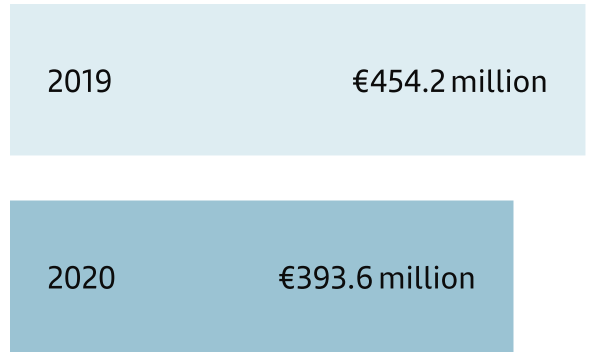
Annual Report 2020

Santander

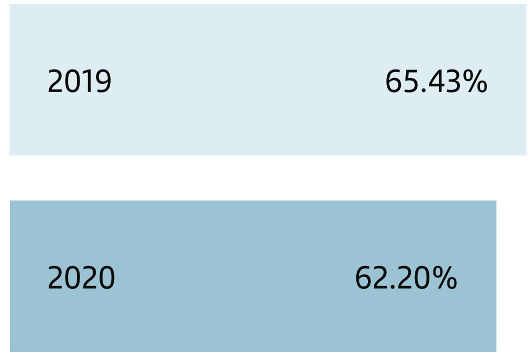
Snapshot of Success Numbers

Facts and Figures Santander Consumer Bank AG

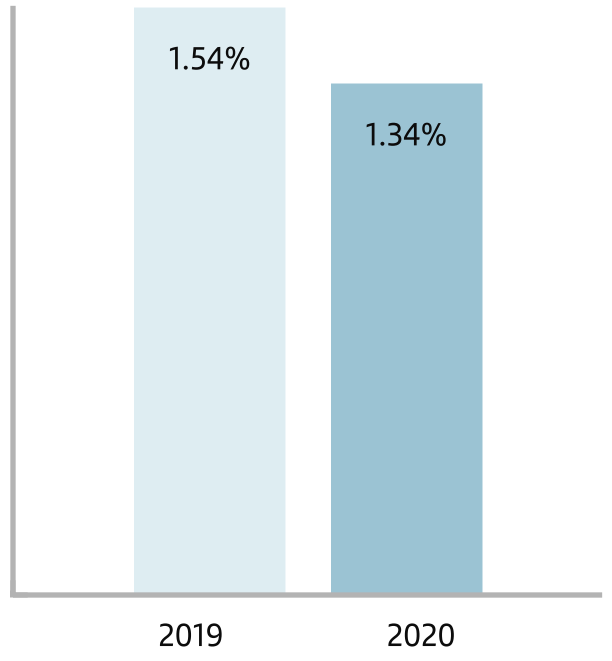
Profit before Taxes



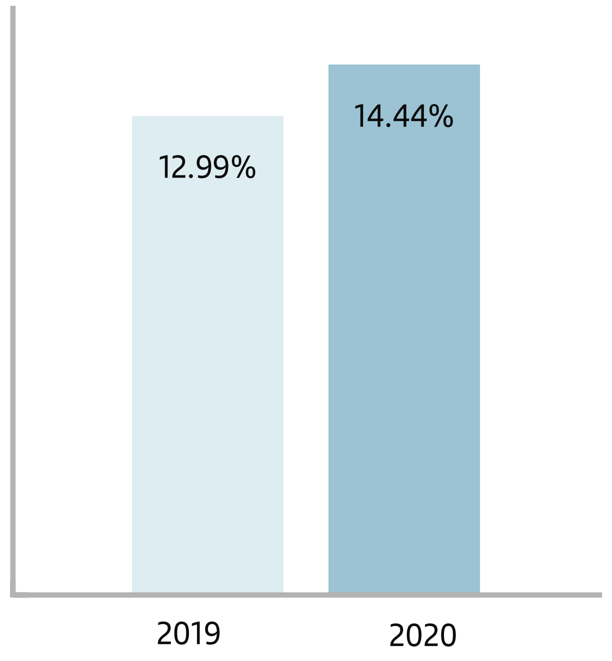
Cost-Income Ratio



Return on Risk Weighted Assets



CET 1



Profit and Loss Statement German GAAP (HGB)	**01/01/–31/12/2020 (in € million)**	01/01/–31/12/2019 (in € million)	Change (in %)
Net Interest Income	1,009.7	1,043.5	–3.2
Net Fees and Commissions	158.0	154.7	2.1
Income from Capital Instruments	0.2	11.2	–98.0
Gross Margin	**1,167.9**	**1,209.4**	**–3.4**
Personnel Expenses	294.7	315.5	–6.6
General Expenses	376.4	416.5	–9.6
Amortization and Write-Downs	55.4	59.3	–6.6
Other Operating Income and Expenses	2.5	15.3	–84.0
Operating Income	**443.9**	**433.4**	**2.4**
Net Loan Loss Provisions	123.7	33.2	273.2
Earnings from Profit Transfer Agreements	74.1	54.2	36.6
Profit before Taxes	**393.6**	**454.2**	**–13.4**

Ratios	**01/01/–31/12/2020 (in %)**	01/01/–31/12/2019 (in %)	Change (in Basis Points)
Cost-Income Ratio	62.20	65.43	–323
Return on Risk Weighted Assets	1.34	1.54	–20
NPL Ratio	1.70	2.00	–30

Banking Regulatory Ratios	**31/12/2020 (in %)**	31/12/2019 (in %)	Change (in Basis Points)
Common Equity Tier 1 Ratio (CET 1)	14.44	12.99	145
Total Capital Ratio	16.20	14.61	159
Leverage Ratio	7.32	7.80	–48

Balance Sheet Figures	**31/12/2020 (in € billion)**	31/12/2019 (in € billion)	Change (in %)
Balance Sheet Total	50.127	46.102	8.7
Liabilities to Costumers	22.774	23.170	–1.7
Receivables from Customers	29.217	29.961	–2.5
Equity *	3.318	3.068	8.1

Ratings**	**Long Term**	**Short Term**	**Outlook**
Moody's	A3	P2	Stable
Standard & Poor's	A–	A–2	Negative
Fitch Ratings	A–	F2	Negative

Pfandbrief Ratings	**Rating**	**Outlook**
Moody's	Aaa	Stable
Fitch Ratings	AAA	Stable

* Equity excluding subordinated liabilities and profit participation certificates
** Ratings as of day of preparation of annual report

Figures may not add up due to rounding.

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Dear readers,

The past year has not only brought changes to our everyday lives, it has also changed us as people. The dimensions of the COVID-19 pandemic and the impact it has had have called for a new kind of solidarity in society, as well as rapid medical progress, fast decision-making, high performance in terms of digital technology and, above all, patience and understanding.

At Santander, we have in particular the „cohesion“ felt. Both in our daily teamwork and in connection with customers and business partners. We are proud of our team and would like to express our thanks to every one of them. Despite the challenging economic situation and the systemic impact this has had, we have been able to achieve an impressive set of results for the reporting year.

Health is the top priority

Our top priority is the health of our employees, customers and business partners. Thanks to our hybrid working model and an average company-wide rate of mobile working of 67 percent – if you exclude the branches, the figure is as high as 90% around – we have been able to respond to the new situation quickly and flexibly. We combined this with a set of strict hygiene measures, thereby ensuring the best possible level of protection for our employees.

Our customers have the security that, as an essential company, and also as a fair partner, we can offer the services they need at all times – in their local area, on the phone or digitally. We are there to support our customers pro-actively and we respond both quickly and in a straightforward way. In the course of 2020, we helped around 16,000 trading partners with various restart measures and we provided more than 1.4 million customers with information on the latest updates and alternative communication channels.

“Despite unforeseen challenges on account of the pandemic, we have not only been able to close the year successfully, we have also been a reliable partner for our customers. We thank our unique team for this.”

Vito Volpe
CEO of Santander Consumer Bank AG

Sustainable financial position in a challenging environment

Thanks to our resilient business model, we achieved solid earnings before tax of €393.6 million in 2020, despite the economic challenges we faced. This means that we are only slightly below the level for the previous year, despite increased risk provision. At the close of 2020, we already had adequate provisions for a financial protection in the 2020 financial statements for a possibly weakening economy in 2021.

€393.6 million
in earnings before taxes for 2020, despite increased risk provision

Our resilience in the face of the crisis was demonstrated especially clearly in the area of mobility – in contrast to the industry-wide downturn in new registrations with a decline of 19.1 percent, our new lending business in mobility only reduced by 2.8 percent.

Our direct business also achieved a solid result of €2.1 billion with new contracts in the instalment loan business, and this was actually only 2.9 percent lower than in the previous year, despite the restrictions associated with the pandemic. Here we could clearly see the success of the omni-channel approach that we are now consistently pursuing. As well as coming from our branches, a growing percentage of our instalment loan revenue is now generated online or via direct advice from Santander.

The new lending business in business & corporate banking developed in a more positive way than expected and, with a figure of €1.16 billion, which was only 1.5 percent lower than the value for the previous year. We are making particular use of the Santander Group's international network of corporate customers; this means that we can offer support to companies who focus on exports as they move into foreign markets where the Group already has strong representation.

At the same time, we have succeeded to bringing down operating costs by 8.2 percent in comparison to the previous year by means of both tight cost control and more efficient structures and processes.

8.2% reduction
of operating costs in the reporting year

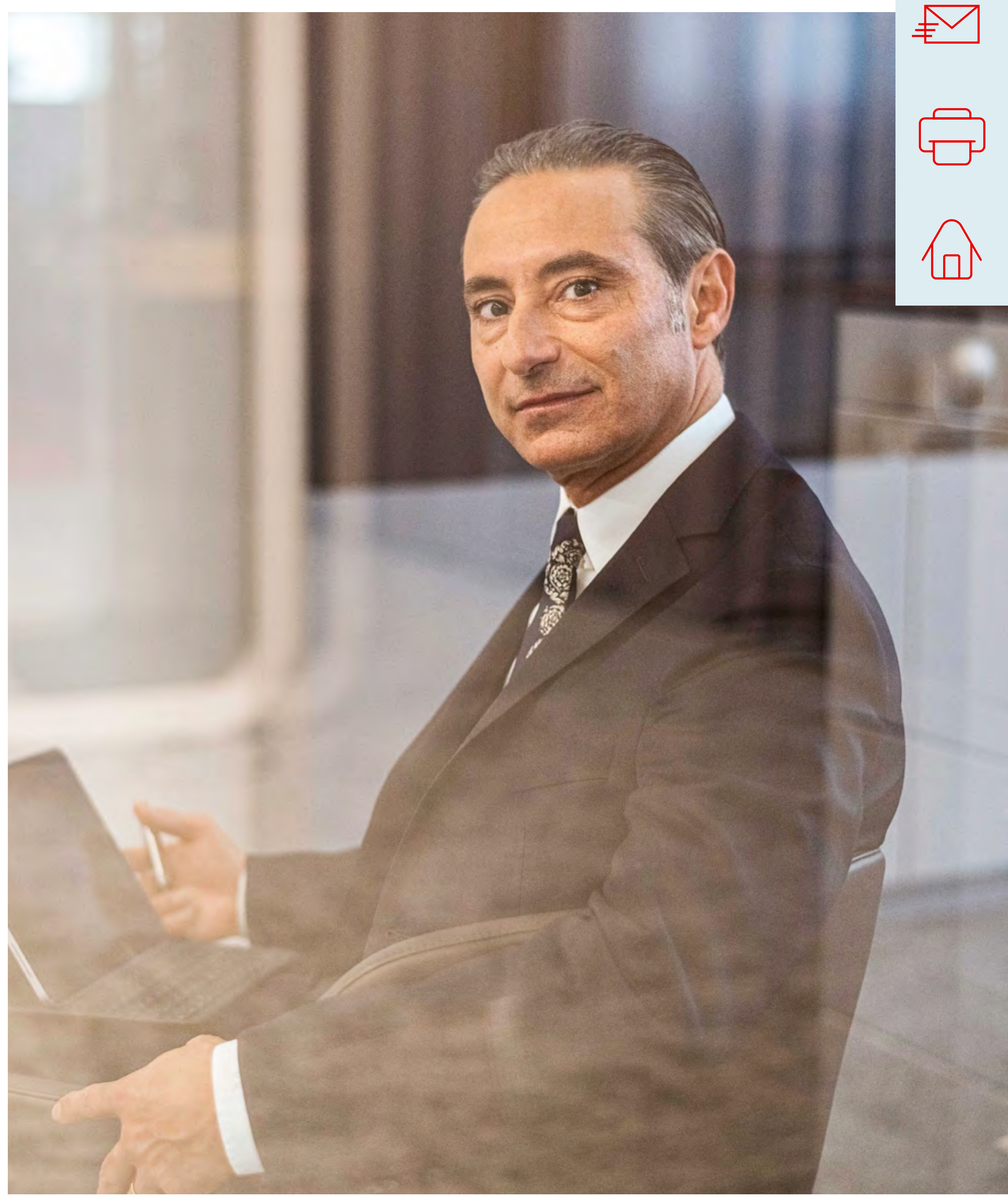
Successful activity in the capital markets

On the capital market, our clear position is supported by successful transactions. In February 2020, for example, we placed a Pfandbrief issue with a volume of €500 million. Record-breaking, financial experts praised our capital-relieving ABS transaction with consumer loans over €1.8 billion as well as our mobility transaction with an initial volume of €3.2 billion we use to extend our attractive ECB financing.

