has led the central bank to raise the official rate to 6.75%.
- **Portugal** (GDP: 6.7% estimated in 2022). The rapid and intense recovery after the pandemic has been produced by the synchronization of internal and external demand, which has contributed to the maintenance of full employment (the average unemployment rate is 6%). The strong recovery in demand in the face of a supply unable to provide a united response to the effects of the Russian invasion of Ukraine has triggered an acceleration in inflation to double-digit rates.
- **United Kingdom** (GDP: 4.4% estimated in 2022). The acceleration of inflation has led to a growing contraction in real income and domestic demand as we have progressed in the year, ending with a technical recession. The labor market, with hardly any idle capacity, has been another factor of pressure on inflation. For all these reasons, the Bank of England has raised interest rates to 3.5%.

2023 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 prospects for 2023 are subject to several factors that generate some uncertainty, such as the development of the geopolitical situation (particularly its impact on Europe's energy supply) or the restoration of global value chains. However, in our base scenario we assume that during 2023 inflation will begin to slow down as a result of the restrictive monetary policies of central banks, together with a relaxation of the geopolitical situation and global bottlenecks.

The anticipated cooling of the economies will bring with it a slowdown in the growth rate of economic activity, which in some countries could materialize as a mild recession. We do not expect this slowdown to have a marked impact in terms of rising unemployment. Lastly, until inflation shows clear signs of cooling off, we estimate that central banks will maintain the contractionary bias of monetary policy, keeping interest rates at levels similar to current ones throughout 2023.

In detail by geography, the macroeconomic forecast for the 2023 financial year is as follows:

Eurozone

The year 2023 begins with doubts about the security of energy supply, with monetary policy that needs to be tightened to bring down inflation, and with the war in Ukraine unresolved. This may cause us to have a quarter of economic contraction, so we expect the euro area to border on economic stagnation. We expect inflation to drop, but it will remain far from the ECB's target (2%), so monetary policy will maintain its contractive tone. Thus, we expect to see rises in official interest rates, reinforced with measures aimed at reducing the ECB's balance sheet.

Fiscal policy could be slightly expansive, as measures are being proposed to offset the energy shock. This will mean a challenge of consistency between monetary and fiscal policy. In addition, a reform of the fiscal rules that bind the euro countries is underway, since the previous ones were suspended due to the pandemic, but they will be activated again in 2024.

The geopolitical environment will be especially relevant for the euro area over the next year, as economic development may change as the war in Ukraine evolves, as well as the European Union's response to defense and energy security challenges.

Spain

We expect a slowdown in growth in 2023 (1%) due to the drop in household consumption as a result of the decrease in real income. In addition, the uncertainty about the evolution of energy prices and the tightening of financial conditions will delay the investment decisions of economic agents. However, the acceleration in the use of Next Generation EU funds will provide an element of support for the economy.

Germany

We expect a mild recession in the coming quarters that will lead to negative growth in 2023 as a whole due to the global slowdown and uncertainty related to gas supply. In the second half of the year, with supply bottlenecks easing, exporters will eliminate production delays and benefit from the recovery in global demand. Private consumption will recover dynamism as inflation falls, which we expect to be gradual and will end the year below 5%. We expect the unemployment rate to remain around 5.5% since, if adjustments are needed in the number of workers, a reduction in working hours will be used.

France

In 2023, activity is expected to slow down significantly and GDP to expand by around 0.5% due to the impact of inflation on purchasing power and the more restrictive monetary policy that will slow down investment. We expect inflation to gradually decline in 2023, ending the year around 4%. The economic slowdown will weigh on the labor market and we expect the unemployment rate to rise. Fiscal measures to support families and businesses will keep the public deficit high in 2023.

Norway

After the great resilience shown by the economy in 2022, we expect 2023 to be a year of slowdown in which continental GDP grows below 1.5%, due to the ongoing war in Ukraine, the effects of the general and simultaneous tightening of monetary policy, the reincorporation of China, after abandoning the zero Covid policy, which could mean higher prices for raw materials, and push inflation higher. All of this leads to the higher cost of living for companies and families, which will lead to lower consumption and investment. The labor market will remain strong, although the unemployment rate will increase, since there will be employment adjustments due to lower demand. Norges Bank will continue raising interest rates (currently 2.75%), probably until mid-year and could end the year above 3%.

Finland

The outlook for 2023 is negative (stagnation or a slight decline in GDP in 2023), especially during the first half of the year. Agents' confidence is not picking up, inflation will remain high -although subsiding throughout the year- and the tightening of financial conditions will continue, which will continue to reduce the purchasing power of households - and, therefore, private consumption - and the investment decisions of companies, which will be postponed until a future with less uncertainty is glimpsed. The labor market will remain solid, which will protect against a further fall in GDP, although in the medium term the shortage of labor in some sectors could be reflected in lower growth.

Poland

The economy ended 2022 with a slowdown marking the start of what will be a mild recession in 2023. The first quarter is expected to mark the nadir of the mini-recession and then there will be a gradual recovery, leaving growth of GDP for the year as a whole close to zero. Consumption will be the most resilient component of demand; investment will fall. However, the contribution of net exports to GDP will be positive. After peaking in February (somewhat above 20%), inflation will come down, but not below 10%. The MPC agrees to postpone the return of inflation to the target and it seems that it is not going to raise interest rates.

Portugal

Growth prospects for 2023 are subject to the impact that the more restrictive monetary policy may have on activity. The increase in interest rates will affect domestic demand by reducing consumption, the intensity of which will depend on the resilience of the labor market (we expect them to remain around their natural rate of 7%-8%), and on the use of accumulated savings. Investment will moderate due to the increase in interest rates and the worst demand expectations. However, investments in the energy transition could mitigate part of this effect. Inflation will start to moderate, although wage pressures will help keep inflation levels above 2%.

United Kingdom

The economy will be in recession in 2023. Some measures to support families and businesses by the government will prevent a deep economic recession. As high inflation is reducing real income, consumption is expected to decline. Investment will also do so given the worst demand prospects. Inflation will start to decline from the first quarter, although it is not expected to reach the Bank of England's target. Therefore, we expect it to continue raising interest rates at its next meetings.

Economic outlook

Financial markets

The outlook for 2023 indicates a global economic slowdown, as a result of the drop in consumption and investment due to inflation, higher interest rates and lower confidence. Inflation should also moderate, making it possible for central banks to close the cycle of increases in the first months of the year. We believe these perspectives will dictate a behavior from less to more in the financial markets as we move into 2023, although uncertainty is high.

Debt yields may have room to rise in the first tranche of 2023, but we expect a turning point to start a downward path in the second half of the year, as inflation subsides and the market begins to speculate on a future cycle of rate cuts, which could take place in 2024. On the periphery side of the euro, a gradual quantitative adjustment (QT) and the safeguard that the Transmission Protection Instrument (TPI) represents in the ECB's chamber, should support spreads over the medium term.

In equities, the interest rate ceiling should allow valuations to recover in 2023, but in a limited way, as rates will remain relatively high and the economic slowdown will weigh on them.

In emerging economies, the focus remains on the recovery of the Chinese economy, which is making progress in easing the covid zero policy, becoming more pragmatic, and taking measures to alleviate the real estate crisis.

We see the risk in this central scenario on the side of a slower-than-expected inflection in the path of inflation that once again puts pressure on the target level for central banks. In this regard, we maintain a cautious stance, since if this risk scenario materializes, financial markets may still be vulnerable in 2023.

The banking environment will be marked by the impact that the economic moderation and the tightening of financial conditions will have on the payment capacity of the private sector and on balance sheet growth.

The tightening of monetary policy will be accompanied by the withdrawal of liquidity support measures, so entities will have to adjust to the new conditions. With more expensive wholesale funding and lower deposit growth. Even so, it is to be expected that the demand for credit will also be affected by the economic slowdown and the higher interest rates.

The risks are skewed to the downside and may come from non-bank financial players, with the risk of disorderly adjustments in asset prices and disturbances in market liquidity. Even so, for the moment, most of the entities are in a solid solvency position to face a scenario of this type.

In addition to the economic environment, banks must face the acceleration of the business digitization process and the knowledge and management of risks associated with climate change.

Financial regulation

In 2023 we expect continuity with respect to the 2022 regulatory agenda where the prudential, sustainability and digital pillars will continue to boil. Retail topics will also gain focus.

Prudential aspect

Most notable will be the discussions on the implementation of the Basel III reform in Europe. Central to the discussions will be the tension between the impact on banking of the requirements and the degree to which Europe deviates from Basel. Once the final standards of the Basel Committee on the prudential treatment of exposures to crypto assets of financial institutions have been published, their implementation process is expected to begin in the European Union and other jurisdictions.

Resolution

During 2023 in Europe it is intended to start the third review of the resolution directive (BRRD- Banking Recovery and Resolution Directive) with the objective, among others, of improving the application of the framework and that the framework works for medium and small banks. At the same time, the first review of the Deposit Guarantee Schemes Directive (DGSD) is planned, which is expected to serve as a boost to the negotiations on the creation of a common deposit guarantee fund at the European level.

Sostenibility

In Europe, the Commission will work to complete the green taxonomy, advancing in the definition of the four remaining environmental objectives pending development: protection of water and marine resources, transition to a circular economy, pollution control and protection of ecosystems. Additionally, progress will be made in the definition of sustainable reporting standards both at a European level, through the European Financial Reporting Advisory Group (EFRAG), and at an international level, through the new group of the International Sustainability Standards Board (ISSB).

Discussions will continue and it is foreseeable that an agreement will be reached during 2023 on the green bond and due diligence proposals. In addition, it is expected that in 2023 the EBA will present its conclusions on the integration of climate and environmental risks in the prudential framework, and that, together with EIOPA and ESMA, it will advance in the analysis of greenwashing in the European financial sector.

Retail banking

Different initiatives are underway with an important focus on improving consumer protection and adapting regulations to the digital environment. With regard to legislative actions, the approval of the proposal to review the consumer credit directive is expected, the start of the review of the mortgage credit directive and a strategy plan for retail investor participation in markets, which its objective is to encourage investment beyond savings.

Strategy

SCF is the leader in consumer finance in Europe with a presence in 18 countries (16 in Europe, China and Canada) and more than 130,000 associated points of sale (car dealers and shops). In addition, it is developing pan-European initiatives to boost Direct's business in all its markets.

It supports its customers and partners (car manufacturers and dealers and distributors) to boost their sales capacity by financing their products and developing advanced technologies that give them a competitive advantage. SCF is the leading funder and mobility provider in Europe.