Focus on the customer

Our Santander DNA places the customer at the focus of all action. This attitude was particularly positively experienceable during the reporting year 2020. The digitalisation of the company, which is progressing at an exponential rate, is making processes simpler and opening up individual access routes for customers on the basis of our omni-channel strategy. At Santander, every customer can decide for themselves how their personal banking should look like.

Yet it is not only the high level of our risk provision and our stable situation in regard to earnings that serve to secure our future. The way we focus on customer needs, New Work methods, a diverse Santander team with outstanding skills and expertise, and not least our innovative products – these are all indispensable factors that allow us to consistently pursue our long-term goal: to become the best open, digital platform for financial services. Join us on our journey!



Kind regards,

Vito Volpe
CEO of Santander Consumer Bank AG

Report of the Supervisory Board on the financial year 2020

The year 2020 was a special year for Santander Consumer Bank AG with exceptional conditions.

The Supervisory Board would like to thank the Management Board and all employees for their great personal commitment, without which it would not have been possible to successfully master the new challenges relating to the Corona pandemic and the further development of the business would not have been possible in 2020. The Supervisory Board wishes all those involved a lucky hand and every success in meeting the challenges ahead.

In the 2020 financial year, the Supervisory Board performed the duties incumbent upon it under the law and the Articles of Association.

At four regular and three extraordinary Supervisory Board meetings, the Managing Board provided us with detailed and comprehensive information on corporate management and planning, business development and the risk situation, as well as on other transactions and events of considerable importance to the Bank. We advised and monitored the Management Board in its activities and satisfied ourselves that its management was in order. Between meetings, we were informed in writing of important events. Necessary resolutions were passed during these periods by written circulation.

Five meetings of the Audit Committee were held in the 2020 financial year. The auditor attended four meetings. The Members of the Audit Committee discussed the audit of the annual financial statements of Santander Consumer Bank AG and the audit reports.

The Remuneration Committee met five times in 2020 to discuss the Bank's remuneration system and other statutory issues.

The Nomination Committee met five times in 2020 and dealt in particular with personnel matters relating to the Management Board.

The Risk Committee met four times in 2020 and dealt in particular with the Bank's overall risk appetite as well as other statutory issues.

In addition, the Chairwoman of the Supervisory Board was in constant contact with the Board of Managing Directors. She was informed by the Chairman of the Board of Managing Directors at regular meetings about business developments and significant business transactions.

There were two personnel changes in the Supervisory Board in 2020.

At the beginning of 2020, Mr Dirk Marzluf was appointed to succeed Ms Magda Salarich and Mr Rafael Moral to succeed Mr Jose Luis de Mora in the extraordinary Shareholder's Meeting on 31st of January 2020.

We warmly welcome all new Members to the Supervisory Board of Santander Consumer Bank AG. We are looking forward to the cooperation.

In this way we wish the former members all the best for the future and thank them for the good cooperation in the board.

The annual financial statements and the management report for the 2020 financial year were audited by Pricewaterhouse-Coopers GmbH, Wirtschaftsprüfungsgesellschaft, Frankfurt, who were appointed as auditors by the Annual General Meeting, and included in the accounts, and received an unqualified audit opinion. The documents relating to the annual financial statements, the Management Board's management report and the auditor's reports were made available to the Audit Committee prior to the Audit Committee meeting and to all Members of the Supervisory Board prior to the balance sheet meeting. The auditor reported to the Supervisory Board on the main results of his audit and was available to answer questions. The Supervisory Board acknowledged and approved the results of the audit. After the final result of the examination of the annual financial statements, the management report and the proposal for the appropriation of profits by the Supervisory Board, no objections were raised.

The Supervisory Board approved the annual financial statements prepared by the Management Board. These are thus adopted. The Supervisory Board agrees with the proposal for the appropriation of the net profit.

The Supervisory Board

Mónica López-Monís Gallego
Chairwoman

COMPOSITION OF THE SUPERVISORY BOARD IN 2020

Shareholder Represenatives

Mónica López-Monís Gallego
(Chairwoman)

José Luis de Mora
(until 29th of February 2020)

Dirk Marzluf
(as of February 1st, 2020)

Rafael Moral
(as of March 1st, 2020)

Adelheid Sailer-Schuster

Magda Salarich
(until January 31st, 2020)

Cristina San José

Inés Serrano

Employee Representatives

Martina Liebich
(Dpt. Chairwoman)

Peter Blümel

Stefan Eck

Paloma Esteban

Uwe Foullong

Thomas Schützelt

Management Report 2020

With around 3.9 million retail customers* Santander Consumer Bank AG, hereafter also referred to as the "bank" or "Santander", is one of the five largest private banks in Germany. We offer our customers a wide range of financial services, from current accounts and credit cards to securities transactions. In Germany. We are the largest manufacturer-independent financing partner of mobility and also a leader in the financing of consumer goods in Germany. We operate the consumer loan business in the areas of mobility, consumer financial services (CFS), and retail banking. Financial services for corporate customers and the Pfandbrief business in the category of mortgage Pfandbrief round off our product range.

3.9 million
Retail Customers

To improve customer service and increase efficiency through uniform processes and scaling effects, Santander has outsourced IT processes and various back-office activities. These services are provided by subsidiaries, among others.

With the uniform distribution network and the uniform product range, we are consistently developing our omni-channel market presence: The Customer determines the manner in which he wishes to use the bank's services and communicate with the bank. In addition to the nationwide branch network, online channels via the Santander Mobile Banking App, video consulting, and the call centre are available as complementary sales channels.

In the **mobility** sector, we have been the largest manufacturer-independent financing partner (so-called non-captive sector) in the car, motorcycle, and (motorised) caravan sectors in Germany for many years. In addition, our bank also acts as the exclusive financing partner for selected car brands (so-called captive segment) such as Mazda and Volvo. The range is supplemented by collaborations with manufacturers of motorcycles and leisure vehicles. In order to increase market penetration in Germany, we are expanding our cooperation with our dealer partners. The mobility sector is divided into the financing of used and new cars and dealer stock financing. We also operate leasing business through our subsidiary Santander Consumer Leasing GmbH.

The bank has held a 51% stake in Hyundai Capital Bank Europe GmbH (HCBE) since 2019. In the year under review, HCBE acquired a 92.07% equity interest in SIXT Leasing SE. This strengthens our position in automotive financing – as a complement to our product portfolio – by adding innovative mobility services and vehicle fleet business. The combination of the automotive and leasing expertise of the two companies is a good basis for this. PSA Bank Deutschland GmbH continues to be managed jointly with Banque PSA Finance S.

MAIN SEGMENTS

Mobility	Consumer Financial Services
Direct Business	Business & Corporate Banking

Our **consumer financial services (CFS)** division largely comprises the furniture, consumer electronics/computer, and DIY retail segments. We work together with some of the leading furniture and electronics retailers in Germany.

In contrast to the mobility and consumer financial services segments, we do not approach customers in our direct retail banking segment via our dealer partners (indirect business), but rather (directly) via our branches, our call centre, and our video consulting service.

* For reasons of better readability, we use the generic masculine in the following. All references to persons apply equally to women, men and persons of diverse genders.

In **direct business**, Santander offers cash loans, current accounts, card products and standardised deposit products through its nationwide branch network. We also sell other products via the website, in particular online loans. We supplement this range of services with investment consulting geared to individual customer needs, especially in the securities and pension areas. We are also active in the property financing business. To round off the range for private customers, our branches offer insurance and building society products from cooperation partners. **As of 31/12/2020, Santander had a nationwide network of 209 branches (previous year: 210).**

209 branches

The **business & corporate banking** sector bundles the business with corporate customers. German medium-sized companies and international companies with sales in the range of 25 million to 1 billion euros are the target customers.

A core element of the management of the Banco Santander Group's international subsidiaries is the subsidiary model. The Group's subsidiaries act as autonomous local banks. Santander Consumer Bank AG is subject to German legislation; it is supervised by the local (national) supervisory authority and, since November 2014, by the ECB (European Central Bank) under the Single Supervisory Mechanism (SSM). Customer deposits are not only protected by the statutory deposit protection scheme, but also by our bank's membership in the private deposit protection scheme.

Shares in the bank's capital stock are held by Santander Consumer Holding GmbH, whose parent company is the Spanish Santander Consumer Finance S.A., which in turn is a subsidiary of Banco Santander S.A., Madrid.

ECONOMIC REPORT

Macroeconomic and industry-specific conditions

The outbreak and spread of the coronavirus (or Covid-19 disease) had a negative impact on macroeconomic conditions in 2020. The comprehensive measures taken to combat the virus, including two lockdowns, led to a noticeable decline in economic activity in Germany. With a decline of 5.0% for the year as a whole, the seasonally unadjusted real gross domestic product fell in the year under review a little less strong as during the global financial and economic crisis in 2009. The German economy has so far been able to cushion the impact of the coronavirus pandemic relatively well. By contrast, economic activity in the eurozone declined more sharply: the drop of 6.8% represented a greater decline than the fall in gross domestic product in the common currency area by 4.5% in 2009.

Exports declined at an above-average rate, falling by 9.9%. This was impacted on the one hand by the worsening trade conflict between the USA and China and increasing protectionism, and on the other hand by the supply disruptions in the first phase of the pandemic. Several important sales markets in Europe were hit particularly hard. The protracted negotiations between the European Union and the United Kingdom on their future relationship continued to have a negative impact.

Because the negative development of the economy was less severe, imports in Germany fell by only 8.6%. As a result, the overall effect of foreign economic relations, as measured by net exports, was again negative.

At 12.5%, capital expenditure on plant and equipment fell most sharply, which had a noticeable negative impact on companies. On the one hand, this reflects the worsened sales prospects and, on the other hand, the increased insecurity due to temporary major restrictions on economic life. In addition, many companies focused on preserving liquidity in the face of noticeably declining revenues.

Although construction investments increased less strongly in the year under review than in the previous year, their growth of 1.5% was able to cushion the overall economic decline somewhat. Above all, residential construction benefited from historically low mortgage interest rates and – despite the coronavirus crisis – a sustained high demand for housing. Government consumer spending, which increased by 3.4%, also had a stabilising effect. Finally, the state has made great efforts to mitigate the negative effects of the pandemic with several comprehensive economic stimulus and aid programmes.

In 2020, private households were no support for the German economy, as they reduced their consumer spending by 6.0%. The anticipatory effects that had been hoped for from the temporary reduction in VAT are likely to have been relatively small. Unsettled by the sharp economic downturn and the increased risk of losing their jobs, private households have held back on spending. The lockdowns also limited shopping opportunities or at least made shopping more difficult. As a result, the savings rate, i.e. saving as a percentage of disposable income, has risen sharply to 16.3%.

With regard to the economic sectors that are of particular importance to the German economy, the decline was most pronounced in the automotive industry. In addition to the global economic downturn and the associated weaker demand, the necessary transformation of supply to vehicles with as few emissions as possible continued to have a negative impact. The mechanical engineering sector suffered from the reluctance of many companies to invest. By contrast, production in the chemical industry only fell relatively slightly.

The inflation rate in Germany fell again in 2020 as a whole: to just 0.5%. Prices were dampened primarily by the weakness of demand caused by the coronavirus crisis and the brief decline in oil prices. Added to this was the reduction in VAT, which was limited to the second half of the year. In the eurozone as a whole, the inflation rate was even somewhat lower at an annual average of 0.3%, after 1.2% in the previous year. The economic crisis in several countries in the common currency area was therefore even greater than in Germany.

In response to the economic and inflation outlook, which deteriorated massively due to the spread of the coronavirus, the European Central Bank (ECB) adopted the Pandemic Emergency Purchase Programme (PEPP) in March 2020. The Securities Purchase Programme, which was increased by a further €500 billion at its December 2020 meeting and extended to March 2022, complements the Asset Purchase Programme (APP) of €20 billion per month. At the same time, the ECB made several targeted longer-term refinancing operations (TLTROs) available in order to promote bank lending to companies and households through the associated liquidity. It also sent clear signals that it will maintain or even expand its very expansionary monetary policy until the pandemic is over, according to the ECB.

BUSINESS DEVELOPMENT

The **German passenger car market declined in 2020**. According to the Federal Motor Transport Authority, new registrations fell by 19.1% to 2.918 million vehicles in the year under review. The number of new private vehicle registrations included in this figure fell by a disproportionately low 13% to 1.083 million units. The number of private transfers of ownership fell by 2.6% to 6.660 million.

Within this overall market, the bank's loan new business (excluding dealer stock financing) in the **mobility** sector fell as expected and at a significantly lower rate than the German market: by 2.8% to €5.439 billion. It is interesting to see how the distribution of sales changed over the course of the year due to the pandemic: Whereas in previous years the months of March and April had traditionally seen strong new business, the lockdown during these periods in the year under review – with branches and offices of car dealers and vehicle registration offices closed at times – led to a reluctance to buy. However, this decline was almost offset from September until the end of 2020. Apparently, our customers have postponed their credit-financed car purchases without fundamentally questioning this purchase decision. **We see this catch-up effect and the slight decline in new business as evidence of the resilience of our mobility business to the crisis.**

Loan revenue broke down as follows: The new car business fell from €1.563 billion to €1.426 billion, while the used car business with end customers, which is more important for us in terms of volume, declined by a much smaller amount in 2020: by 0.5% to €4.013 billion. The credit exposure in dealer stock financing fell by 7.3% to €6.692 billion

Despite the coronavirus crisis, we successfully developed our mobility business in cooperation with our dealer partners in the year under review. **With around 160 sales representatives and 11 decentralised dealer sales centres nationwide, we have the largest manufacturer-independent motor vehicle sales network in Germany.** One of the main pillars of our success was the ongoing digitalisation of our processes. For example, we introduced digital signatures in stationary full-service leasing, rounding off our digital process services for financing and leasing in stationary retail. Every customer can now conclude his loan and leasing contract with the dealer partner completely digitally.

160
Sales Representatives in Mobilty

In the summer of 2020, our own online marketplace Autobörse.de was launched. This provides us with a further distribution channel to match the range of products offered by our retail partners with end-customer demand in a targeted manner. We have also signed a cooperation agreement with London Electric Vehicle Company (LEVC). LEVC is the manufacturer and dealer of black cabs in London.

Financing with alternative drive technologies is becoming increasingly important. The share of new credit business (electric and hybrid drive) in total sales (including leasing) has almost tripled in the year under review, increasing from a low January level to December to 30%.

Our subsidiary Santander Consumer Leasing GmbH increased its lease portfolio from just under 172,000 (end of 2019) to just under 174,000 (end of 2020). An important driver was the business with Mazda: Here we were able to expand our cooperation in the leasing product segment and conclude a corresponding agreement for the next few years.

The **consumer financial services** business segment was again affected by the expected profit-oriented decline in new business in 2020. Trade credit sales fell by 36.7% to €0.419 billion. In the year under review, the bank finally introduced direct bank transfer as an online payment method for web shops (the merchant receives the customer's payment confirmation immediately) and also made the factoring products invoice and instalment purchase available to stationary retailers.

Most of the **direct business** is generated by the branches, but a growing share of the installment loan revenue is also generated online and through Santander Direct Advisory Service (Santander Direktberatung). In 2020, new contracts in the instalment loan business fell by 2.9% to €2.116 billion. This was due to the temporary branch closures caused by the pandemic.

Mortgage lending new business was below the targets in the year under review, but **recorded growth of 9.5% to €247.5 million despite the coronavirus-related uncertainties**. Among other things, the activation of additional cooperation partners and process optimisations in the back office areas contributed to this.

+9.5%

Growth in Mortage Lending New Business

New lending business in **business & corporate banking** fell by 1.5% from the previous year to €1.16 billion. Due to the corona restrictions, the acquisition of new customers and new business was only possible to a limited extent for a few months. In particular, we use the Santander Group's international corporate banking network: In this way, we accompany export-oriented companies into foreign markets in which the Group already has a strong presence.

The bank launched a restructuring programme in the year under review with the aim of reducing the number of hierarchical levels in the bank and simplifying the organisational structure and processes. Provisions and expenses were again recognised for the necessary personnel adjustment measures.

ANNUAL RESULTS

For 2020, our bank had not expected any significant change in the annual results in the previous year's management report. **The actual earnings before taxes in the year under review amounted to €393.6 million (previous year: 454.2 million) and is thus below our expectations.**

There are several reasons for this, first and foremost the impact of the coronavirus crisis: On the one hand, the bank recorded pandemic-related declines in new business, which led to a lower result mainly in net fee and commission income. On the other hand, expenses for loan loss provisions increased, also due to higher risk costs as a result of the deterioration in the solvency of our customers – also due to the coronavirus – and a one-off expense in connection with a post-model adjustment.

€393.6 million

Earnings before Taxes
(Previous Year: €454.2 million)

Another reason was the administrative expenses, which were lower than the previous year, but not by as much as originally expected.

The annual results include the profit transfer from Santander Consumer Leasing GmbH amounting to €74.1 million (in the previous year: €54.2 million).

Number of Customer Accounts in Thousands

	2018	2019	**2020**
Total	6,077	5,384	**4,788**
Of which Credit Accounts	4,422	3,803	**3,278**
Deposit Accounts	1,148	1,090	**1,027**
Current Accounts	507	491	**484**

The total number of accounts fell by 11.1% to 4.8 million in the year under review. The decline in business in the consumer financial services segment was the main factor affecting credit accounts. Due to the shorter maturities and lower financing amounts, this reduction in volume was associated with a disproportionately high decline in the number of accounts. The number of deposit accounts fell by 5.8% to 1 million due to changes in customer preferences as a result of the persistently low level of interest rates. The number of current accounts also fell at a lower rate than the total number of accounts, namely by 1.5% to 484,000.

The balance sheet total increased by 8.7% from €46.102 billion to €50.127 billion as of 31 December, 2020.

+8.7%
Increase in Balance Sheet Total

DEVELOPMENT OF THE ASSET AND FINANCIAL SITUATION OF THE BANK

The balance sheet structure reflects the following: on the **asset side**, the focus on the consumer loan business and, on the liabilities side, refinancing through deposits from private and institutional customers and liabilities from issuing business (reported under securitised liabilities). Access to favourable central bank funds is reported under liabilities to financial institutions.

Receivables from customers decreased by 2.5% to €29.217 billion as of 31 December, 2020 (previous year: €29.961 billion). The share of retail receivables from instalment loans (mobility, consumer financial services and direct business) in the total receivables portfolio increased slightly from 64.4% in the previous year to 65.7%. Dealer stock financing accounted for a slightly lower 5.6% of the total volume (previous year: 6.5%). Receivables in the mortgage lending business accounted for a share of 9.3% (previous year: 9.9%).

Receivables from financial institutions grew from €2.152 billion to €2.860 billion as of 31 December, 2020. This was due to higher term deposits and increased refinancing funds which we provided to HCBE and SIXT Leasing SE.

On the balance sheet date, Santander reported €11.435 billion (previous year: €9.515 billion) under **bonds and other fixed-income securities**. The increase of 20.2% was due to the build-up of the bank's A securities account and the fact that newly originated ABS transactions significantly exceeded scheduled repayments. In 2020, we structured two ABS transactions. In one case, securities with a total volume of initially €3.2 billion (valuation as of 31 December, 2020) were issued from the core business (bank as originator) and subsequently taken into the bank's own portfolio or sold on the market. This is partly offset by repayments of own bonds in the course of the year. The senior tranches of the securities generated from own assets were submitted to the ECB as collateral. They serve as a reserve for possible unexpected liquidity outflows and as collateral.

€5.252 billion
Central Bank Reserves

In addition to cash balances of €96.4 million**, the cash reserves include €5.252 billion invested with Deutsche Bundesbank to ensure compliance with the liquidity coverage ratio (LCR) and the liquidity buffer, among other things.**

Asset Balance Sheet Structure in € Million

	2018	2019	**2020**
Balance Sheet Total	43,048	46,102	**50,127**
Liquid Assets	2,954	3,496	**5,349**
Receivables from Customers	29,854	29,961	**29,217**
Receivables from Financial Institutions	1,531	2,152	**2,860**
Securities	7,975	9,515	**11,435**
Other Assets	734	978	**1,266**

Shares in affiliated companies rose from €504.3 million in the previous year to €761.0 million as of the 2020 balance sheet date. The increase is attributable to the capital increase at Hyundai Capital Bank Europe GmbH (HCBE). HCBE in turn acquired a 92.07% equity interest in SIXT Leasing SE during the year under review.

Intangible assets decreased from €240.7 million to €234.7 million as of 31 December, 2020. Two developments had counteracting effects: The lower advance payments for intangible assets could not fully offset the increased capitalisation of licenses.

Tangible fixed assets fell by €4.6 million to €52.1 million as of 31 December, 2020.

The **liabilities side** reflects the bank's solid refinancing strategy.

€22.774 billion
Liabilities to Customers

Liabilities to customers fell to €22.774 billion in the reporting year (previous year: €23.170 billion). As in previous years, this is due to changes in customers' maturity preferences: While overnight deposits increased by €992.1 million, savings deposits declined by €59.1 million to €900.2 million. Our nationwide network of 209 branches and offices throughout Germany, as well as online sales, give us broadly diversified access to retail deposits.

The bank manages its refinancing profile on the basis of regular, forward-looking structural analyses of assets and liabilities. With a balanced refinancing mix, we were able to raise the necessary funds efficiently and cost-effectively at all times. Our refinancing mix primarily includes deposits from private customers and institutional investors, placements on the money and capital markets, and funding raised through the ECB's TLTRO (targeted longer-term refinancing operations) programme.

Santander complied with the relevant regulatory liquidity requirements at all times. As of the balance sheet date, the liquidity ratio LCR was 236.6% (previous year: 187.8%) above the regulatory minimum requirement.

Liabilities to financial institutions increased from €4.999 billion to €7.253 billion in the year under review. This was due to new recourse to targeted longer-term refinancing operations (TLTROs), which increased from €4.544 billion in the previous year to €6.8 billion as of the 2020 balance sheet date.

Other liabilities increased from €11.446 billion to €13.143 billion in the year under review. This was due to higher liabilities from ABS transactions originated by the bank. This item also includes the profit transfer obligation to the parent company.

In its securitisation activities, the bank acts in the function of originator as defined by supervisory law. A first objective is to obtain liquidity directly by selling receivables in order to refinance the consumer loan business. With the second objective of obtaining collateral for deposit with the ECB, in some transactions we also acquire the senior tranche of the issued securities ourselves (investor function for own securitisations). In addition to structuring, securitisation activities include the service function (management of the pool of receivables sold) and the function of subordinated lender for the bank's own securitisations to provide reserves. A third goal – the reduction of the equity burden – is achieved by means of ABS transactions with significant risk transfer by lowering the equity burden of the bank in this way. In the financial year, Santander

Liabilities Balance Sheet Structure in € Million

	2018	2019	**2020**
Balance Sheet Total	43,048	46,102	**50,127**
Deposits	1,050	959	**900**
Other Liabilities to Customers	21,670	22,211	**21,874**
Liabilities to Financial Institutions	5,374	4,999	**7,253**
Securitised Liabilities	1,231	2,359	**2,506**
Other Liabilities	9,805	11,488	**13,187**
Provisions	633	689	**685**
Equity*	3,286	3,397	**3,722**

* Data including subordinated liabilities and profit participation certificates

issued a full-stack ABS with a volume of €1.8 billion; in addition to the liquidity injection, the capital relief effect was advantageous for the bank.

The **securitised liabilities** item rose by 6.2% from €2.359 billion to €2.506 billion. Two refinancing activities had opposing effects: On the one hand, **a Pfandbrief with a volume of €500 million was issued**; on the other hand, drawings under the existing commercial paper programme were reduced from €858 million to €505 million.

At the end of the year under review, **provisions** amounted to €685.2 million (previous year: €689.2 million). Provisions for pensions and similar obligations were €32.8 million higher, while other provisions were €36.9 million lower.

Balance sheet **equity** (excluding subordinated liabilities and profit participation capital) grew from €3.068 billion to €3.318 billion. €250 million was allocated to the capital reserve. Own funds in accordance with Section 10 of the German Banking Act [Kreditwesengesetz, KWG] in conjunction with Art. 72 of Regulation (EU) No. 575/2013 (CRR) amounted to €3.274 billion as of the balance sheet date (previous year: €2.928 billion). The Common Equity Tier 1 ratio Core Tier 1 ratio in accordance with Section 10 KWG in conjunction with Art. 92(1) a) CRR was 14.44% (previous year: 12.99%), the Tier 1 ratio (Art. 92(1)(b) CRR) was 14.44% compared to 13.00% in the previous year, the Total Capital ratio (Art. 92(1)(c) CRR) was 16.45% at the end of the year under review (previous year: 14.61%).

Santander's own funds planning is embedded in the Santander Group's own funds planning and covers a rolling 36-month planning horizon. It is based on the budgeted figures for the coming financial year, the long-term corporate planning figures and regulatory requirements. In order to take account of any changes that may occur in the meantime, the planning is regularly reviewed and adjusted if necessary. On the basis of the current equity planning, a decision is made together with the shareholder as to the extent to which equity contributions are necessary.