The strategy developed in 2022 is based on the following priorities:

- **Strengthen our leadership in digital consumer lending, focusing on growth and transformation:**
 - **Auto:** reinforce our leadership position in auto financing, gain market share, strengthen our leasing business and develop underwriting services. SCF focuses on providing advanced digital financing capabilities to its partners to support their sales growth strategy and the best customer experience.
 - **Consumption (not auto):** Gain market share based on the specialization and development of the technological platforms taking advantage of our leading position in Europe in buy now, pay later (BNPL), credit cards and direct loans.
 - **Retail:** Promote digital banking activity.
- **Focus on profitable growth and transformation:**
 - **Simplify** the operating model by going from operating through autonomous banks to European hubs (Spain, Nordic, Germany hub) to increase competitiveness, allow benefits of scale and gain efficiency.
 - **Reduction** of sensitivity to interest rate rises, boosting the collection of deposits and accelerating the revaluation of new loans.
 - **Increase** profit by leveraging strategic operations started in 2021, such as Stellantis (auto), the launch of leasing and underwriting, and the development of BNPL; and the acquisition of Mitsubishi Bank Germany.
- **Drive technological transformation projects to take advantage of the rapid growth of the digital transition, support the expansion of the digital customer base** and provide our partners with digital tools to achieve a unique European digital connection, while maintaining high profitability and one of the best efficiency ratios in the sector.
- **At ESG**, we help the transition to a greener economy by doing business sustainably. We support the ecological transition of our clients through the financing of non-polluting vehicles, solar panels, bicycles, heating systems and efficient energy solutions.
- We are actively partnering with various European, US, Japanese and Chinese manufacturers with strong portfolios of electrical products to develop joint solutions to capture growth in a market that is moving towards lower emissions.

We were also recognized as Top Employer or Great Place to Work (GPTW) in 8 countries.

Business evolution

2022 was a difficult year, with supply chain disruptions (covid-19, lack of chips, war in Ukraine) and global geopolitical tensions. The high inflation in Europe and the shortage of energy are reducing the disposable income of consumers and affecting their consumption and confidence decisions.

Our main indicator for the Santander Consumer business showed at the end of December (ACEA data) that the market for passenger car registrations in Europe has decreased by 4.1% compared to 2021.

In this environment, credit production increased by 7.0% in the year. Our leadership position and strategic alliances have allowed us to increase our car financing market share in most of our countries. New car production increased 6.6% year-on-year, while car transactions in Europe fell high single digits in the geographies in which we operate.

In the auto sector, we started to develop our own digital leasing platform in Europe (we hope to start the gradual rollout before the end of the year) with the ambition to revolutionize the market.

Santander Consumer Finance's new subscription service, Wabi, is already up and running in Spain, Norway and Germany, and will be launched in other countries in the coming years. In June, Santander Consumer Finance launched Uility, our new white-label platform to develop solutions for companies based on vehicle subscription.

In 2022 we expanded our alliance with Stellantis and the transaction is expected to be completed in the first half of 2023 (after the necessary authorizations). Santander Consumer Finance has also established a long-term global agreement with the Piaggio Group, leader in the scooter segment in Europe.

By car, leasing solutions generated an increase of more than 20% in new contracts compared to the previous year. We continue to develop our own digital leasing platform in Europe with the ambition to revolutionize the market. Wabi (SCF's subscription service) is already up and running in Spain, Norway and Germany and will be launched in other countries in the coming years. In June, SCF launched Uility, our new vehicle underwriting solutions platform for businesses.

The joint venture with TIMFin, the main Italian Telecom, already has more than 1.5 million contracts since its launch and more than 5,800 active points of sale.

The group's total assets as of December 31, 2022 stood at 130,280 million euros (0.5% lower than at the end of the previous year). Customer loans have grown 7.0%, gradually recovering from the effects caused by the pandemic. New production has grown by 10.7% compared to 2021, growth that has been reflected in both auto business and consumer loans.

Regarding liabilities, compared to December 2021, there is an increase in customer deposits of 5.7%. Our access to wholesale funding markets remains strong and diversified. We are actively repricing new business to offset higher financing costs stemming from rate hikes. However, in central banks it has decreased by 10.5%.

At the end of December 2022, customer deposits, medium- and long-term securitizations, and issues placed on the market covered 75% of net customer loans.

Regarding the issuance plan, the volume issued by SCF SA in 2022 amounts to 6,479 million euros, of which 1,464 million correspond to senior debt, 600 million to subordinated debt, 1,050 million to non-preferred senior debt and another 3,365 million to securitizations.

Results

In 2022, the attributable profit of Santander Consumer Finance was 1,602 million euros, demonstrating, once again, the solidity of our business model, increasing the result compared to the previous year by 111 million.

By heading, the following impacts stand out:

- **Net interest income** improved by 0.4% compared to the previous year, affected by the increase in financing costs (strong rate hikes) and changes in TLTRO, partly mitigated by price review initiatives in the new loans and active margin management. The liquidity position has remained solid at all times and no additional liquidity tensions have been generated, thanks to the evolution of deposits and the drawdown of wholesale lines. Liquidity metrics have remained above their internal limits and in compliance with regulatory levels. At the end of December, the consolidated LCR (Liquidity coverage ratio) of SCF Subgroup was above 115% and the NSFR (Net Stable Funding Ratio) for the same perimeter was above 103%, maintaining comfortable levels throughout the year.
- With regard to **commissions**, they have increased in cumulative terms by 2.9% compared to the previous year, reflecting the progressive recovery that is taking place and which has an impact mainly on an improvement in insurance commissions.
- **Other operating results** increased by 77.4 million thanks to the better results obtained in the operating leasing activity. This line also includes the payment of the Single Resolution Fund (FUR), this payment has increased with respect to the previous year by 0.3 million euros.
- **Operating costs** stand at 1,945 million euros, 4.9% higher than in 2021, due to inflation, strategic investments to increase future income and reduce operating expenses and new businesses. The efficiency ratio stands at 41.9% at the end of the year (+10bp over 2021).
- **Provisions for bad debts** have been 9% lower than the previous year, supported by portfolio sales. Credit quality maintains a solid evolution, with a cost of credit of 0.42% (-8 bp year-on-year) and a non-performing loan ratio of 2.06% (-0 bp).
- Less negative contribution from other results and provisions despite regulatory charges in Poland (mortgage moratorium) and insurance regulations in Germany.

In summary, the Santander Consumer Finance Group continues to demonstrate the ability to generate income while maintaining high profitability, good efficiency and controlled delinquency. The expectations for 2023 are positive in all the territories where it operates.

Corporate principles

The Santander Group, of which Santander Consumer Finance forms 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.

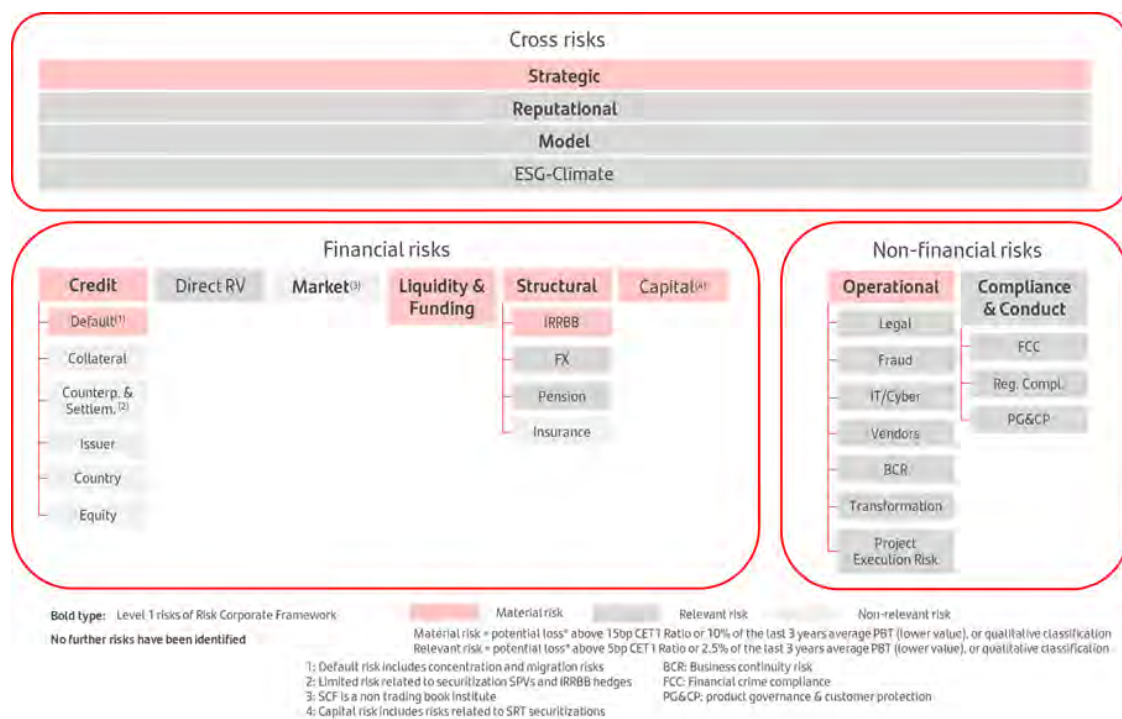
Santander Consumer Finance aims to build the future by managing all risks in advance and protecting the present thanks to a robust control environment. The risk function is based on the following pillars, which are aligned with the Santander Group's strategy and business model and take account of the 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 behavioural 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.
- **Financial crime risk** is the risk derived from actions or the use of the group's means, products and services in activities of a criminal or illegal nature. These activities include, but are not limited to, money laundering, terrorist financing, violation of international sanctions programs, corruption, bribery, and tax evasion.
- **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** is defined as the risk of a current or potential adverse economic impact due to a less favourable perception of the bank by employees, customers, shareholders/ investors and society in general.
- **Model risk** is the risk of loss arising from misuse of a model or inaccurate predictions that may result in sub-optimal decisions by the Bank.

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, technology and cyber risk, suppliers, business continuity, transformation, project execution, people, data, processes 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 affect the traditional types of risk (credit, liquidity, operational, reputational, etc.) due to the physical effects of climate change, generated by specific events as well as chronic changes on the environment, or the process of transition to a development model with lower emissions, including changes in legislation, technology or the behavior of economic agents, as well as failure to meet the expectations and commitments acquired.