DEVELOPMENT OF THE BANK'S EARNINGS SITUATION

The bank achieved an **annual result** of €393.6 million in 2020, down 13.4% compared to the previous year (€454.2 million). RoRWA (Return on Risk Weighted Assets) decreased by 20 basis points year-on-year to 1.34%.

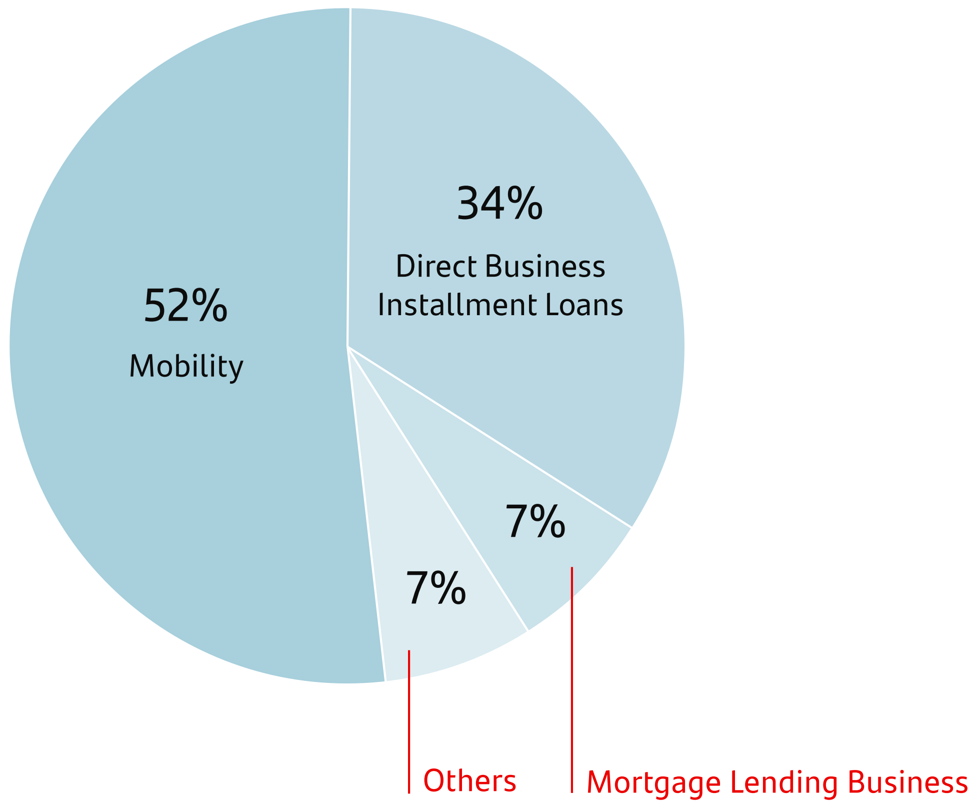
As in 2019, the result includes provisions for personnel adjustment measures; it is also burdened by the posting of a corona-related post-model adjustment in risk costs. For comparison purposes, we have used the annual result adjusted for these extraordinary expenses: The adjusted annual profit shows a decrease of 10.1% compared to the previous year. On an adjusted basis, RoRWA decreased by 16 basis points. We therefore still met the forecast from last year's management report – no significant change in the annual result and RoRWA in the year under occured.

Net interest income was €1.010 billion in 2020, down slightly (–3.2%) compared to the previous year's figure of €1.043 billion, as expected. The bank had also forecast a slight decline in interest income, which indeed occurred with a reduction of €50.1 million (4.1%) to €1.187 billion. We had expected a moderate increase in interest expenses. In fact, they decreased moderately by €16.4 million to €177.4 million. Accordingly, we achieved a better result here than originally expected. As the decline in interest income was greater in amount than the reduction in interest expenses, net interest income fell by 3.2%, a slight decline as expected. Receivables from customers decreased slightly (2.5%) compared to the previous year and amounted to €29.217 billion. This was due to a further decline in the CFS portfolio and in mortgage lending. In addition, the receivables portfolio in dealer stock financing was also down from the figure at the end of the previous year. Direct business, on the other hand, again increased slightly; however, this was not sufficient to offset the above-mentioned declines.

As in previous years, market interest rates remained low in the year under review. As a result, the average interest rate on receivables from customers continued to decline. In 2020, it fell by 10 basis points to 4.14%, causing interest income from customer lending to decline slightly by 4.7% or €52.0 million.

While the focus of our sales activities in 2019 was on stabilising customer interest rates, the year under review also saw an increased focus on stabilising new business volumes. New business had shrunk noticeably as a result of the first lockdown in spring. In the mobility segment, the average interest rate thus declined by 9 basis points year-on-year. In the overall portfolio, the effect was somewhat smaller: The average interest rate on customer portfolios here decreased by 6 basis points compared to 2019. In direct business, we were able to slightly increase the average customer interest rate in new business by 3 basis points compared to the previous year. However, the expiry of higher-yielding legacy portfolios had a greater impact on the portfolio, which is why the average interest rate here fell by 10 basis points. In the CFS business

SHARE OF BUSINESS AREAS OF TOTAL INTEREST INCOME



segment, the decline in customer receivables continued, primarily affecting the consumer electronics segment. As higher customer interest rates are paid in this segment than in the furniture segment, this had a dampening effect on the overall interest rate. This decreased by 12 basis points year-on-year. In our mortgage lending business – with its long loan terms – the persistently low level of interest rates is having an ever greater impact. The average interest rate of our portfolio declined by 40 basis points compared to last year. Although the average new business rate declined year-on-year in dealer purchase financing, the average interest rate in the portfolio increased 3 basis points compared to 2019.

A look at the shares of total interest income from customer business accounted for by the individual product areas shows the mobility segment in a continued leading position. The share of the largest portfolio within receivables from customers grew again and accounted for 52% of interest income in the year under review. Direct business instalment loans (including credit cards and current accounts) continued to rank second. Their share of interest income increased by 1 percentage point to just over 34%. Mortgage lending business, the third largest portfolio, still contributed just under 7% to customer interest income despite the risk-related lower interest rate and the decline in the portfolio.

Interest income in the non-customer business was slightly higher in 2020 than in the previous year. On the one hand, there was a moderate reduction in interest income from securities, which fell by €8.3 million compared to 2019; as in the previous year, this included income from ABS bonds from own securitisation transactions. On the other hand, there was negative interest income from the purchase of securities to build up a portfolio of high quality liquid assets (HQLA).

We generated interest income of €7.3 million from ABS bonds, €2.8 million more than in 2019. The main reasons for this were the transactions "SCG AUTO 2019-1" and "SCG CONSUMER 2020-1".

We had already concluded interest rate swaps in the past to hedge any interest rate risks that may arise from the longer maturities of customer assets compared to liabilities; these expired in full in 2020. In the year under review, we entered into a new receiver interest rate swap to hedge the issued fixed-rate Pfandbrief transaction against changes in fair value due to changes in interest rates. Due to the expiring swap volume, swap income improved overall by €6.4 million compared to 2019.

Interest income from receivables from financial institutions changed only slightly year-on-year, rising by €0.5 million. Income from deposits within Santander Germany increased by €3.3 million; this was mainly due to increased refinancing of HCBE. At the end of the year, a refinancing for SIXT Leasing SE was added for the first time. This was partly offset by a volume-related increase in expenses from negative interest on minimum reserve balances in the amount of €2.8 million.

Interest expenditures decreased moderately compared to the previous year by €16.4 million, as expected. Expenses for liabilities to customers decreased as expected year-on-year, falling by a clear 12.2%. The largest effect is attributable to the shift within customer deposits: There continued to be a shift from certificate deposits to lower-interest, overnight deposits. The second-largest effect resulted from adjustments to terms and conditions made in the course of 2020 due to the persistently low market interest rates. The reduction in liabilities to customers also had the effect of reducing expenses.

Interest expenses in non-customer business decreased moderately by 7.3% compared to 2019. We had expected an increase here, primarily due to higher expenses for the refinancing of securitised loans. In fact, these only increased slightly by €2.8 million compared with 2019. We bought back three transactions in July 2020 and another three at the end of the year.

The main reason for the decrease in interest expenses in non-customer business was a €14.9 million decrease in swaps expenses. These are primarily attributable to the expiring swap volumes. In addition, the negative interest on the newly concluded receiver interest rate swap led to a further reduction in interest expenses.

As a result of the more intensive use of TLTROs, the bank again generated negative interest expenses on open market transactions. Compared with the previous year, these increased by €1.1 million in the year under review.

We were able to increase net commission income slightly compared with 2019: by 2.1% to €158.0 million. Commission income fell slightly by 1.1%, which was not as strong as the forecast. Commission expenses fell slightly by 2.6%, but we had expected a moderate decline.

2.1%
Increase of Net Commission Income

Total commission income fell by €5.2 million or 1.1% in the year under review. This was mainly due to lower income from the commissioning of insurance policies, which fell slightly short of 2019, particularly as a result of the decline in new business in direct business and CFS. As in previous years, this income accounted for the largest share of commission income.

Income from securities services grew slightly year-on-year to €43.2 million. The increase was accompanied by a slightly higher average volume of deposits.

Fees from customer business increased moderately by €4.2 million in the year under review. Included for the first time were service fees for providing services for HCBE.

Commission expenses fell slightly in 2020 by €8.4 million or 2.6% to €315.1 million. Expenses for dealer commission, which continued to account for by far the largest share of commission expenses, declined moderately compared to 2019. This was due to the further decline in new business in the CFS segment. The CFS segment's share of dealer commissions fell from 13% in the previous year to just under 7% in the year under review. The share of the mobility sector increased from 77% to 79%, although the absolute amount declined year-on-year due to the slight decrease in new business. In direct business, on the other hand, expenses for dealer commissions increased due to the partial shift of new business to online portals. Consequently, the share grew from 9% to almost 13%.

For other fee items, expenses related to synthetic ABS transactions were the main reason for an increase compared to 2019.

Current income from investments decreased by €11.0 million compared to the previous year, as no dividend income was recognised in 2020 from the investment in PSA Bank Deutschland GmbH (in the previous year: €11.0 million).

Administrative expenses as well as depreciation and value adjustments on intangible assets and tangible fixed assets totalled €726.4 million in the year under review (of which personnel expenses €294.7 million and other administrative expenses €376.4million), compared to €791.3 million in the previous year (of which personnel expenses €315.5 million and other administrative expenses €416.5 million). As in the previous year, administrative expenses in 2020 include expenses for personnel adjustment measures (early retirement and volunteer programme). In terms of amounts, these were somewhat lower than 2019. Overall, administrative expenses declined moderately compared with the previous year; we had expected a clear reduction.

In the past financial year, personnel expenses decreased moderately compared to 2019, mainly due to lower expenses for personnel adjustment measures and lower additions to provisions for pension plans.

The average number of employees declined by 119 to 3,075 in 2020.

Two major effects were responsible for the moderate year-on-year decline in general administrative expenses. Consulting costs were lower in the reporting year, as were IT expenses. There were also clear savings effects from the coronavirus pandemic.

Depreciation, amortisation and value adjustments on intangible assets and tangible fixed assets declined by €3.9 million year-on-year to €55.4 million. However, this means that the savings were slightly lower than we had predicted in the 2019 management report. This decrease is mainly due to lower amortisation of software.

The cost-income ratio (CIR) fell from 65.4% in the previous year to 62.2%, primarily due to the decline in administrative expenses.

Net risk costs amounted to €123.7 million – as expected, a significant increase over the previous year's figure of €33.2 million (+273%). However, due to the difficult market environment caused by the pandemic, the increase in risk costs was higher than originally expected.

62.2%
Cost-Income Ratio (Previous Year: 65.4%)

One of the main reasons for this is the posting of a post-model adjustment of €18.5 million. In line with the principles of IFRS 9 regarding a forward-looking component, and with Banco Santander's uniform guidelines throughout the Group, we have created this exceptional item to take account of the deterioration in the macroeconomic environment.

The effects of the coronavirus pandemic have led to increased risk costs, particularly in our direct portfolio. In 2019, the macroeconomic environment still had very positive effects. The economic trend reversal occurred in 2020. In the first half of the year in particular, we supported our customers – with measures to mitigate the impact of Covid-19 in the form of legislative or individual deferrals and/or rate reductions. Although the majority of these customers resumed payment after the end of the measure, there were some customers who were unable to meet their payment obligations in full or at all. As a result of an increase in the number of days in arrears, the corresponding loan exposure for a certain number of these customers was subject to increased risk provisioning in the second half of the year.

In addition to these pandemic-related influences on portfolio performance, there was a one-off effect: the increase in risk costs as a result of write-offs in connection with clean-up calls on ABS. The increase in risk costs required for the write-offs amounted to €23.2 million in the year under review.