Corporate Risk Governance

The objective of the governance of the risk function is to ensure adequate and efficient decision-making and effective risk control, and to ensure that these functions are managed in accordance with the risk appetite 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 defence in risk-management and control functions.
 - Alignment of objectives, monitoring to ensure they are being achieved and implementing corrective measures when necessary.
 - The existence of an adequate management and control environment for all risks.

To achieve these objectives, the Committee structure in the management model must ensure an adequate:

- Structure, with stratification by levels of relevance, balanced delegation capacity and protocols for escalating incidents.
- Composition, with members of sufficient rank and representation of business and support areas.
- Operations, i.e. frequency, minimum attendance levels and appropriate procedures.

The governance of risk activity must establish and facilitate coordination channels between the units and 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, the Silver and Bronze Committee at Santander Consumer Finance has monitored the war in Ukraine and the microchip/supply chain crisis and its impact on the entity's business.

Roles and responsibilities

The Risk function is structured into three lines of defense, in accordance with corporate policy, to manage and control risks effectively:

- First line of defence: Business functions that take or generate exposure to risk constitute the first line of defence. The first line of defence identifies, measures, controls, monitors and reports the risks that originate and applies the internal regulations that regulate risk management. The generation of risks must be adjusted to the approved risk appetite and the associated limits.
- Second line of defence: made up of the Risk functions, which independently supervise and question the risk management activities carried out by the first line of defence. This second line of defense must ensure, within their respective areas of responsibility, that risks are managed in accordance with the risk appetite defined by senior management and promote a strong risk culture throughout the organization.
- Third line of defence: the Internal Audit function is independent to ensure the board of directors, and senior management, the quality and effectiveness of internal controls, governance and risk management systems, helping to safeguard our value, solvency and reputation.

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 of 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 (or any other risk if it were necessary), 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.

The structure of the Risk Committees of the Western Hub branches:

Pursuant to the merger agreements and for the purpose of ensuring proper governance and continuing the risk function of the Western Hub branches by Santander Consumer Finance, S.A. (absorbing company):

- Any powers, faculties and attributions in terms of risks that were granted individually or collectively in the branches, will remain in force under the same terms and conditions.
- What is particularly established in its approval and risk control committees will continue to be in force with the same functions, unless one or more powers are expressly claimed for itself by a higher-ranking body.
- Any discrepancy in the understanding of the attributions and competence of the committees will be interpreted in the sense that best favors the governance functions of the company as a whole and, in any case, subject to the practices and uses of the governing bodies. superior hierarchy of the entity Santander Consumer Finance S.A.

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.

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 2022

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.

As of December 2022, the default rate was 2.06%, due to the good performance of the different portfolios, despite the adverse situations that have been experienced throughout 2022, the measures applied in the units and the Santander Consumer Finance risk appetite. Doubtful loans (2,239 million euros) are distributed by units as follows: Nordics represents 22% of the total, Spain 26%, Germany 28%, France 9%, Italy 7%, Austria 6% and others 2%. Regarding the type of portfolio, Auto represents 45% of the total, Direct 31%, Cards 7%, Stock Finance 3%, Mortgages 3%, Durables 2% and others 9%.

Despite the uncertainty and instability generated by the post-pandemic situation, as well as the semiconductor crisis and the war between Russia and Ukraine, the non-performing loan ratio has remained stable, compared to the December 2021 data, being 2.06% in both years.

In terms of cost of credit, this ratio has 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 2022 was 0.42%.

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.

Global Credit Risk Map 2022

The following table details the global map of Santander Consumer Finance's gross credit exposure by geographic area:

SCF Group - Gross Credit risk exposure			
	2022 (EUR million)	Change on December 2021	%portfolio
Spain and Portugal (*)	14,952	2.39%	13.79%
Italy	10,352	14.02%	9.53%
France	15,940	8.19%	14.70%
Germany and Austria	42,099	8.57%	38.82%
Nordics (Scandinavia)	17,815	1.32%	16.43%
United Kingdom (**)	2,819	(5.20)%	2.60%
Other	4,479	14.02%	4.13%
Total	108,456	6.67%	100.00%

In terms of outlook by product at December 2022, Auto represents 63% of the total gross exposure, Direct 12%, Mortgages 3%, Durables 2%, Stock Finance 10% and Others 10%. Germany concentrates the highest percentage of the portfolio with 39% along with Austria and their respective JVs. On the other hand, Nordics (Scandinavia) represents 16%, and includes units from Norway, Denmark, Sweden and Finland. France, including the PSA Joint Ventures, represents 10% of the total. Spain, Portugal and their respective units resulting from the cooperation with PSA, represent 14% of the total.

Estimation of impairment losses

Calculation of expected credit losses:

Grupo Santander Consumer Finance calculates expected credit losses using parameters (mainly PD and LGD) based on internal models according to specific requirements of IFRS 9 and other guidelines by regulators, supervisors and other international organizations (EBA, NCAs, BIS, GPPC). Models are built using internal information with sufficiently representative historical depth and granularity, regulatory and management experience, as well as forward-looking information based on macroeconomic scenarios, and allow estimating losses throughout the life of the operation. They follow a defined life cycle that includes, among others, a process of internal validation, monitoring and governance models to ensure their robustness and suitability for use.

Determination of significant increase in credit risk

In order to determine the classification in stage 2, the Group assesses whether there has been a significant increase in credit risk (SICR) since the initial recognition of the transactions, considering a series of common principles throughout the Group that guarantee that all financial instruments are subject to this assessment, which considers the particularities of each portfolio and type of product on the basis of various quantitative and qualitative indicators. Furthermore, transactions are subject to the expert judgement of the analysts, who set the thresholds under an effective integration in management and implemented according to the approved governance. The criteria thresholds used by the Group are based on a series of principles, and develop a set of techniques. The principles are as follows:

- **Universality:** all financial instruments subject to a credit rating must be assessed for their possible SICR.
- **Proportionality:** the definition of the SICR must take into account the particularities of each portfolio.
- **Materiality:** its implementation must be also consistent with the relevance of each portfolio so as not to incur in unnecessary costs or efforts.
- **Holistic vision:** the approach selected must be a combination of the most relevant credit risk aspects (e.g. quantitative and qualitative).
- **Application of IFRS 9:** the approach must take into consideration IFRS 9 characteristics, focusing on a comparison with credit risk at initial recognition, as well as considering forward-looking information.

- Risk management integration: the criteria must be consistent with those metrics considered in the day-to-day risk management.
- Documentation: Appropriate documentation must be prepared. The techniques are summarised below:
 - Stability of stage 2: in the absence of significant changes in the portfolios credit quality, the volume of assets in stage 2 should maintain a certain stability as a whole.
 - Economic reasonableness: at transaction level, stage 2 is expected to be a transitional rating for exposures that could eventually move to a deteriorating credit status at some point or stage 3, as well as for exposures that have suffered credit deterioration and whose credit quality is improving and returns to stage 1.
 - Predictive power: it is expected that the SICR definition avoids, as far as possible, direct migrations from stage 1 to stage 3 without having been previously classified in stage 2.
 - Time in stage 2: it is expected that the exposures do not remain categorized as stage 2 for an excessive time.

The application of the aforementioned techniques, conclude in the setting of one or several thresholds for each portfolio in each geography. Likewise, these thresholds are subject to a regular review by means of calibration tests, which may entail updating the thresholds types or their values. Identifying a significant increase in credit risk: when classifying financial instruments under stage 2, Santander considers:

- Quantitative criteria: Santander Consumer Finance reviews and quantifies changes in the risk of default during their expected life based on their credit risk level on initial recognition. To recognize significant changes so instruments can be classified in stage 2, each subsidiary set quantitative thresholds for its portfolios based on Santander's guidelines for consistent interpretation across all our footprint.

Of those quantitative thresholds, Grupo Santander considers two: the relative threshold, which shows the difference in credit quality since the transaction was approved as a percentage of change; and the absolute threshold, which calculates the total difference in credit quality. All subsidiaries apply them (with different values) in the same manner. The use of one or both depends on portfolio type and other aspects, such as the starting point for average credit quality.

- Qualitative criteria: Several indicators aligned with ordinary credit risk management indicators (e.g. past due for over 30 days, forbearance, etc.). Each subsidiary defined these criteria for its portfolios. Santander supplements these qualitative criteria with expert opinions. When the presumption of a significant deterioration of credit risk is removed, due to a sufficient improvement of the credit quality, the obligor can be re-classified to Stage 1, without any probationary period in Stage 2.
- Definition of default: Santander incorporated the new definition to provisions calculation according to the EBA's guidelines; the Group is also considering applying it to prudential framework. In addition, the default definition and stage 3 have been aligned.

This definition considers the following criteria to classify exposures as stage 3: financial instruments with one or more payments more than 90 consecutive days past due, representing at least 1% of the client's total exposure or the identification of other criteria demonstrating, even in the absence of defaults, that it is unlikely that the counterparty is unlikely to meet all of its financial obligations. The Group applies the default criteria to all exposures of the impaired client. Where an obligor belongs to a group, the default criteria may also be applied to all exposures of the group. The default classification is maintained during the 3-month test period following the disappearance of all default indicators described above, and this period is extended to one year for forbearances that have been classified as default.

- Expected life of financial instruments: Santander estimates the expected life of financial instruments according to their contractual terms (e.g. prepayments, duration, purchase options, etc.). The contractual period (including extension options) is the maximum time frame for measuring the expected credit loss. If financial instruments have an undefined maturity period and available balance (e.g. credit cards), Santander estimates its expected life based on the total exposure period and effective management practices to mitigate exposure.

The context and monitoring of the expected credit loss was analysed and reviewed during the health crisis by covid-19, and was reinforced with collective analysis, monitoring of government measures, monitoring of the evolution of the Group's customers, as well as remedial management actions if necessary. In terms of classification, Grupo Santander has maintained the criteria and thresholds for classification applied prior to the start of the pandemic, eliminating regulatory criteria of the effect of moratorium classification as they have expired, as well as the collective analyses associated with these groups of loans. Regarding moratorium measures, a rigorous identification and periodic monitoring of the credit quality of the clients and their payment behaviour have been carried out and, through a specific individual or collective evaluation, the timely detection of the significant increase in credit risk. At the end of December 2022 the credit risk provisions not included any special measures or adjustments in relation to health crisis by covid-19.

1. Forward-looking vision

To estimate expected losses, Grupo Santander requires a great deal of expert analysis as well as past, present and future data. Santander quantifies expected losses from credit events using an unbiased, weighted consideration of up to five future scenarios that could affect our ability to collect contractual cash flows. These scenarios take into account the time value of money, the relevant information available about past events and current conditions, and projections of macroeconomic factors that are considered important to estimate this amount (e.g. GDP, house prices, rate of unemployment, among others).