In contrast, the risk costs for the non-retail business developed positively compared with the previous year's forecast. In 2019, a significantly lower level of insolvencies was observed among larger customers than in the previous year. This development continued in the year under review despite the negative macroeconomic influences.

Incoming payments on written-off receivables also had a positive impact on risk costs, which at €65.5 million were clearly lower in the year under review than in the previous year (€79.9 million), but nevertheless remained at a high level considering the challenging macroeconomic environment.

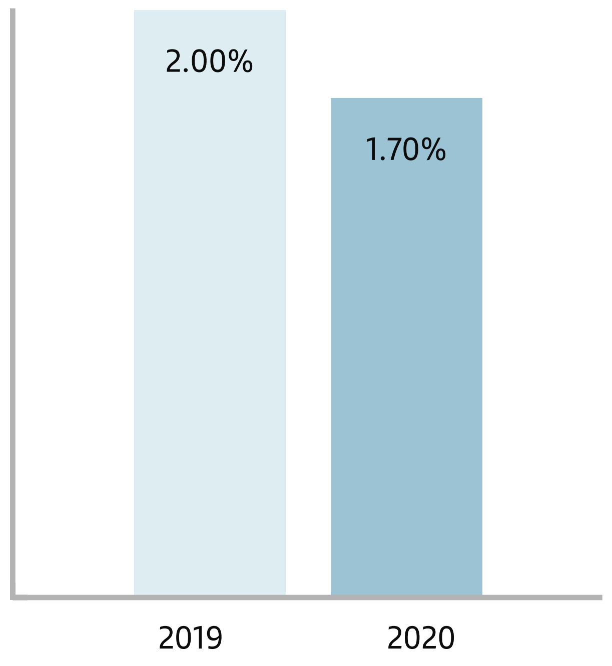
The reason for this is primarily income from the sale of loan receivables. In the previous year, there was a positive effect due to the addition of written-off receivables, with payment behaviour subsequently improving again. In the year under review, the sales price achieved after deduction of accruals was €50.8 million and thus at the previous year's level (previous year: €52.9 million). A significantly higher sales volume compensated for the lower average selling price. However, in 2019, the sale of written-off receivables with a subsequently nevertheless good payment behaviour resulted in significantly lower monthly payments received from the written-off portfolio during the year under review.

Accruals that we had formed in 2019 for the possible return of parts of the receivables sold at that time by the buyer were largely reversed after the relevant deadlines expired. As in the previous year, this led to a further improvement in net risk costs.

Following the revaluation of the allowance we had recognised in 2017 for expected losses in connection with the financing of diesel vehicles, we reversed this risk provision in full in the reporting year; this resulted in a positive effect on risk costs of €3.8 million.

The bank's NPL ratio decreased to 1.70% due to the one-off write-offs described above (2019 balance sheet date: 2.00%).

NPL Ratio



We had predicted a significant increase in **other operating income** in the previous year; however, it fell significantly by €12.9 million to €2.5 million in the year under review. We had expected a moderate decline in other operating income. In fact, they decreased only slightly compared to 2019 by 1.2 million euros. Extraordinary income in connection with operational risks in particular offset the lower income from the release of provisions. For other operating expenses, we had assumed a very clear reduction, after all, the 2019 result was burdened by the extraordinary derecognition of intangible assets. However, we also derecognised intangible assets in the year under review. The expense from these derecognitions was €16.4 million higher than in the previous year. The bank was able to compensate for part of this increase through lower expenses for operational risks. In total, this led to a very clear increase in other operating expenses of €11.7 million, contrary to our expectations.

Overall, the development of business in the year under review was favourable under the given pandemic conditions. Overall, the economic situation of our bank is in good order.

Due to the controlling and profit transfer agreement and silent participation, the annual results of Santander Consumer Bank are completely transferred to the Santander Consumer Holding GmbH.

OTHER INFORMATION OF THE BANK

Santander Consumer Bank is a member of the Bundesverband deutscher Banken e.V. It is also a member of the Bankenfachverband e.V. and the Verband deutscher Pfandbriefbanken e.V. It is also affiliated with the following institutions: Entschädigungseinrichtung deutscher Banken GmbH, Prüfungsverband deutscher Banken e.V. and the Deposit Protection Fund of the private banking industry.

Employees

Three central topics shaped the work of our HR department in the year under review: the coronavirus pandemic, the promotion of young talent, and the topic of diversity and inclusion.

In response to the outbreak of the pandemic, we have increasingly focused on mobile work and promoted this accordingly. As early as mid-February 2020, we made arrangements to improve the IT structure, increase VPN (Virtual Private Network) capacity, and equip our employees with laptops. Due to the crisis, we have made enormous progress in digitalisation.

The health of our employees is our highest priority. As a result, our Covid-19 Special Situation Management (SSM) began its work in early March 2020; this committee advises our Board on all pandemic-related issues.

Since mid-February, our employees have been able to obtain information about the coronavirus via telephone and email.The hotline is staffed 24/7. Staff from the HR department (People & Culture) deal with colleagues' matters directly and as quickly as possible; they also help with risk assessment.

The lockdown officially announced by the German government on March 17, 2020, suddenly changed the current life situation of our employees; consequently, we opened the working time accounts without any restrictions. We also offer free flu vaccinations.

Because we as a bank belong to a systemically important sector, our branches and offices remained open with a few exceptions – in compliance with extensive hygiene and security principles. Customer access was restricted in some cases, and the stores were equipped with plexiglass walls and disinfectants, among other things. We provided our employees with mouth-nose protection masks. Furthermore, employees who are at increased risk of severe Covid-19 disease are especially protected. We also planned to arrange more customer appointments in advance. To supplement the services offered by the health offices, our occupational health service, PIMA, has provided advice and also carried out tests in special cases via the company physician.

Santander attaches great importance to the promotion of young talent. That is why we train numerous people in various training programmes every year. In 2020, a total of 92 apprentices, 12 dual students, 39 interns and 31 trainees were employed. Of these, we hired 54 apprentices, 4 dual students and 10 trainees in the year under review.

As in previous years, the bank received a large number of recognitions as an employer in 2020: For example, the Mittlerer Niederrhein Chamber of Industry and Commerce awarded us the title of best training company for the twelfth time. The job portal Absolventa also awarded us again for our career-promoting and fair trainee programmes.

For the twelfth time in a row, the independent Top Employers Institute recognised the bank as a "Top Employer Germany". All participating companies go through a standard validation process in which all responses and supporting documents are verified by an independent and central body. Our bank was certified in the categories of talent strategy, career and succession planning, and management development, among others.

We also made progress in the area of diversity and inclusion in the year under review: Because we value the diversity of our employees, we have been participating in the Diversity Charter, a corporate initiative to promote diversity in companies and institutions, since 2014. With this commitment, we are committed to a work environment that is free of prejudice and in which all employees are valued – regardless of gender, nationality, ethnic origin, religion, disability, age, or sexual orientation. In this context, Santander participated in the German Diversity Day, as it did last year. At the beginning of December, the Week of Inclusion was held with a focus on the "International Day of Persons with Disabilities". In addition to various presentations, we joined the "Assistance Dogs Welcome" campaign: Stickers are now displayed in all branches and outlets to show people with disabilities that they can bring their assistance dog with them.

For the fourth time, we participated in the Women's Career Index (FKI) survey (the data basis for the 2020 survey was the 2019 financial year). The FKI was launched by the German Federal Ministry for Family Affairs in 2012 **to evaluate women's opportunities for advancement. We also support the Women into Leadership initiative**. In the year under review, we implemented a women's mentoring programme for the first time to promote and support young female talent. In March, in view of "International Women's Day", we celebrated a "Women Week" – with lectures, round tables, and a global meeting.

Sustainability and responsible banking

Climate protection and sustainable management are also playing an increasingly important role in the financial sector. For the well-being of current and future generations, combating climate change is at the top of the agenda.

> **Responsible Bankin as Daily Common Practice**

To counteract the negative consequences of excessive global warming, Santander Group continued to take a close look at the current and future challenges of climate change, both strategically and in terms of business policy, and set itself specific targets. In addition to aspects of social balance, these include the protection of human rights and sustainable corporate governance. These measures are intended to make a measurable contribution to achieving the United Nations Sustainable Development Goals (SDGs).

We have implemented far-reaching measures embedded in our Group's strategic goal of making our own corporate activities climate-neutral worldwide and establishing responsible banking as a daily common practice in Germany as well. By way of example, we illustrate the following five initiatives:

- Santander has completely offset the CO_2 impact of its operational activities by purchasing CO_2 certificates in Germany. These include, for example, the operation of the company headquarter and all branches, the consumption of energy and resources, waste disposal, business trips and the emissions of company vehicles.
- In order to mitigate the effects of the coronavirus crisis, we allowed our private customers to defer and adjust loan repayments. We have made loan commitments in the high double-digit million range to medium-sized corporate customers under the KfW Corona Special Programme.
- Thanks to a partnership with the Norwegian climate technology company CHOOOSE™, since December 2020, our customers have been able to offset the CO_2 emissions of their vehicle or the journeys they make by means of carefully selected climate projects around the world.
- In addition, we again **used less single-use plastic in the year under review and made greater use of reusable or recyclable beverage bottles**.
- In 2020, we made a social commitment and provided financial support to over 20 charitable organisations, including the Coronavirus Emergency Relief Fund of the German Red Cross. We further expanded our network of university partnerships in the year under review. We have been promoting higher education since 1997 through the Santander Universities global division.

RISK REPORT

Strategic risk specifications at Santander Consumer Bank AG

The Management Board of Santander Consumer Bank AG is responsible for the management and control of all risks in accordance with the bank's business and risk strategy and within the framework of the competency regulations and organisational instructions.

Taking risks is a consequence of doing business and making decisions in that context. Credit risks result from lending decisions, market price risks from decisions regarding the management of the banking book, pension risks from increased pension obligations due to interest rate fluctuations and changes in biometric parameters, and liquidity risks from liquidity management. Business strategy risks (formerly known as earnings fluctuation risks) arise from decisions on strategic and sales targets in specific business areas or as a result of changes in the economic environment. Operational risks result from the structure, design, and utilisation of the business processes, procedures, and models used.

Within our bank, the responsibilities for managing and monitoring risks are defined by a clear separation of functions in accordance with the Minimum Requirements for Risk Management (MaRisk). We also follow the principle of the Three Lines of Defence model, whereby the first line of defence manages the risks and the second line of defence monitors them. The internal audit department, as an independent control body, represents the third line of defence.

The credit risks in risk-relevant business are generally managed by the second vote of a back office function on the basis of competency regulations. Credit risks in non-risk-relevant business are generally controlled by an automated decision in accordance with the requirements of risk management. Credit risks from our entire proprietary business are also considered risk-relevant business. Approvals relating to proprietary business are generally granted on the basis of a resolution of the Management Board.

Our Treasury and Capital Markets divisions are responsible for managing market price and pension risks (in particular interest rate risks) and liquidity risks (in particular refinancing risks): They limit the above-mentioned risks with appropriate derivative financial instruments, by issuing term deposits to institutional investors, and by issuing bearer bonds in the form of medium-term notes (MTNs), money market paper, and promissory notes as well as mortgage Pfandbrief.

The Risk Controlling division independently monitors the above-mentioned risks. In addition to regular reporting to our management and Management Board, this unit is responsible for ad hoc risk reporting. This also includes monitoring compliance with the risk appetite by means of defined risk indicators, which are determined by defined threshold values or risk limits.

Our Management Board and our sales units manage business strategy risks using planning instruments (e.g. budgets) and by means of appropriate sales and marketing measures; the Controlling division reports on these risks, while the strategic risk function monitors them.

Specially trained OpRisk coordinators manage operational risks on a decentralised basis in the respective divisions. The Operational Risk & Internal Control division is responsible for risk measurement and monitoring.

Monitoring model risks is the responsibility of the Risk Controlling division, which records the models used by the bank and classifies them from a risk perspective.

The strategic guidelines for the risk organisation and the risk appetite of our bank were laid down in the currently valid Risk Strategy 2021 (as amended in November 2020) approved by the Management Board.

While our business strategy sets out the principles and objectives of economic development, our risk strategy addresses the associated risks; in this way, we aim to ensure sustainable and low-volatility profit generation, while complying with regulatory requirements regarding capital and liquidity.

In this context, our Management Board defined the following strategic guidelines, among others, as an expression of prudent and conservative corporate management:

- compliance with regulatory requirements and agreements with the supervisory authorities at all times;
- establishment of an independent risk function;
- each risk taken must be approved by the competent authority within the risk management system and must be within the risk appetite and adequately remunerated;
- focus on consumer loans, construction financing as well as business and corporate customers with the aim of achieving a low to moderate risk profile;
- concentration risks are to be reduced to the necessary minimum, i.e. to those concentrations that arise directly from our business model, and also with a view to individual debtors, specific segments and industry sectors that are closely monitored. This also applies without prejudice to an audit of the risk-bearing capacity and the risk appetites derived therefrom by the Management Board;
- our remuneration system should be appropriately designed and in line with forward-looking and conservative risk management. Profit targets are not part of the compensation of our control units. The components should be tailored to the risk appetite;
- a transparent policy with regard to the disclosure of risks.