Santander uses forward-looking information in internal management and regulatory processes under several scenarios. The Group's guidelines and governance ensure synergy and consistency between these different processes.

During 2022, the Group has updated the macroeconomic scenarios included in the provision models with the most up-to-date information on the current environment. The IASB already indicated in 2021 that the macroeconomic uncertainty surrounding the pandemic made it difficult to regularly apply the expected loss calculation models of IFRS9. The European Central Bank recommended the use of a stable and long-term view (long-term). run) of macroeconomic forecasts. In 2022, the economic recovery that was expected after the end of the pandemic has been affected by the effects of the war in Ukraine, which introduces an additional effect of volatility in the scenarios. Consequently, the Group uses a prospective vision to estimate expected losses.

2. Additional elements

Additional elements such as an analysis of sectors or other pillars of credit risk analysis are included when necessary if they have not been captured by the two elements explained in the paragraph above, and their impacts have not been captured sufficiently by the macroeconomic scenarios. Collective analysis techniques are also used, when the potential impairment in a group of clients cannot be identified individually.

Based on the elements described above, Grupo Santander Consumer Finance has evaluated the performance of the credit quality of its customers in each of the geographical areas, for the purposes of their staging classification and consequently, the expected credit loss calculation.

Management overlays

In the context of the covid-19 pandemic, during 2022 the authorities decided to gradually relax the social distance measures. From an economic point of view, when the measures were softened and economic activity resumed, new imbalances emerged in the economy. Accumulated savings caused a rapid increase in demand, but there were supply restrictions due, in part, to the different speeds of incorporation into global supply chains and the scarcity of some materials, such as semiconductors, with great impact on the automotive industry. The money supply was still high and interest rates low, which caused inflation to begin to accelerate, very visibly from the second half of 2022. Additionally, in February 2022 the Russian invasion of Ukraine began, to which the Community International reacted by imposing harsh economic sanctions against Russia. The fact that Russia is the main player in the oil and gas market caused further distortions that put pressure on the energy market and further boosted inflation, especially in Europe (highly dependent on Russian gas). In these circumstances, the updating of the macroeconomic scenarios has been accompanied by great uncertainty.

During 2021, following the recommendations of different organizations and international supervisors, accounting and prudential policies were applied and adapted, under a criterion of responsibility, to the containment measures put in place to combat the effects of the covid-19 health crisis, which were of a temporary and exceptional nature. Long-term stable forecasts were taken into account and additional adjustments were made to the models (or overlays) to recognize the increase in expected loss, since the mechanical application of the methodology for estimating expected loss due to credit risk in that context could have led to unexpected results.

Throughout 2022, the adjustments have been continuously monitored, recalculating or reformulating them, in such a way that the changes caused by overcoming the pandemic and the start of the war in Ukraine and the inflationary effects and interest rate rises are adequately reflected in the account of each entity/geography of the Group. In total, at the end of 2022, the additional adjustments recorded by the Santander Consumer Finance Group due to macroeconomic aspects amount to EUR 104.9 million and are mainly due to the inclusion of additional effects derived from inflation and interest rates. Interest, which do not respond to the historical casuistry included in the projection models. The Group geographies most affected by these additional adjustments are Spain, Nordics, France and Italy.

The detail of the exposure and the impairment losses associated with each of the phases as of December 31, 2022 is shown below. In addition, based on the current credit quality of the operations, the exposure is divided in three degrees (investment, speculation and default):

Exposure and impairment losses by stage 2022 (EUR millions)				
Credit quality (*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	116,422	—	—	116,422
Speculation grade	12,674	4,172	—	16,846
Default	—	—	2,239	2,239
Total Risk (**)	129,096	4,172	2,239	135,508
Impairment losses	477	—	1,229	1,956

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	—	2,099	127,171
Impairment losses	551	—	1,307	2,858

(*) Detail of credit quality rating calculated for Group's management purposes.

(**) Amortised cost assets, Loans and advances - Customers + Loan commitments granted

As of December 31, 2022 and 2021, the Group does not present significant amounts of impaired assets purchased with impairment.

Provision sensitivity test

Regarding the evolution of losses due to credit risk, the Group carries out a sensitivity analysis through simulations in which immediate variations (shocks) of +/- 100 bps take place in the main macroeconomic variables, assuming constant distribution phases of each portfolio of financial assets. In this way, a set of specific and complete scenarios is used, where different impacts that affect both the reference variable and the rest of the macroeconomic variables are simulated. These impacts may originate from productivity factors, taxes, wages or exchange rates and interest rates. Sensitivity is measured as the average variation of the expected loss corresponding to the aforementioned scenarios. Following a conservative approach, negative movements take into account an additional standard deviation to reflect the possible greater variability of losses. Finally, in order to provide a measure of comparable sensitivity between portfolios, when using the statistical models for scenario analysis, the advances and lags of the model are eliminated, thus avoiding capturing only part of the simulated shock.

Additionally, the Group performs stress test exercises and sensitivity analysis on a recurring basis in exercises such as ICAAP, strategic plans, budgets and recovery and resolution plans. In these exercises, a prospective vision of the sensitivity of each of the Group's portfolios is created in the event of a possible deviation from the baseline scenario, considering both the macroeconomic evolution materialized in different scenarios, and the three-year business evolution. These exercises include potentially more adverse scenarios as well as more plausible scenarios.

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 2022 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 2022 (EUR millions)				
Credit Quality (*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	37,009	12	—	37,021
Speculation grade	—	1,145	—	1,145
Default	—	—	566	566
Total exposure (**)	37,009	1,157	566	38,732
Impairment losses	88	38	272	398

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

(*) 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 1.47% at the end of December 2022 (1.55% at the end of 2021).

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 in 2022 of the main macroeconomic indicators used to estimate expected losses at Santander Consumer Bank AG and Santander Consumer Leasing, GmbH is presented below:

Magnitudes	5-year scenario (2023-2027)				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	4.04 %	3.19 %	2.33 %	1.71 %	1.09 %
Unemployment rate	7.70 %	6.42 %	5.14 %	4.84 %	4.54 %
GDP growth	(0.45 %)	0.45 %	1.36 %	2.08 %	2.80 %
Housing market price surges	(4.54 %)	(2.55 %)	1.70 %	3.73 %	5.80 %

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 %

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 2022 and 2021 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 2022, based on what is detailed in the *Provisions Sensitivity Exercise* section is shown below:

	Change in expected loss (IFRS9)			
	Vehicles New	Vehicles Used	Leasing New	Direct
GDP growth:				
(100) b.p.s.	5.60%	4.98%	4.71%	2.61%
100 b.p.s.	(3.71%)	(3.28%)	(2.85%)	(1.61%)
Unemployment rate:				
(100) b.p.s.	(9.97%)	(8.95%)	(7.84%)	(4.33%)
100 b.p.s.	14.73%	13.21%	14.08%	7.16%

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 credit risk profile characteristics of the products that form the portfolio.

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 2022 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 2022 (EUR millions)				
Credit Quality (*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	14,738	6	—	14,744
Speculation grade	1,701	575	—	2,276
Default	—	—	391	391
Total exposure (**)	16,439	581	391	17,411
Impairment losses	77	57	222	356

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

(*) 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 2.70% at the end of December 2022 (3.18% at the end of 2021).

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 2022 is presented below:

Magnitudes	5-year scenario (2023-2027)				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	4.23 %	4.05 %	3.30 %	3.10 %	2.80 %
Unemployment rate	5.24 %	4.82 %	3.85 %	3.39 %	3.03 %
Housing market price surges	(1.22 %)	(0.49 %)	0.22 %	0.55 %	1.06 %
GDP growth	0.36 %	1.06 %	1.90 %	2.52 %	3.10 %

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 %

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, both in 2022 and 2021, 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 as of 31 December 2022, based on what is detailed in the *Provisions Sensitivity Exercise* section is shown below:

	Change in expected loss (IFRS9)
	Auto Individuals
GDP growth	
(100) bps	5.05 %
100 bps	(2.00 %)
Housing market price surges	
(100) bps	2.72 %
100 bps	(1.62 %)

- Denmark**

The projected evolution for the next five years of the main macroeconomic indicators for estimating expected losses as of 31 December 2022 is presented below:

Magnitudes	5-year scenario (2023-2027)				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	3.88 %	3.23 %	2.58 %	1.96 %	1.34 %
Unemployment rate	5.74 %	5.24 %	4.72 %	4.22 %	3.90 %
Housing market price surges	(1.67 %)	0.27 %	2.17 %	4.15 %	5.87 %
GDP growth	0.19 %	0.80 %	1.59 %	2.11 %	2.60 %

The projected evolution for the next five years of the main macroeconomic indicators 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%

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, both in 2022 and 2021, 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 as of 31 December 2022, based on what is detailed in the *Provisions Sensitivity Exercise* section is shown below:

	Change in expected loss (IFRS9)
	Auto Individuals
GDP Growth	
(100) p.b.	3.76 %
100 p.b.	(2.62 %)

- **Sweden**

The projected evolution for the next five years of the main macroeconomic indicators for estimating expected losses as of 31 December 2022 is presented below:

Magnitudes	5-year scenario (2023-2027)				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	4.33 %	3.51 %	3.19 %	2.74 %	2.11 %
Unemployment rate	7.61 %	7.36 %	7.08 %	6.80 %	6.48 %
Housing market price surges	(0.57 %)	0.39 %	1.60 %	2.70 %	3.73 %
GDP growth	0.45 %	0.95 %	1.78 %	2.33 %	2.83 %

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 %

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, both in 2022 and 2021, 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 as of 31 December 2022, based on what is detailed in the *Provisions Sensitivity Exercise* section is shown below:

	Change in expected loss (IFRS9)	
	Auto individuals	Direct
GDP growth:		
(100) bps	6.27 %	1.81 %
100 bps	(1.30 %)	(0.19 %)

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.

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 2022 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 2022				
(EUR millions)				
Credit Quality (*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	4,069	5	—	4,074
Speculation grade	10,967	236	—	11,203
Default	—	—	477	477
Total exposure (**)	15,035	241	477	15,753
Impairment losses	121	32	288	441

(*) 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 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

The delinquency rate in the case of Spain has increased to 3.44% at the end of December 2022 (3.09% at the end of 2021).