Our Management Board is responsible for developing and promoting the risk culture. Core elements are the formulation and consistent adherence to the risk appetite: This must be within the risk capacity and should describe the maximum degree and type of risks that the business unit is prepared to take in order to achieve its strategic objectives.

In order to establish and promote an **appropriate risk culture**, various measures are also introduced as part of the annual risk culture plan: By operating at the various stages of the employee life cycle, these become an integral part of recruitment and onboarding, training and development, compensation and incentives, and leadership. We measure the extent to which our risk culture is anchored in everyday working life using various KPIs, self-assessments and in our annual employee survey.

ORGANISATION

Santander Consumer Bank AG is a non-trading-book institution. Our CEO is responsible for trading activities in the banking book. The Treasury division manages the liquidity, pension, market price, and related counterparty default risks of counterparties and issuers.

The Business Controlling, Controlling, Accounting & Regulatory Information, and Gesban division are assigned to our Chief Accounting Officer (CAO). Business Controlling and Controlling are responsible for business and financial planning. The Accounting & Regulatory Information and Gesban divisions map the transactions carried out in external accounting; they are also responsible for regulatory reporting.

The following areas are assigned to our Chief Risk Officer (CRO): Risk Management Private Clients, Risk Management Business & Corporate Banking, Wholesale Risk Management, Risk Controlling, Risk Decision Methodology and Operational Risk & Internal Control.

RISK MANAGEMENT

Our risk management team is responsible for all matters relating to credit approval rules and restructuring requirements; each product line is managed independently (Wholesale Risk Management): Dealer stock financing; Risk Management Private Clients: Motor vehicle retail financing, instalment loans in direct business, private real estate financing, card products and durables financing; Risk Management Business & Corporate Banking: corporate and business loans).

The Analysis & Solutions department, which is integrated in the Wholesale Risk Management division, carries out credit analyses and second votes, among other things, in order to grant, change or extend counterparty and issuer limits. Our Management Board finally decides on the basis of the templates prepared by this department.

We have a Collateral Management Function to effectively manage collateral risk. This is intended to ensure that changes that could have a negative impact on the value of the collateral are taken into account in the credit assessment at an early stage. We have also established a Technical Residual Value Risk Committee to manage and control residual value risk.

RISK CONTROLLING

The Risk Controlling division, which is independent of the risk management units, is responsible for risk reporting and the analysis of our bank's risk situation – for internal, external, and regulatory purposes – with regard to the main risk types of credit risk, market price risk, pension risk (in particular interest rate risk) and liquidity risk (in particular refinancing risk). The division also monitors identified model risks. The Controlling division analyses business strategy risk; the strategic risk function monitors and reports on it.

Each month we report comprehensively on risks directly to our full Management Board in the form of the risk report – broken down by product line and risk type. In addition, credit risk provisions are also calculated monthly for the entire loan portfolio. The division also analyses material concentration risks.

In order to determine the risk situation, our Risk Controlling division analyses the risk-bearing capacity at overall bank level as part of monthly reporting and checks whether the approved risk tolerances are within the risk appetite set by the Management Board.

The IRBA, Model Risk & Consolidation department is integrated into the Risk Controlling division. Their task is to plan and implement the IRBA project (IRBA: Internal Ratings Based Approach). To this end, it prepares conceptual and technical specifications for the implementation, carries out corresponding tests, and is responsible for ensuring compliance with the implementation plan and the documentation required by supervisory law when introducing the advanced IRB approach for the main exposure classes.

The division is also responsible for the processes of risk identification, risk monitoring, and risk control for the Pfandbrief business. In addition to the general requirements of the German Banking Act and the MaRisk, the tasks are based in particular on the regulations of sections 27 and 28 of the German Pfandbrief Act (PfandBG).

In addition to the requirements for the cover pool set out in the PfandBG, we have defined individual warning thresholds as part of our risk management. These regularly go beyond the statutory requirements; we have therefore imposed stricter requirements on our institution with regard to the cover pool than is required by law. The legal limits and the institution's own warning thresholds are monitored daily using the Pfandbrief software TXS.

RISK DECISION METHODOLOGY

The Risk Decision Methodology division is responsible for the initial and further development, monitoring, and validation of local, productive decision-making models in the credit application process (application and behavioural scorecards for retail banking business and rating models for commercial lending). It is also responsible for developing and regularly estimating the parameters used in the regulatory, economic, and impairment context. Since 2017, IFRS 9 provision models have also been designed and reviewed on an ongoing basis. In addition, the correlations of these parameters with macroeconomic factors are determined as a basis for calculating the IFRS 9 forward-looking component and for stress tests. This division is responsible for the ongoing monitoring of the parameters and the calculation system for specific loan loss reserves, as well as for the validation of the economic capital model. In addition, the P&L forecast models (PPNR) are also created and monitored here. The division acts on behalf of the risk management divisions, the collection business unit, the risk controlling function, and the controlling function.

RECEIVABLES MANAGEMENT

The Collection Business Unit (CBU), which is centrally assigned to our Chief Executive Officer (CEO), is responsible for the management of consumer loans (mobility, consumer financial services, and direct business), credit cards and mortgage loans in the private customer segment.

The aim is to return accounts with payment irregularities to a regulated payment process in order to minimise risk costs. Restructuring requests from customers in the event of short-term or structural payment problems are also processed in this division in accordance with the specifications from the risk area.

For each product type there is a specific procedure for accounts in arrears. Proactive and early contact with the customer is important, flanked by the increased use of direct debit procedures and the written dunning process. In addition, customers have the opportunity to voice their concerns via a new digital self-service platform. Thus, they can manage their arrears independently by settling them using an alternative payment method or by obtaining a new payment agreement.

The Collection Business Unit is also responsible for securing and realising collateral.

If the above-mentioned measures do not lead to a settlement of the arrears, the loan or the account will be terminated with subsequent debt collection by external partners up to and including the sale of the receivables.

The Work Out Department of the Wholesale Risk Management division is responsible for the management of impaired commercial loan exposures in the area of dealer stock financing. In order to wind up these exposures after unsuccessful restructuring attempts or after the realisation of the collateral, this task is transferred to the CBU.

Business customers with accounts in default are serviced by the Wholesale Risk Management division; the recovery of loan exposures that can no longer be restructured following termination and the realisation of existing collateral – bundled for private and commercial customers – is commissioned from external service providers by the CBU Termination / Write-Off division.

INTERNAL CONTROL AND MONITORING SYSTEM

The bank's internal monitoring system comprises process-dependent and process-independent measures. The process-independent monitoring is primarily performed by the Internal Audit / Group Audit. The Operational Risk & Internal Control division assumes supporting and coordinating tasks throughout the bank with regard to evaluating the design and functionality of the internal control system. This includes the maintenance of internal bank processes and the resulting risks. In addition, there are monitoring mechanisms in connection with the (trend) development of defined early warning or control indicators; there is also a corresponding reporting of results to the Management Board and the Group. The individual measures of the internal monitoring system ensure that the regulations governing the management of business activities are followed.

Process-dependent monitoring includes organisational security measures and controls that are carried out by manual and automatic processes (e.g. integrated four-eyes principle; separation of functions, regulations regarding competence regulations, method specifications, requirements in dealing with individual data agreement (IDV), processes within the framework of information risk or information security management). Measures to prevent errors are integrated into the bank's organisational and operational structure and ensure a predefined level of security (e.g. analysis/monitoring of loan agreements with regard to systematic risks in the contract design and implementation of a control system at individual transaction level). Control measures are integrated into the work processes and serve to prevent or detect errors.

As process-independent institutions, our Internal Audit department and our Group Audit department review the processes and methods used at regular intervals in accordance with the risk-oriented audit approach, both for conformity with statutory and regulatory requirements and for compliance with Group specifications. As a result, the Audit department prepares audit reports and follows up on matters identified in the audit. Guidelines for internal auditing can be found in the bank's Audit Manual.

In accordance with the requirements of the work instruction on the internal control model, the Operational Risk & Internal Control division performs independent tests and control assessments for the controls documented in the internal control model as part of the regular control certification processes.

In accordance with European Banking Authority (EBA) standards, the bank has implemented the compliance function as an integral part of internal governance. The Product Governance & Customer Protection department has established a broad monitoring system to ensure that the requirements resulting from the Minimum Requirements for the Compliance Function (MaComp) are met. Checks are carried out, for example, to monitor that products are marketed in a uniform manner and that consumer protection rules are followed. The department also reviews existing products as part of the Product Monitoring Committee (PMC) and is responsible for following up on complaints; these serve as indicators of maladministration.

The Regulatory Compliance & Data Protection departments monitor and control the guiding principles and guidelines that we have imposed on ourselves to comply with the rules and regulations that are essential for our bank. In addition, the Early Warning team advises the management and the divisions on the implementation of new laws, on relevant supreme court rulings and on changes to existing structures; the team carries out a regular risk assessment (hazard analysis), taking risk aspects into account: both at local level and on a consolidated basis with regard to the major holdings. In addition, the Compliance division helps to prevent, identify and resolve conduct or situations relevant under criminal law (corporate defence); it also monitors conduct and reputational risks for our bank.

In order to comply with the regulatory requirements for the "central office" of a bank, our compliance unit Financial Crime Prevention monitors and controls customer transactions, embargo regulations, and financial sanctions; the aim is to prevent financial crime, money laundering, terrorist financing and other criminal acts. Thus, a risk-minimising overall concept (Section 25h(1) Sentence 1 in conjunction with (7) Sentence 1 KWG) is ensured, taking into account the organisationally defined risk aspects within the framework of a regular risk analysis (Sections 5 and 9 of the German Anti-Money Laundering Act [Geldwäschegesetz, GwG]).

In order to be able to react to possible changes in the law at an early stage or to exert influence, the bank has a Public Policy function.

RISK TYPES

The Management Board has adapted the risk strategy of our bank to the complexity of our business activities. On the basis of the annual risk inventory, it has classified the risk types listed on the following pages as material – taking into account the requirements of the European Central Bank (ECB) on ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process) as well as risk culture aspects. In accordance with the ECB's ILAAP guidelines, insolvency risk has been classified as an additional material risk.

The materiality of a risk type is measured qualitatively or quantitatively using a scoring system that includes elements of the local risk inventory approach and the Group method. This combined approach consists of a partial score for the frequency of occurrence and the potential financial loss. A risk is to be classified as material if the total score on a scale of 1 to 4 is greater than or equal to 2.5, i.e. the frequency of occurrence and/or the potential amount of loss are/is estimated to be high.

In addition to the major risks directly considered in the risk-bearing capacity calculation, other risks were assessed as relevant within the scope of the risk inventory: Migration, industry and sector risks, foreign currency, strategy implementation, process, compliance and conduct risks, reputation and personnel risks. In addition, the risk types of counterparty default, investment and money laundering risks were classified as relevant in this year's risk inventory; in the previous year, these were still classified as non-relevant risks. Sustainability risks were also included. These act as risk drivers for other types of risk, such as credit risk or operational risk, and should not be regarded as a stand-alone risk type but rather as a secondary risk. Relevant risks are measured in a score band between 2.3 and 2.5. They are controlled and monitored – in compliance with the Three Lines of Defence model – through direct involvement of the responsible divisions.

The main risks are described below:

Credit risks

The bank defines credit risk (here: counterparty default risk) as the risk of losses due to expected and unexpected payment defaults.

Continuously improving the risk/return ratio is the core element of credit risk control and management. Key risk measurement indicators are the ratio of risk costs to the average total portfolio (cost of credit), the share of the non-performing loans in the total portfolio (NPL ratio), and the degree of coverage of the non-performing portfolio by loan loss provisions (NPL coverage). These and other key figures are measured at the segment level as part of monthly risk reporting in order to monitor compliance with the defined risk appetite. The actual figures are also compared with the budget figures.

The risk provisioning requirement is calculated monthly on the basis of statistically estimated probabilities of default and loss rates. The impairment methods under IFRS and HGB are harmonised and are based on the three-level impairment model in accordance with accounting standard IFRS 9. In addition to the currently available data, the approach also takes into account forward-looking information based on macroeconomic assumptions. Credit exposures in Level 2 show a significant increase in credit risk compared with non-risky exposures in Level 1; the empirically estimated probability of default and the number of days in arrears are used as relevant criteria for the assessment. A credit exposure is transferred to Level 3 upon default of the exposure – i.e. when there is a material payment default with more than 90 days in arrears, or there is a reasonable probability for other reasons that a liability cannot be settled. This is the case in the event of debtor insolvency or, at the latest, when the commitment is terminated with legal effect. For larger credit exposures in the areas of dealer purchase financing or business and corporate banking, indications of imminent default or financial difficulties on the part of the borrower may also be found during an individual case assessment even if the above criteria are not met; this may also lead to classification in Level 3.