Prospective information has been considered for the estimation of the expected losses, . Specifically, regarding in Santander Consumer Finance, S.A. portfolio, five prospective macroeconomic scenarios are considered, which are updated periodically, during a time horizon of 5 years.

The projected performance in the years to follow of the macroeconomic indicators used during 2022 regarding the estimation of the expected credit losses for Santander Consumer Finance, S.A. portfolios in Spain is as follows:

Magnitudes	5-year scenario (2023-2027)				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	3.39 %	2.98 %	2.59 %	2.25 %	2.00 %
Unemployment rate	19.43 %	16.61 %	12.20 %	10.65 %	9.46 %
Housing market price surges	1.72 %	2.34 %	3.31 %	3.83 %	4.29 %
GDP growth	(0.57 %)	0.53 %	2.05 %	3.34 %	4.15 %

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 %

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, both in 2021 and 2022, 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 2022, based on what is detailed in the *Provisions Sensitivity Exercise* section is shown below:

	Change in expected loss (IFRS9)			
	Auto New	Auto Used	Mortgages	Cards
GDP growth:				
(100) bps	5.03%	2.99%	0.91%	2.61%
100 bps	(3.42%)	(2.1%)	(0.65%)	(1.84%)

Regarding Stage 2 classification, the quantitative criteria that have been applied in the entity are based in identifying if any increase in the PD for the whole operation life expectancy is greater than a series of absolute and relative thresholds. Each portfolio has its own thresholds depending on the characteristics and credit risk profile of the products that form this portfolio.

As an example, regarding the main portfolios of Santander Consumer Finance S.A., it is considered that a transaction should be classified as stage 2 when the PD for the whole life expectancy of the operation at any given moment is greater than its PD at initial recognition in absolute and relative thresholds, depending on the sub-segment.

Furthermore, there are a series of specific qualitative criteria that signal if the exposure has had a significant increase in credit risk, regardless of the performance of its PD at initial recognition. The entity, among other criteria, considers that a given transaction presents significant increase in credit risk when it is 30 days past due. These criteria depend on management practices depending on portfolio credit risk.

Credit Risk

Changes in 2022

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 with Santander Consumer Finance 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 is adapted to the bank regulation established by the EBA, like it is said in the "Guidelines relating to the management of non-performing and restructured or refinanced exposures" (EBA/GL/2018/06) of October, 31 2018. It is also adapted to the Bank of Spain Circular 6/2021 that modifies 4/2017.

This policy establishes strict prudential criteria for the assessment of these loans:

- The use of this practice is restricted, and any actions that might defer the recognition of impairment must be avoided.
- The main aim must be to recover the amounts owed, and any amounts deemed unrecoverable must be recognised as soon as possible.
- Forbearance must always envisage maintaining the existing guarantees and, if possible, enhance them. Not only can effective guarantees serve to mitigate losses given default, but they might also reduce the probability of default.
- This practice must not give rise to the granting of additional funding or be used to refinance debt of other entities or as a cross-selling instrument.
- All the alternatives to forbearance and their impacts must be assessed, making sure that the results of this practice will exceed those which would foreseeably be obtained if it were not performed.
- Forborne transactions are classified using more stringent criteria which prudentially ensure that the customer's ability to pay is restored from the date of forbearance and for an adequate period of time thereafter.
- In addition, in the case of customers that have been assigned a risk analyst, it is particularly important to conduct an individual analysis of each specific case, for both the proper identification of the transaction and its subsequent classification, monitoring and adequate provisioning.

The forbearance policy also sets out various criteria for determining the scope of transactions qualifying as forborne exposures by defining a detailed series of objective indicators that permit identification of situations of financial difficulty.

Accordingly, transactions not classified as non-performing at the date of forbearance are generally considered to be experiencing financial difficulty if at that date, they were more than one month past due. Where no payments have been missed or there are no payments more than one month past due, other indicators of financial difficulty are taken into account, including most notably the following:

- Transactions with customers who are already experiencing difficulties in other transactions.
- Situations where a transaction has to be modified prematurely, and the Group has not yet had a previous satisfactory experience with the customer.
- Cases in which the necessary modifications entail the grant of special conditions, such as the establishment of a grace period, or where these new conditions are deemed to be more favourable for the customer than those which would have been granted for an ordinary loan approval.
- Where a customer submits successive loan modification requests at unreasonable time intervals. In Consumer Finance's case, a maximum of 1 restructuring agreement is established in a year or 3 in a period of 5 years.

- 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 forbore 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 managed 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.

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. In the case that it is justified that, while an operation is in the 24-month Cure Period of Phase 2, there is no longer a Significant Increase in its Credit Risk, said operation may be reclassified as Phase 1 and Non-Default. risk, without the need to complete the aforementioned Cure Period. However, it is important to note that restructurings at the time of origination can only be classified as Stage 2 or Stage 3, never as Stage 1.

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.

The renewals can be long or short term (less than two years). Carrying out renewals with terms not exceeding two years will be taken into account, when the borrower meets the following criteria:

- That experiences temporary liquidity restrictions, for which the recovery of the client will be evidenced in the short term
- That the application of long-term redirection measures was not effective given the temporary financial uncertainty of a general or specific nature of the client.
- That they have been complying with the contractual obligations before the reinstatement
- Demonstrates a clear willingness to cooperate with the entity.

As a consequence of the analysis that is carried out, both of the client's situation and of the characteristics of the redirection operation that is used, it must be ensured that the redirection will facilitate the reduction of the client's debt, and therefore it will be viable. In this sense, to assess the feasibility of the operation, the following will be taken into account:

- a. That it can be demonstrated with evidence that the proposed renewal is within the customer's reach, that is, that a full refund is expected.
- b. The payment by the client of the outstanding amounts, in full or in their majority, and the considerable reduction of exposure in the medium-long term.
- c. The non-existence of repeated breaches of the payment plans that have given rise to successive renewals (more than three renewals in a period of three years)
- d. In the temporary application of short-term renewal measures, it can be proven through evidence that the client has sufficient payment capacity to meet the debt, principal and interest, once the period of application of the temporary renewal has expired.

- e. The measure does not give rise to the successive application of several refinancing or restructuring measures for the same exposure.

In the event that operations are carried out that do not comply with the above, they will be considered non-viable operations and will form part of the Non-performing refinancing 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.

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 scanty 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.



e1. 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.

e2. Sales

- **Decisions and 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.

e3. 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).

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 manage 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 behaviour of non-performing loans.

- **EL (expected loss) and capital**

Expected loss is an estimate of the financial loss that will occur over the next year from the portfolio existing at the given time. It is a further cost of business, and must be reflected in the pricing of transactions.

2.- Evaluation of control processes

A systematic scheduled review of procedures and methods, implemented throughout the entire credit risk cycle, to ensure control process effectiveness and validity.

In 2006, within the corporate framework established across the Group for compliance with the Sarbanes Oxley Act, a corporate methodology was created for the documentation and certification of the Control Model, specified in terms of tasks, operating risks and controls. The risk division annually evaluates the efficiency of internal control of its activities.

Moreover, the internal validation function, as part of its mission to supervise the quality of the Group's risk management, ensures that the management and control systems for the different risks inherent in the Group's business comply with the most stringent criteria and best practices seen in the industry and/or required by regulators. In addition, internal audit is responsible for ensuring that policies, methods and procedures are adequate, effectively implemented and regularly reviewed.

Recoveries management

Recovery activity is an important function within the Group's risk management area. The area responsible is Collection and Recoveries, which frames a global strategy and a comprehensive approach to recovery management.

The Group combines a global model with local execution, taking account of the specific features of the business in each area.

The main objective of the recovery activity is to recover outstanding debts and obligations by managing our customers, thus contributing to a lesser need for provisions and a lower cost of risk.

The specific targets of the recovery process are guided as follows:

- Achieve collection or regularisation of outstanding balances, so that an account returns to its normal state; if this is not possible, the objective is total or partial recovery of debts, whatever their accounting or management status.
- Maintain and strengthen our relationship with the customer by addressing their behaviour with an offer of management tools, such as refinancing products according to their needs, consistently with careful corporate policies of approval and control, as established by the risk areas.

In the recovery activity, Standardised customers and Individually Managed customers are segmented or differentiated with specific and comprehensive management models in each case, according to basic specialisation criteria.

Management is articulated through a multichannel customer relationship strategy. The telephone channel is oriented towards standardised management, with a focus on achieving contact with customers and monitoring payment agreements, prioritising and adapting management actions based on the state of progress of their situation of "in arrears", "doubtful" or "in default", their balance sheet and their payment commitments.

The commercial network of recovery management operates alongside the telephone channel. It is a means of developing a closer relationship with selected customers, and is composed of teams of agents with a highly commercial focus, specific training and strong negotiation skills. They conduct personalised management of their own portfolios of high-impact customers (large balance sheets, special products, customers requiring special management).

Recovery activities at advanced stages of non-performance are guided by a dual judicial and extra judicial management approach. Commercial and follow-up activities by telephone and via agent networks are continued, applying strategies and practices specific to the state of progress.

The management model encourages proactivity and targeted management through continuous recovery campaigns with specific approaches for customer groups and non-performance states, acting with predefined goals through specific strategies and intensive activities via appropriate channels within limited time frames.

Suitable local production and analysis of daily and monthly management information, aligned with corporate models, have been defined as the basis of business intelligence for ongoing decision-making for management guidance and results monitoring.

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 2022 and 2021 is as follows:

	2022				
	EUR Thousands				
	Spain	Other EU Countries	Americas	Rest of the world	Total
Credit institutions	2,940,703	6,497,642	—	242,744	9,681,089
Public sector	924,475	5,504,140	—	42,951	6,471,566
Of which:					
Central government	921,804	4,255,960	—	60	5,177,824
Other	2,671	1,248,180	—	42,891	1,293,742
Other financial institutions	10,863	1,145,014	338,628	246,749	1,741,254
Non-financial companies and individual traders	3,171,286	28,351,567	—	2,673,489	34,196,342
Of which:					
Construction and property development	—	211,566	—	—	211,566
Civil engineering construction	—	6,678	—	—	6,678
Large companies	1,034,445	10,699,079	—	986,488	12,720,012
SMEs and individual traders	2,136,841	17,434,244	—	1,687,001	21,258,086
Other households and non-profit institutions serving households	10,121,975	54,814,108	14	6,575,205	71,511,302
Of which:					
Residential	1,318,606	2,394,903	—	—	3,713,509
Consumer loans	8,714,320	52,074,766	14	6,575,205	67,364,305
Other purposes	89,049	344,439	—	—	433,488
				Total	123,601,553

(*) The definition of risk for the purposes of this table includes the following items on the public consolidated balance sheet: 'Loans and advances: to credit institutions', 'Loans and advances: central banks', 'Loans and advances: to customers', 'Debt securities', 'Equity instruments', 'Derivatives', 'Derivatives - Hedge accounting', 'Participations and guarantees granted'.

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

(*) 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",

Market, structural and liquidity risk

a) Scope and definitions

The measurement perimeter, control and monitoring of the Market Risks function covers those operations where equity risk is assumed, as consequence of changes in market factors.

These risks are generated through two fundamental types of activities:

- The trading activity, which includes both the provision of financial services in markets for clients, in which the entity is the counterparty, as well as the activity of buying and selling and own positioning in fixed income, variable income and currency products.

Santander Consumer Finance does not do negotiation activities (trading), it limits its treasury activity to manage the structural risk of the balance sheet and its coverage, as well as to manage the liquidity necessary to finance the business.

- The management activity of the balance sheet or ALM, which involves managing the risks inherent in the entity's balance sheet, excluding the trading portfolio.

The risks generated in these activities are;

- Market: risk incurred because of the possibility of changes in market factors that affect the value of the positions that the entity maintains in its trading portfolios (trading book).
- Structural: risk caused by the management of the different balance sheet items. This risk includes both the losses from price fluctuations that affect the available-for-sale and held-to-maturity portfolios (banking book), as well as the losses derived from the management of the Group's assets and liabilities valued at amortized cost.

- Liquidity: risk of not meeting payment obligations on time or doing so at an excessive cost, as well as the ability to finance the growth of its volume of assets. Among the types of losses caused by this risk are losses due to forced sales of assets or impacts on margin due to the mismatch between forecast cash outflows and cash inflows.

Trading and structural market risks, depending on the market variable that generates them, can be classified as:

- Interest rate risk: identifies the possibility that variations in interest rates may adversely affect the value of a financial instrument, a portfolio or the Group.
- Credit spread risk: identifies the possibility that variations in credit spread curves associated with specific issuers and types of debt may adversely affect the value of a financial instrument, a portfolio or the Group. The spread is a differential between financial instruments that trade with a margin over other reference instruments, mainly IRR (Internal Rate of Return) 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 may adversely affect the value of a financial instrument, a portfolio or the Group.
- Inflation risk: identifies the possibility that variations in inflation rates may adversely affect the value of a financial instrument, a portfolio or the Group.
- Volatility risk: identifies the possibility that variations in the listed volatility of market variables may adversely affect the value of a financial instrument, a portfolio or the Group.
- Liquidity risk: identifies the possibility that an entity or the Group will not be able to undo or close a position on time without impacting the market price or the cost of the transaction.
- Prepayment or cancellation risk: identifies the possibility that early cancellation without negotiation, in operations whose contractual relationship explicitly or implicitly allows it, generates cash flows that must be reinvested at a potentially lower interest rate.

There are other variables that exclusively affect market risk (and not structural risk), so that it can be further classified into:

- Variable income risk: identifies the possibility that changes in the value of prices or in the expectations of dividends of variable income instruments may adversely affect the value of a financial instrument, a portfolio or the Group.
- Raw materials risk: identifies the possibility that changes in the value of merchandise prices may adversely affect the value of a financial instrument, a portfolio or the Group.
- Correlation risk: identifies the possibility that changes in the correlation between variables, whether of the same type or of a different nature, quoted by the market, may adversely affect the value of a financial instrument, a portfolio or the Group.
- Underwriting risk: identifies the possibility that the placement objectives of securities or other types of debt will not be achieved when the entity participates in underwriting them.

Liquidity risk can be classified into the following categories:

- Financing risk: identifies the possibility that the entity is unable to meet its obligations as a result of the inability to sell assets or obtain financing.
- Mismatch risk: identifies the possibility that the differences between the maturity structures of assets and liabilities generate an extra cost to the entity.
- Contingency risk: identifies the possibility of not having adequate management elements to obtain liquidity as a result of an extreme event that implies greater financing or collateral needs to obtain it.

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 securitisation considering eligible assets available, in addition to potential growth in customer deposits. This information is used to establish an issue and securitisation plan for the year. Throughout the year, regular monitoring is carried out of actual trends in funding requirements, thus giving rise to the revisions of the plan.

- Contingency Funding Plan

The purpose of the Liquidity Contingency Plan is to set out the processes (governance structure) to be followed in the event of a potential or real liquidity crisis, as well as the analysis of contingency actions or levers available to Management should such a situation arise.

The Liquidity Contingency Plan is underpinned by, and must be designed in line with, two key elements: liquidity stress tests and the early warning indicator (EWI) system. Stress tests and different scenarios are used as the basis for analysing available contingency actions and for determining such actions are sufficient. The EWI system monitors and potentially triggers the escalation mechanism for activating the plan and subsequently monitoring the situation.

- Regulatory Reporting

Santander Consumer Finance applies the Liquidity Coverage Ratio (LCR) as required by the European Banking Authority (EBA) for the consolidated sub-group on a monthly basis, and the net stable funding ratio (NSFR) on a quarterly basis.

In addition, Santander Consumer Finance has produced an annual Internal Liquidity Adequacy and Assessment Process (ILAAP) report as part of the consolidated document of the Santander Group, although the supervisor does not require this report at sub-group level.

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 with the sensitivity that implies a greater loss among those calculated for different scenarios of parallel rise and fall of the interest rate curve. During 2022, these limits applied to the scenarios of plus and minus 25 basis points, and as of January 2023 they have been established on the most adverse loss among 8 scenarios of parallel increases and decreases of up to 100 basis points. In addition, other parallel and non-parallel scenarios are calculated, including those defined by the European Banking Authority (EBA). Using various scenarios allows for better control of interest rate risk. In the lowering interest rates scenarios, negative interest rates are contemplated.

During 2022, the level of exposure at the consolidated level in the SCF Group, both on the financial margin and on economic value, is low in relation to the budget and the amount of own resources respectively, being in both cases less than 1% throughout the year, year, and within the established limits.

With regard to liquidity risk, the main limits at the Santander Consumer Finance Group level include regulatory liquidity metrics such as the LCR and NSFR, as well as liquidity stress tests under different adverse scenarios previously mentioned.

At the end of December 2022, all liquidity metrics are above the internal limits in force, as well as regulatory requirements. Both for the LCR and for the NSFR at the consolidated Group level, it has been at levels 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, securitisation, deposits and interest rate and/or currency hedges, and management of ALCO portfolios and the minimum liquidity buffer.
- Compliance with risk limits and with risk appetite

e) IBOR reform

Since 2013, various supranational bodies and authorities (IOSCO and FSB) have driven and monitored reform initiatives to ensure more robust interest rate benchmarks. In this context, central banks and regulators in several jurisdictions organised work groups to recommend risk-free indices so that the transition would be non-disruptive and progressive.

The main aim was to facilitate the shift to the risk-free indices identified in various countries, particularly the SONIA index, as the Libor's sterling index replacement, the SOFR for the USD Libor and the €STR for the euro Libor.

As a result of the combined efforts of market authorities and participants, this transition process led to various milestones during the period from 2019 to 2022, leaving only the implementation of the sterling Libor and USD Libor plans for 2023.

According to the regulatory transition milestones, the USD Libor terms (overnight, 1M, 3M, 6M and 12M) will still be calculated using contributions from the panel banks until mid-2023, although their use in new operations has been limited since the end of 2021. The final USD Libor publication date for the overnight and 12M terms will be 30 June 2023. For the 1, 3 and 6-month terms, on 23 November 2022 the FCA announced a consultation on its proposal to require the Libor administrator IBA to carry on publishing these terms for the USD Libor using a non-representative "synthetic" method until end-September 2024. Publication would be permanently discontinued from then on.

Publication of the sterling Libor using the synthetic method for the 3-month term has been confirmed until end-March 2024, while the 1 and 6-month terms will cease to be published in March 2023.

According to the milestones mentioned, the Group and its entities have been focusing on making all the contractual, commercial, operational and technological changes necessary to shift to these benchmarks. Work will continue in 2023 to meet the next transition milestones in each of the Group's jurisdictions. There follows a breakdown of the carrying amount of financial assets, financial liabilities, derivatives and loan commitments that remain referenced to the indices pending transition at 31 December 2022.

<i>EUR Thousand</i>	Loans and advances	Debt Securities (Assets)	Deposits	Debt securities issued (Liabilities)	Derivatives (Assets)	Derivatives (Liabilities)	Loan commitments granted
Referenced to EONIA	—	—	—	—	—	—	—
Referenced to LIBOR	40,000	—	—	977,612	41,533	25,713	—
<i>Of which USD</i>	40,000	—	—	—	—	—	—
<i>Of which GBP</i>	—	—	—	977,612	41,533	25,713	—

Operational risk

a. Definition and objectives

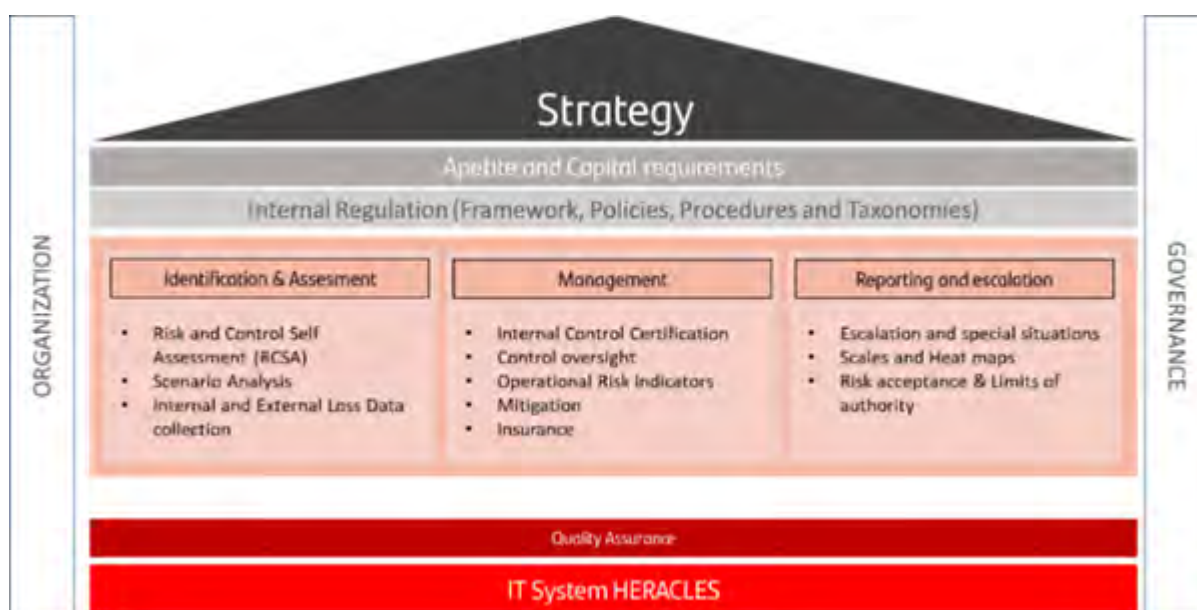
The Bank defines operational risk (OR) as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

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 Bank in operational risk control and management is primarily to identify, measure/ assess, monitor, control, mitigate and report this risk.