A flat-rate individual value adjustment (PEWB) is formed across all three stages of the value adjustment method, based on a statistical model. The empirically determined risk parameters probability of default (PD), exposure at default (EaD), and loss given default (LGD) are used to estimate expected losses.

The probability of default indicates what proportion of the current portfolio will default within a certain period of time. This proportion differs according to the level in which the credit exposure is located. Level 1 covers a period of twelve months, whereas Level 2 uses a consideration based on the remaining term of the exposure. Since exposures in Level 3 are declared as defaults, the probability of default there is 100%. Depending on the portfolio, the parameter is determined using a basic approach or an advanced approach. The basic approach is based on days in arrears, while the advanced approach additionally uses score values from internal application or behaviour scorecards.

The product-based loss ratio indicates the proportion of the default balance (EaD) that is not recoverable. The value takes into account the expected cash value of incoming payments, also by passing on the credit exposure to collection companies, and the realisation of collateral. In addition, the loss rate for Level 3 exposures is dependent on the time since default.

Significant exposures in the areas of dealer purchase financing or business & corporate banking are considered separately; for these, an individual valuation allowance is recognised on the basis of a review of the facts, taking into account collateral and expected cash flows.

In the following, the loan portfolio is broken down by default probabilities and business segments. The observation period differs according to whether it is classified in Level 1 (twelve months) or Level 2 (residual maturity:

PD bands by business segment as of 31/12/2020 (in % and € million)

Segment / PD band'	Private customers	Business customers	Private real estate financing	Commercial real estate financing	Gross balance volume level 1 and 2
< 1.0%	65.7%	9.8%	9.6%	0.7%	**85.8%**
	17,304.41	2,586.8	2,531.3	180.7	**22,603.2**
> = 1.0%	12.7%	1.2%	0.1%	0.1%	**14.2%**
	3,344.6	315.4	37.1	34.5	**3,731.6**
Total	**78.4%**	**11.0%**	**9.8%**	**0.8%**	**100.0%**
	20,649.0	**2,902.2**	**2,568.4**	**215.2**	**26,334.8**

Most of the borrowers are economically dependent; the vast majority (approx. 86%) also have a default probability of less than 1%.

The core elements of credit risk management are the constant review of all credit disbursements and the credit disbursement and restructuring rules, as well as the maintenance and documentation of competencies, including monitoring compliance and responsibility for all relevant guidelines and company directives.

Credit risk management comprises the receivables securitised as collateral for asset-backed securities (ABS) and Pfandbrief issuances – irrespective of whether the bank bears these risks economically or not. Potential credit risks from retained issues are reported separately.

Credit risk management requires a constant analysis of the factors influencing the risk situation of our bank, combined with active implementation of the findings from all decision-making, forecasting, and valuation processes. Negative macroeconomic and social trends may also affect the bank, including, for example, a resurgence in personal bankruptcies or unemployment and growing divorce rates.

The impact of the coronavirus pandemic was such a macroeconomic event in 2020. With the onset of the pandemic, the macroeconomic outlook has deteriorated, necessitating a review of risk provisioning. In line with the principles of IFRS 9 regarding a forward-looking component and consistent guidlines by Banco Santander across the Group, a post model adjustment of €18.5 million was recognised to reflect the deterioration in the macroeconomic environment.

Market price risks

The bank defines market price risk as the risk of potential losses due to a decline in the value of securities or the interest-bearing portfolio which the bank may incur as a result of changes in prices and interest rates on the financial markets. At the bank, these risks are largely interest-related. There are also foreign currency risks to a lesser extent. In order to specifically manage maturity mismatches from customer business, we use derivative instruments in the form of interest rate swaps for asset/liability management where necessary.

With regard to interest rate risk, the bank considers the present value loss in the interest book resulting from changes in the yield curve. In addition to the parallel shifts of the interest rate curve by +/– 100 and +/– 200 basis points, a number of other interest rate scenarios are calculated and reported in the risk report – differentiated according to management-relevant, regulatory, and other observation scenarios. We also examine the extent to which parallel shifts in the yield curve affect the interest margin (P&L-oriented approach).

Using standard software, cash flows of all interest-bearing items including existing pension obligations are formed and the present value of the interest book is calculated. All applicable regulations are implemented. In the monthly risk report, the results are presented in consolidated form in a separate report on interest rate risk. As of the balance sheet date, the interest rate risk in the event of a change in interest rates of minus 100 basis points amounted to a risk of minus €47.6 million (as of the end of December 2019: risk of minus €57.5 million). The exposure to a change in interest rates of plus 100 basis points was plus €61.1 million at the end of December 2020 (compared to an exposure of minus €27.3 million at the end of December 2019). The reason for the development in these scenarios is the further participation in the TLTRO III program as well as the adaption of product features by the ECB (period of special interest). Our Management Board is informed of risk developments in a timely manner through implemented monitoring measures, regular reporting (monthly risk report), discussion in the Asset & Liability Committee, and the defined escalation mechanisms.

The present value impact in the banking book due to a sudden and unexpected change in interest rates amounted to minus €100.8 million at the end of December 2020, assuming a flattening of the yield curve (short-term interest rate change of plus 200 basis points and long-term interest rate change of minus 60 basis points). This corresponds to a risk in the amount of 3.5% of the core capital. This scenario represents the greatest risk within the six regulatory scenarios under the supervisory outlier tests, taking into account a dynamic interest rate floor. As of the end of December 2019, the highest risk value was minus €291.6 million.

To assess the intrinsic interest rate fluctuation risks of Pfandbrief or their underlying cover assets, interest rate stress tests are performed using the Pfandbrief software TXS. In accordance with the static approach defined in Section 5 of the Pfandbrief Net Present Value Regulation (PfandBarWertV), the yield curve is shifted by +/– 250 basis points and compliance with the statutory limits and internal warning thresholds is monitored. If required, an ad hoc stress test can be carried out for any interest rate scenarios.

The ABS bonds held in the investment portfolio, based on the bank's own assets, amounted to €9.9 billion as of 31 December, 2020 (previous year: €9.5 billion). In the course of the year, a number of new ABS were issued as well as existing ones repurchased. Consequently, the investment portfolio increased. The retained ABS served as efficient collateral for the TLTRO drawings at the ECB. At the end of the year, there was a temporary impairment of €62.1 million for own ABS securities due to short-term price fluctuations (previous year: €13.7 million). The reason for this, apart from these temporary price fluctuations, was the somewhat changed composition of our portfolio. In the course of the year under review, our bank acquired a number of securities, exclusively securities with the highest credit rating AAA. This acquisition was made as part of liquidity management. Securities are classified as fixed assets. As of 31 December, 2020, the securities portfolio stood at €1,500 million. The value at risk as of 31 December, 2020 was €2.4 million.

Commodity and other price risks are not relevant for the bank. It does not hold any significant shares.

Pension risks

The bank considers pension risk, consisting of interest rate risk and longevity risk, to be the risk arising from increased pension obligations due to changes in interest rates and biometric parameters. As such, it is included in the risk management and risk controlling processes as well as in the risk-bearing capacity calculation. The pension risk is assessed using a Monte Carlo simulation. It is controlled and monitored via the individual limit defined in the risk-bearing capacity calculation. In addition, the cash flows resulting from pension obligations are included in the interest rate shock scenario (+/– 200 basis points). With the publication of the BaFin circular 06/2019, the pension cash flows are embedded in all scenarios relevant for the supervisory outlier test. The Management Board is regularly informed about the development of the calculations. The Treasury division acts as the first line of defence, the Risk Controlling division as the second.

Liquidity risks

The bank defines the two main liquidity risks as insolvency risk and refinancing risk, which can result in a loss of earnings due to a deterioration in the bank's own refinancing conditions on the money or capital markets.

The refinancing risk is managed and monitored as part of the Internal Liquidity Adequacy Assessment Process (ILAAP), which is embedded in the risk and proprietary business strategy as part of general risk management. The core elements of the ILAAP are the modelling, quantification, validation, monitoring, and reporting of liquidity risks and the review of these processes by Internal Audit. The aim is to ensure robust liquidity risk management. The risk of insolvency described below is also part of ILAAP. The refinancing risk is managed on the basis of the liquidity progress review, which compares expected cash inflows and outflows over a period of 72 months, and on the basis of current forecasts prepared daily by Treasury.

As of the balance sheet date, the bank had placed the refinancing of its lending business on the following pillars: Deposits from private and institutional customers (65%), securities borrowed from the ECB including participation in the targeted longer-term refinancing operations TLTRO (19%), issuance of bearer bonds in the form of ABS, medium-term notes, commercial papers and mortgage Pfandbrief (15%), and borrowing from third-party banks (1%).

Thanks to our bank's diversified refinancing structure, liquidity was not endangered and ensured at all times during the 2020 financial year. During the Lock Down phase, there were no excessive liquidity outflows. We have also drawn up a liquidity contingency plan in accordance with MaRisk, with measures to be taken in the event of a liquidity bottleneck, including communication channels. This contingency plan also includes a presentation of the immediately available sources of liquidity.

In order to ensure that payment obligations in the Pfandbrief business can be met at all times and to identify liquidity bottlenecks, warning thresholds and limits have been set for the daily liquidity requirement framework. The largest cumulative liquidity gap for the next 180 days is monitored daily. In addition, a warning threshold was set at 270 days. During this period, continuous over-coverage must be ensured. Liquidity monitoring in the Pfandbrief business is also intended to ensure that the statutory limits and the internal early warning indicators in the liquidity forecast are met.

As of 31 December, 2020, the Liquidity Coverage Ratio, LCR was 236.6% (prev. year: 187.8%). We will continue to closely monitor future specifications of liquidity ratios at national and European regulatory level. In addition, a risk measure in the form of a liquidity value-at-risk is calculated within the framework of ICAAP as part of overall bank management in order to adequately reflect the risk from increased refinancing costs.

With regard to liquidity risks, the monthly risk report contains forward liquidity exposures and liquidity reviews for assessing the risks of secured and structural liquidity. Information on cash management, refinancing, and investment policy is provided by the Treasury department at Board meetings.

Insolvency risks

This risk signifies the risk of failing to honour payment obligations or not honouring them on time. The potential cause may be a general disruption in the liquidity of money markets; this may affect individual institutions or the financial market as a whole. In particular, market disruptions may result in the loss of important assets. Alternatively, unexpected loan or deposit business events may also cause liquidity shortages. Such risks are managed by the Treasury division and monitored by the Risk Controlling division.

With the help of the Daily Liquidity Status and Outlook report, the bank monitors and forecasts liquidity requirements for the next five days to ensure sufficient short-term liquidity.

In order to ensure intraday liquidity management, our bank maintains accounts with the ECB as a basis for the minimum reserve. In addition, large payment transactions are implemented via Target2 accounts. The balances of these accounts are monitored and made available several times a day so that the required liquidity is also ensured and monitored intraday.

Short-term liquidity requirements are monitored using the indicator Independent Liquidity Reserve and presented in the risk report. In order to cover short-term liquidity requirements, the bank maintains a liquidity buffer of currently at least €2.1 billion; the amount of which is validated and redefined on a monthly basis using various stress scenarios. Using macroeconomic and idiosyncratic stress scenarios and a combination of these scenarios, potential effects on the bank's liquidity positions are also analysed and presented in the risk report.

Operational risks

The bank defines operational risk as the risk of potential losses resulting from inadequate or failed internal processes, systems, and people or due to external events, including legal risks. Accordingly, operational risks also include fraud, outsourcing, and IT risks. Strategic, business and reputational risks are explicitly not included in operational risks.

For the management and monitoring of operational risks, the bank has implemented the Three Lines of Defence model with the aim of systematically mitigating losses from these risks.

The management of operational risks is the decentralised responsibility of the divisions (First Line of Defence) and primarily involves the identification, analysis, and assessment of operational risks. If necessary, the First Line of Defence defines and implements risk mitigation measures. The independent Risk division, as the second line of defence, monitors and supports the divisions in their operational risk management and reports to the Local Operational Risk Committee and the Management Board. Process-independent monitoring within the scope of audits of the internal control system is the responsibility of Internal Audit as the third line of defence.

Furthermore, independent control functions support the divisions in their operational risk management of specific operational risks (e.g. technology, cyber, fraud risks or risks from the procurement of external services).

Operational risk is also to be minimised with the aim of establishing a proper business organisation through appropriate and fully comprehensive emergency management. To this end, the bank implements incident and emergency management as part of the Business Continuity Management concept to ensure that business processes identified as critical can continue during a loss event. Two phases are distinguished: Emergency planning and emergency management. A management system has been set up for both emergency preparedness and emergency response. Management positions and responsible committees (crisis unit and business continuity committee) were established for both.