The Bank'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 internal event database 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.

Models	Policies	Procedures
<ul style="list-style-type: none"> ▪ Management and control of operational risk 	<ul style="list-style-type: none"> ▪ Fraud management and control ▪ Business Continuity Management ▪ Cyber Security Risk ▪ IT risk oversight 	<ul style="list-style-type: none"> ▪ Management of Internal Events ▪ Relation Between own Insurance and Operational Risk ▪ Management of external data ▪ Risk Control Self-Assessment (RCSA) ▪ Internal Control Model Assurance ▪ Taxonomy definition and maintenance ▪ Control oversight and Cross check of outputs between OR instruments ▪ Communication and escalation of relevant operational risk events ▪ Development and management of ORIs ▪ Identification and management of mitigation measures ▪ Booking the operational risk financial impacts ▪ Non-Financial risk perimeter review ▪ Supervising Management of Operational Risks in Agreements with Suppliers ▪ Operational Risk Scenario Analysis ▪ SCIF and S-OX Compliance

The model of operational risk management and control implemented by the Group provides the following benefits:

- It promotes the development of an operational risk culture.
- It allows for comprehensive and effective management of operational risk (identification, measurement / assessment, control / mitigation, and reporting).
- It improves knowledge of both actual and potential operational risks and their assignment to businesses and support lines.
- Information on operational risk helps improve processes and controls and reduce losses and income volatility.
- It facilitates the setting of limits for operational risk appetite.

c. Risk identification, measurement and assessment model

In November 2014, the Group adopted the new management system of the Santander Group, in which three lines of defence are defined:

- 1st line of defence: integrated in areas of business or support areas. Its tasks are to identify, measure or assess, control (primary control) mitigate and report the risks inherent to the activity or function for which it is responsible.

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:

OR 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 defence: Exercised by the Non-Financial Risks Department and reporting to the CRO. Its functions are the design, maintenance and development of the local adaptation of the Operational Risk Management Framework (BIS), and control and challenge on the first line of defense of Operational Risk. Their main responsibilities include:

- Design, maintain and develop the Operational Risk management and control model, promoting the development of an operational risk culture throughout the Group.

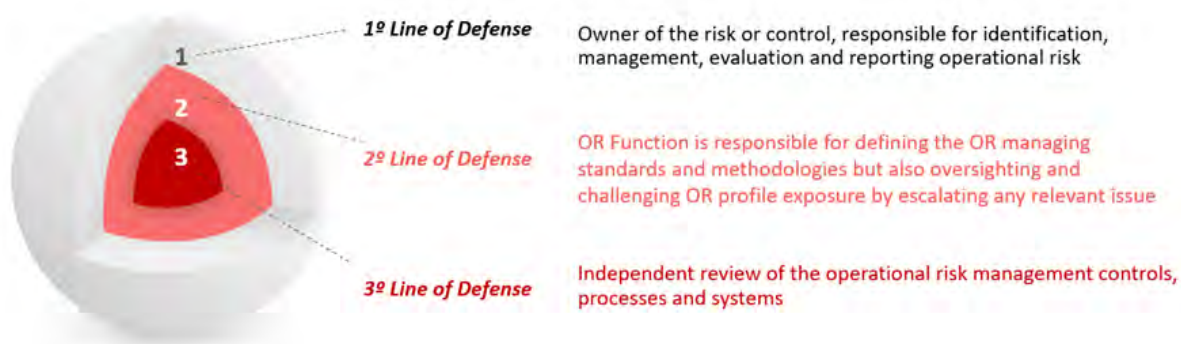
- Safeguard the adequate design, maintenance and implementation of the Operational Risk regulations.
- Encourage the business units to effectively supervise the identified risks.
- Guarantee that each key risk that affects the entity is identified and duly managed by the corresponding units.
- Ensure that the Group has implemented effective RO 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 a global vision of all relevant risks, guaranteeing adequate communication and reports to Senior Management and the Board of Directors, through the established governing bodies.

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

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

3rd line of defence: Exercised by Internal Audit, which evaluates the compliance of all activities and units of the entity with its policies and procedures. His 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 compliance, effectiveness and efficiency of the internal control systems for operations in the Group, as well as the quality of accounting information.
- Carry out an independent review and challenge the OR controls, as well as the Operational Risk management processes and systems.
- Evaluate the state of implementation of the OR management and control model in the Group.
- Recommend continuous improvement for all functions involved in operations management.



Management at the Bank is carried out based on the following elements:



To carry out the identification, measurement and evaluation of operational risk, a set of quantitative and qualitative corporate techniques / tools have been defined, which are combined to carry out a diagnosis based on the identified risks and obtain an assessment through the measurement / evaluation of area / unit.

The quantitative analysis of this risk is carried out mainly through tools that record and quantify the level of losses associated with operational risk events.

- Internal events database, whose objective is to capture all the Bank's operational risk events. The capture of events related to operational risk is not restricted by establishing thresholds, that is, there are no exclusions based on the amount, and it contains both events with an accounting impact (including positive impacts) and non-accounting ones.

There are accounting reconciliation processes that guarantee the quality of the information collected in the database. The most relevant events of the Bank and of each operational risk unit thereof are specially documented and reviewed.

- External database of events, since the Bank, through the Santander Group, participates in international consortiums, such as ORX (operational risk exchange). In 2016, the use of external databases that provide quantitative and qualitative information and that allow a more detailed and structured analysis of relevant events that have occurred in the sector was reinforced.
- Analysis of RO scenarios. Expert opinion is obtained from the business lines and risk and control managers, whose objective is to identify potential events with a very low probability of occurrence, but which, in turn, may entail a very high loss for an institution. Its possible effect on the entity 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 try to evaluate aspects (coverage / exposure) linked to the risk profile, thereby allowing the capture of the existing control environment. These tools are mainly:

- RCSA: Methodology for the evaluation of operational risks, based on the expert criteria of the managers, serves to obtain a qualitative vision of the main sources of risk of the Bank, regardless of whether they have materialized previously.

Advantages of the RCSA:

- a. Encourage the responsibility of the first lines of defense: The figures of risk owner and control owner in the first line are determined.
 - b. Favor the identification of the most relevant risks: Risks that are not pre-defined, but arise from the areas that generate risk.
 - c. Improve the integration of RO tools: Root cause analysis is incorporated.
 - d. Improve exercise validation. It is developed through workshops or workshops, instead of questionnaires.
 - e. Make the exercises have a more forward-looking approach: The financial impact of risk exposure is evaluated.
- Corporate system of operational risk indicators, in continuous evolution and in coordination with the corresponding corporate area. They are statistics or parameters of various kinds that provide information on an entity's exposure to risk. These indicators are reviewed periodically to warn of changes that may reveal problems with 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 Consumer Group including Bank.

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 Bank, 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 Bank.
- Satisfy the Bank's obligations to its employees, customers, shareholders and other interested third parties.

f. Corporate information

The Santander Group's and Bank's corporate operational risk control area has an operational risk management information system that provides data on the Bank'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.

g. 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 Bank.
- Monitoring of claims reported under the policies, as well as those not reported or not recovered due to incorrect reporting.
- 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.
- Analysis of the adequacy of the group's policies to the risks covered, taking the appropriate corrective measures for the deficiencies detected.
- Active participation of both areas in the global insurance sourcing table, the highest technical body in the Group for the definition of insurance coverage and contracting strategies.

Cyber risk

Cybersecurity risk (also known as cyber risk) is defined as any risk that produces financial loss, business interruption or damage to the reputation of Santander Consumer derived from the destruction, misuse, theft or abuse of systems or information. This risk comes from inside and outside the corporation.

In the event of a cyber incident, the main cyber risks for the Bank are made up of three elements:

- Unauthorized access or misuse of information or systems (eg. theft of business or personal information).
- Theft and financial fraud.
- Interruption of business service (eg, sabotage, extortion, denial of service).

During 2022, the Bank has continued to pay full attention to risks related to cybersecurity. This situation, which generates concern in entities and regulators, prompts them to adopt preventive measures to be prepared for attacks of this nature.

The Bank has evolved its cyber regulations with the approval of a new cybersecurity framework and the cyberrisk supervision model, as well as different policies related to this matter.

Similarly, a new organizational structure has been defined and governance for the management and control of this risk has been strengthened. For this purpose, specific committees have been established and cybersecurity metrics have been incorporated into the Bank's risk appetite.

The main instruments and processes established to control cybersecurity risk are:

- Compliance with the cyber risk appetite, the objective of this process being to guarantee that the cyber risk profile is in line with the risk appetite. The cyber risk appetite is defined by a series of metrics, risk statements and indicators with their corresponding tolerance thresholds and where existing government structures are used to monitor and escalate, including Risk committees, as well as Cybersecurity committees. .

- **Cybersecurity risk identification and assessment:** The cyberrisk identification and assessment process is a key process to anticipate and determine risk factors that could estimate their probability and impact. Cyber risks are identified and classified in line with the control categories defined in the latest relevant industry security standards (such as ISO 27k, the NIST Cybersecurity Framework, etc.). The methodology includes the methods used to identify, qualify and quantify cyber risks, as well as to evaluate the controls and corrective measures that the first line of defense function develops. Cyber risk assessment exercises are the fundamental tool for identifying and evaluating cyber security risks in the Bank. The cybersecurity and technological risk assessment will be updated when reasonably necessary taking into account changes in information systems, confidential or business information, as well as the entity's business operations.
- **Control and mitigation of cyber risk:** processes related to the evaluation of the effectiveness of controls and risk mitigation. Once the cyber risks have been assessed and the mitigation measures have been defined, these measures are included in a Santander Consumer Finance cybersecurity risk mitigation plan and the residual risks identified are formally accepted. Due to the nature of cyber risks, a periodic evaluation of risk mitigation plans is carried out. A key process in the face of a successful cybersecurity attack is the business continuity plan. The Bank has mitigation strategies and measures related to business continuity and disaster recovery management plans. These measures are also linked to cyber attacks, based on defined policies, methodologies and procedures.
- **Monitoring, supervision and communication of cyber risk:** Santander Consumer Finance carries out control and monitoring of cyber risk in order to periodically analyze the information available on the risks assumed in the development of the Bank's activities. For this, the key risk indicators (KRI) and the key performance indicators (KPI) are controlled and supervised to assess whether the risk exposure is in accordance with the agreed risk appetite. Escalation and reporting: The proper escalation and communication of cyber threats and cyber attacks is another key process. Santander Consumer Finance has tools and processes to detect internal threat signals and potential compromises in its infrastructure, servers, applications and databases. Communication includes the preparation of reports and the presentation to the relevant committees of the information necessary to assess the exposure to cyber risk and the profile of cyber risk and take the necessary decisions and measures. For this, they prepare reports on the cyber risk situation for the management committees. Also, there are mechanisms for internal escalation independent of the bank's management team of technological and cybersecurity incidents and, if necessary, the corresponding regulator.

Other emerging risks

In addition to the aforementioned Cyber Risk, the Santander Consumer Group is increasingly strengthening the supervision of new emerging risks derived from 1) supplier management and 2) transformation projects.

– Regarding 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 and Regulations such as DORA through implementation of specific risk instruments throughout the different phases of the supplier's life cycle

– The Transformation Operational Risk is that derived from changes in the organization, launch of new products, services, systems or processes derived from imperfect design, construction, testing, deployment of projects and initiatives, as well as the transition to the day- a-day (BAU). The transformation constitutes a root cause, which can manifest itself in a variety of risks and impacts, not restricted to Operational Risk, (for example, Credit, Market, Financial Crimes...)

Compliance and conduct risk

The compliance function includes all issues relating to regulatory compliance, prevention of money laundering and terrorist financing, governance of products and consumer protection, and reputational risk according to the General Corporate Compliance and Conduct Framework (Marco Corporativo General de Cumplimiento y Conducta).

The compliance function promotes the adhesion of Santander Consumer Finance, S.A. ("SCF") to standards, supervisory requirements, and the principles and values of good conduct by setting standards, debating, advising and reporting, in the interest of employees, customers, shareholders and the wider community. In accordance with the current corporate configuration of the Santander Group's three lines of defence, the compliance function is a second-line independent control function that reports directly to the Board of Directors and its committees through the CCO. This configuration is aligned with the requirements of banking regulation and with the expectations of supervisors.

The SCF Group's objective in the area of compliance and conduct risk is to minimise the probability that 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 environmental risk

Santander Consumer Finance's ESG strategy (environmental, climate, social and governance factors) consists of doing business in a responsible and sustainable way, supporting the green transition, building a more inclusive society and doing business correctly, following the most rigorous government standards.

On the other hand, ESG factors can carry traditional types of risk (for example, credit, liquidity, operational or reputational) due to the physical impacts of a changing climate, the risks associated with the transition to a new, more sustainable economy and the Failure to meet expectations and commitments. For this reason, they are included in the Santander Consumer Finance risk map as relevant risk factors.

In recent times, climate risks (physical risks and transition risks) have become very relevant, and for this reason Santander Consumer Finance is reinforcing its management and control in coordination with the Santander Group corporate teams within the framework of the Climate Project, being Some of the priorities are as follows:

1. EWRM (Enterprise-Wide Risk Management) approach, which provides a holistic and anticipatory vision of climatic aspects as a basis for their proper management.
2. Availability of relevant data (for example, CO2 emissions from financed assets, financing ratio of green assets, sectoral classification and location of companies, energy efficiency certificates and location of collaterals, etc.).
3. Integration of climatic risks in the day-to-day management and control of risks.

The relevance of the data and its quality is, if possible, even greater in this area than in the rest, given that some data that until recently was not very relevant and perhaps was not even collected has become essential for issues such as Alignment of portfolios to environmental objectives, information disclosure or climate risk management. Therefore, one of the pillars of the Climate Project is to collect said data with the required quality.

Regarding the EWRM approach, first of all, a fundamentally qualitative evaluation has been carried out on the implications and materiality of climatic aspects for Santander Consumer Finance, with special focus on the auto portfolio, which is summarized in the following paragraphs.

As previously mentioned, for Banking in general, the climate is a transversal issue with multiple angles, but with two main interrelated dimensions:

1. Banks have a key role in mitigating climate change and the transition towards a new green economy.
2. Weather aspects can cause losses to Banks through different transmission mechanisms.

With regard to Santander Consumer Finance in particular, our vision is as follows:

1. Our role in sustainable financing: the alignment of our portfolios to the ambition of net zero emissions is happening naturally and gradually thanks to the policies of the European Union and the short duration of our contracts. In any case, Santander Consumer Finance is becoming more sustainable and proactively helping clients to become more sustainable. In this path, the effort that is being made in terms of data and information dissemination is essential.

2. Potential impacts of climate risks on Santander Consumer Finance: from the materiality analysis carried out, it is concluded that the types of risk most affected for SCF are credit, residual value, reputational and strategic (business model). The potential impacts are greatly mitigated thanks to the context (gradual transformation of the automobile industry) and the business model of Santander Consumer Finance (whose portfolios are mainly retail, of good quality, short-term and diversified). On the other hand, climate issues could be the trigger for a general economic crisis, for example due to a disorderly transition to the new green economy. We are already managing these risks, but we will continue to strengthen their management and control.

Climate risks have been progressively incorporated into the different EWRM processes:

- "Top Risks": framed within the event of evolution of the automotive sector, which has historically been identified as one of the main ones in the matrix,
- Risk map: as a transversal risk, included as such since 2021,
- Assessment of the risk profile: through a questionnaire related to the control environment, as well as a qualitative assessment,
- Risk appetite: through stress metrics, as well as the opening of the residual value by the type of engine,
- Risk strategy,
- Strategic risk, as a driver of changes in market trends,
- Capital risk and stress tests. The stress tests included in the strategic plans and in the ICAAP of Santander Consumer Finance take into account climate risks through idiosyncratic events, in addition to a specific scenario included in this exercise to reflect the potential impact of a disorderly transition towards an economically low emissions. The results of these stress tests form part of the entity's risk appetite.

Stress test scenarios and methodologies will become more sophisticated as more information becomes available. In 2022, Santander Consumer Finance has participated, together with the Santander Group teams, in the first ECB climate stress test and in the thematic review of climate risks.

Finally, with regard to day-to-day integration of risk management and control, Santander Consumer Finance's EWRM team prepares an internal climate risk monitoring report quarterly, which will also be incorporated from its publication the results of the exercise of Pillar III ESG. In parallel, work is being done on the integration of climate risks in all phases of the risk cycle, ensuring compliance with the commitments acquired and supervisory expectations. The initiatives for calculating emissions are framed within this axis, as a basis for the commitments of the Net Zero Banking Alliance.

Proposed appropriation of profit or loss

The appropriation of profit obtained by the Bank in 2022, amounting EUR 851,793 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 85,179 thousand

Voluntary reserve: EUR 114,411 thousand

Capital and treasury shares

In 2022 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 2022.

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 2022 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 2022, 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.

At the end of 2022, the Bank exceeds the prudential requirement defined by the ECB, with a CET1 (Fully Loaded) ratio of 12.53% and a total capital ratio of 16.52% (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.

The ratio mentioned is calculated as the quotient between Tier 1 divided by the leverage exposure. This exposure is calculated as the sum of the following elements:

- Accounting asset, without derivatives and without elements considered as deductions in Tier 1 (for example, the balance of the loans is included but not the goodwill).
- Memorandum accounts (guarantees, unused credit limits granted, documentary credits, mainly) weighted by credit conversion factors.
- Inclusion of the net value of derivatives (gains and losses are netted with the same counterparty, less collateral if they meet certain criteria) plus a surcharge for potential exposure
- A surcharge for the potential risk of securities financing operations
- Finally, a surcharge is included for the risk of credit derivatives (CDS).

Santander Consumer Finance maintains a fully loaded leverage ratio at sub consolidated level of 8.93% at the end of 2022, 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 2022, 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 2022, 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 17 December 2020, the SCF, S.A. Board of Directors granted powers of attorney to Mr. José Luis de Mora Gil-Gallardo and Mr. Ezequiel Szafir as Managing Directors of Santander Consumer Finance, S.A. The Board of Directors agreed to delegate in favor of 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.

Because of the reason of his re-election as Director, agreed by the General Shareholders' Meeting on February 24, 2022, the Board of Directors, agreed to the re-election of Mr. José Luis de Mora as CEO, attributing him, jointly and severally, all the Board Directors' faculties, except those that may not be delegated by law or bylaws, classified as non-delegable in the Board Regulations, which are the following:

1. The approval of the Company's general policies and strategies, and the supervision of their application.
2. The formulation of the annual accounts and their presentation to the general meeting.
3. The formulation of any kind of report required by law to the board of directors as long as the operation to which the report refers cannot be delegated.
4. The announcement of the shareholders' general meeting and the preparation of the agenda and the proposal of agreements.
5. The definition of the Group's structure of companies of which the Company is the parent entity
6. The monitoring, control and periodic evaluation of the corporate governance and internal governance system and of the regulatory compliance policies, as well as the adoption of appropriate measures to solve, where appropriate, its deficiencies.
7. The approval, within the framework of the Social Statute and the remuneration policy for directors approved by the general meeting, of the remuneration that corresponds to each director.
8. The approval of the contracts that regulate the provision by the directors that its functions differs on those that correspond to them in their capacity as such and the remuneration that corresponds to them for the performance of other functions different from the supervision and collegiate decision that they carry out in their capacity as mere council members.
9. The design and supervision of the director selection policy, as well as the director succession plans.
10. The selection and evaluation of directors.
11. The supervision of the development of the Responsible Banking Agenda.
12. The faculties that the general meeting has delegated to the board of directors, unless expressly authorized by it to sub-delegate them.
13. The determination of its organization and operation and, in particular, the approval and modification of the regulations of the Council

Significant agreements that are modified or terminated in the event of a change of control of the Company

Not applicable

Agreements between the Company, administrators, managers or employees that provide for compensation upon termination of the relationship with the Company due to a takeover bid.