The business continuity management concept, which defines the framework conditions for ensuring the bank's functionality in case of extraordinary or external events, generally pursues a strategy of decentralised, location-independent work. The IT department ensures the functionality of IT with preventive measures; these include regular data backups and agreed recovery times, defined emergency plans at process level, and checks by the IT Audit department.

On the basis of the standardised approach, the bank calculates a necessary regulatory capital requirement for operational risk of €156.9 million as of the balance sheet date (previous year: €164.4 million).

Legal risks

The bank considers legal risk to be the risk of losses due to the violation of applicable legal provisions, including regulatory provisions and contractual obligations. This includes the risk arising from a change in jurisdiction for transactions concluded in the past, but not the risk of having to restructure future business activities as a result of a change in the legal situation.

The Corporate Secretariat & Legal Advisory, Compliance and Public Policy divisions keep our bank up to date with the latest legal and regulatory developments, which are then taken into account in our business activities. Contracts and standard forms are coordinated with our legal department. Adequate provisions are made for existing legal risks.

Model risks

Model risk describes the risk of not presenting market realities properly by applying simplified or non-suitable methods or parameters and thereby not presenting the bank's actual earnings or risk situation correctly as well as the risk of inappropriate applications of available models. Risk management is carried out by the line manager responsible for the model. The Risk Controlling division is responsible for monitoring model risks that may arise from insufficiencies of the respective models. To ensure adequate management and monitoring of this risk type, the bank performed an inventory for risk models and introduced a set of rules for handling model risks. In addition, all statistical models are validated at regular intervals.

Information and communication technology risks, including risks from cybercrime

The bank defines information and communication technology risk as the risk of potential losses due to breaches of data confidentiality, as a result of breaches in system and data integrity, due to inadequate or unavailable systems and data, or due to the lack of adaptability of information technology within a reasonable time and cost range (agility). Effects can be caused intentionally (internal or external harmful actions) or unintentionally.

The management of risks due to cybercrime and the implementation of preventive measures are the responsibility of the Cyber Security unit, headed by the Chief Information Security Officer (CISO). In order to respond more quickly and sustainably to the increasing risks arising from cybercrime, the bank is following the Santander Group's “zero tolerance policy”.

Our bank's security organisation is structured in accordance with the Santander Group's guidelines and the corresponding Cyber Security Framework. In order to meet the regulatory requirements of BAIT (Bank Supervisory Requirements for IT) – in particular with regard to information risk management – a corresponding process was established on the basis of the BSI basic protection model. With the help of the organisational framework of the Cyber Security Framework and the Transformation Plan projects of our Group, cyber risks are reduced to an acceptable level. Some measures that meet current security standards are already in normal operation to ensure the security of the banking infrastructure and the data it contains. Cloud computing is becoming increasingly important: In order to ensure safety here as well, special requirements were drawn up and their implementation monitored.

The bank has developed its own cyber security strategy to meet regulatory requirements to manage cyber risk.

BUSINESS STRATEGY RISKS

The bank considers business strategy risks to be the risk of potential losses and reduced profits due to adverse business strategy developments, decisions or business segment-specific targets or due to a negative change in the economic environment. This also includes the failure to achieve distribution targets due to changed customer preferences or new market participants. Our Management Board manages strategic risks directly using suitable instruments (e.g. sales and marketing measures), while the Controlling division monitors them. Sales risks are managed by the Sales units, while the Controlling division is responsible for monitoring them.

In the following, we describe the identified relevant risk types:

Migration risk

Migration risk refers to the risk that a loss may be incurred within the agreed credit period due to a deterioration in the creditworthiness of a borrower. The risk management units are responsible for controlling, while the Risk Controlling division is responsible for monitoring.

Sector risks

Industry risks describe the risks of companies of respective industries. It arises due to the concentration on certain products that are exposed to different economic developments over time (e.g. changing consumer habits, rising commodity prices). These risks are monitored as part of concentration risk monitoring. Risk Management prepares regular sector reports for the main sectors.

Counterparty default risks

Our bank considers counterparty default risk to be the risk of increased costs due to the default of a contract partner in the case of money market, derivative or foreign currency transactions prior to the final settlement of the payments associated with this transaction. Included is the risk of losses that may arise if the counterparty fails to perform the service agreed for a later date, if the bank has to make advance payments for trading transactions, or if difficulties arise during the settlement of the transaction.

Equity investment risks

The bank defines equity investment risk as the decline in the carrying amount of equity investments, the default on dividend payments, and any additional funding obligations.

Collateral and residual value risks

Residual value risks occur if the contractual residual value cannot be realised when a vehicle is sold and this loss is borne by the bank's own leasing company or Santander Consumer Bank AG. Transactions with direct residual value risk are only permitted for certain cooperations, require management approval, and are limited. Our risk management units manage these risks primarily in accordance with the requirements of the collateral strategy and the collateral manual. Risk Controlling monitors the collateral portfolio as part of credit portfolio monitoring. The collateral manager coordinates this activity. In the event of limit overruns or concentrations, the purchase of new residual value risks can be controlled by setting additional restrictions or by limiting new business with direct residual value risk.

Compliance risks

The bank describes compliance risk as the risk of potential losses arising from non-compliance with regulatory or statutory requirements. Compliance risks are managed by the responsible line manager and monitored by the responsible Compliance unit.

The Compliance function is tasked with regularly identifying important legal regulations and specifications for which non-adherence may threaten the bank's assets. The division supports and advises the bank on regulatory compliance with regard to existing and future legal requirements in all areas. When identifying new legal requirements, the compliance unit uses the web-based information system RADAR, newsletters, BaFin reports, and other public sources.

Conduct risks

Conduct risk is defined as the existing or future risk of loss to an institution as a result of the inappropriate provision of financial services, including instances of intentional or negligent misconduct such as unfair sales practices of products and services, improper use of incentive procedures in sales, and conflicts of interest within the bank. Possible indicators include penalties and customer complaints. The First Line of Defence counteracts conduct risks; it is in turn monitored by the Second Line of Defence. The Compliance division has set up a detailed monitoring system for the securities business: In addition to supporting the introduction of new products, this also includes the monitoring of all existing products. All documents intended for the customer are reviewed and, if necessary, approved with modifications to ensure the required probity and transparency, especially with regard to product risks and costs for the customer. The training measures for employees are also checked to ensure that their content is correct and that customer interests are prioritised as desired. The same applies to internal work directives and guidelines.

Reputational risks

The bank defines reputational risk as the risk of potential losses due to events or a change in the bank's strategic direction that reduce confidence in the bank among customers, business partners and employees, rating agencies or regulatory authorities, or the public in general. Reputational risks can result from other types of risk and coincide with them. Reputational risks are managed by the responsible line manager. To this end, the Regulatory Compliance & Data Protection department has drawn up guidelines according to which the divisions assess potential risk scenarios, define measures, and report them to the Regulatory Compliance & Data Protection department.

Personnel risks

Personnel risk is defined as the risk of losses due to insufficient qualitative and quantitative staffing. The Human Resources division is responsible for the qualitative and quantitative staffing. In doing so, it reviews qualitative staffing levels through annual staff performance appraisals. In the upper management levels, 360-degree feedback is implemented, which incorporates the assessments of the supervisor, employees and colleagues at the same level. Quantitative staffing is ensured through analyses by the Organization unit that confirm the need for new positions. These decision papers are presented to our Management Board.

Foreign currency risks

The risk arises from losses in the value of on-balance sheet and off-balance sheet items due to adverse foreign exchange rates. In December 2020, there was an open position in the amount of €2.3 million (previous year: €3.2 million) of foreign currencies in the bank's portfolio. Foreign currency risks are managed by the Treasury division and monitored by the Risk Controlling division.

Litigation risks

Litigation risk is the risk of losses arising from inadequate processes. The respective process owner ensures the proper execution of the process. These risks are monitored by means of organisational security measures and controls. Measures designed to prevent errors are integrated into both the bank's structural and procedural organisation and ensure a predefined level of security. As a process-independent institution, the Internal Audit division reviews the processes and methods used at regular intervals in accordance with the risk-oriented audit approach, both for conformity with statutory and regulatory requirements and for compliance with Group specifications.

Sustainability risks

Sustainability risks cover ecological, social and governance related components, affecting risk types such as credit or operational risk as risk driver and are therefore assessed as a secondary risk. Sustainability risks are already taken into account at an appropriate point in the "established" risk types (e.g. within the lending process of our Business & Corporate banking segment or external events within the operational risk management). The next step is to incorporate sustainability risks into risk management and controlling processes, e.g. in risk appetite, stress tests, and contingency plans.

Concentration risks

In addition, the bank manages and monitors potential concentration risks. The Herfindahl-Hirschmann index is used as a concentration measure. Concentration risks arise from an uneven distribution of business partners in lending and other business relationships or from sectoral or geographical business focuses, which may significantly jeopardise the operating result and/or the continued existence of the bank. Concentration risks can occur within a risk type or together in different risk types and have a compounding effect. Due to the business model, potential concentrations primarily result from the type of objects to be financed (motor vehicles, real estate). The effects of identified concentrations are presented monthly in the Annex to the risk report. In addition, the bank has established risk tolerances based on size or sector in order to efficiently limit or avoid concentration risks. The deliberate assumption of concentration risks due to market developments is strictly monitored and limited by the use of suitable risk appetite metrics.

In addition, sector risks are considered from a concentration risk perspective. The bank has formed regulations for the limitation and exclusion of certain sectors. In the course of expanding its business model to include SME financing, it has also implemented sector concentration monitoring in the form of sector reports.

In the mortgage bond business, possible concentration risks for the underlying cover assets must be limited under the German Pfandbrief Act. The bank complies with this requirement by setting internal alert thresholds and limits. The eligibility criteria of the location, the collateral object, and the loan amount are taken into account.

Concentration risk considerations are also applied to liquidity risk by regularly monitoring the liquidity structure and maturities.

Identified concentration risk scenarios are shown in the risk-bearing capacity calculation.

ICAAP

The ECB's ICAAP (Internal Capital Adequacy Assessment Process) requirements are characterised by two perspectives: On one hand, the normative perspective ensures compliance with regulatory capital ratios for the next three years in one base scenario and two adverse scenarios. On the other hand, the economic perspective ensures adequate capitalisation based on the economic value of the institution.

In order to assess the material risks, the bank uses an economic capital model that reflects the appropriate level of capitalisation and its utilisation. Capitalisation is deemed to be adequate if the sum of material risks is continuously covered by the internal capital, which represents the economic value of the institution. Excess capital is calculated as a relative value: expressed as the ratio between internal capital and economic capital requirements. Adequate capitalisation is given as long as the ratio exceeds 100%. The economic perspective is based on a uniform confidence level of 99.95% for all risk types.

The economic perspective shows a present value view of internal capital and economic capital requirements. In order to ensure a conservative calculation approach, internal capital is derived from balance sheet figures close to present value by adjusting them for hidden charges and other deductible items.

For counterparty risk, the loss distribution for a holding period of one year is determined using the Santander Group's credit portfolio model from the credit risk measurement data. The economic view is achieved through a multi factor model variant to which a dependent variable derived from the portfolio characteristics is added. In addition, the consideration of migration risks ensures the present value view.

Loan risks are quantified in the form of a value at risk with holding durations of one year. As of 31 December, 2020, the total credit risk charge was €950.3 million (previous year: €1,013.1 million). At the same time, the excess coverage ratio of the defined risk tolerances for the main business segments in relation to the total capital charge for credit risk was between 82% and 1,446%.

To determine the expected and unexpected risks, the loss distributions of the counterparty and issuer risks are simulated and the value at risk for a holding period of one year and the expected credit risks are derived; the unexpected loss is calculated as the difference between the value at risk and the expected credit risks.

To calculate the interest rate risk, a loss distribution is estimated based on a historical simulation with a holding period of 62 days. The cash flows come from the BancWare system. The risk-free interest rate curve of the Euro Short-Term Rate (€STR) is used. The value at risk amounted to €92.8 million as of the balance sheet date (previous year: €111.0 million). Furthermore, changes for various historical and hypothetical stress scenarios (among other things, parallel yield curve shift by 100 basis points as decisive internal control parameter) are calculated.

The value at risk for ABS risks measures the loss in value of the repurchased securitisations at the confidence level. The loss in value is derived from historically observed spread changes. As of 31 December, 2020, the risk amounted to €31.1 million (previous year: €77.6 million).

For existing securities risks, the value at risk for a 20-day holding period is at €3.0 million (previous year: €0.0 million). The reason for the lower holding period compared to the other risk types is the exclusive acquisition of highly liquid assets with an external AAA rating; these assets can be sold on the market at any time.

The value at risk for managing foreign currency risks was €2.6 million in December 2020 (previous year: €2.9 million) and thus within the defined limit. Market price risk uses historical simulation with a holding period of 62 working days for foreign currency risk; this is based on an exchange rate data history since 1999.

Operational risk is determined using the loss database, external data (ORX) and scenario analyses (own survey). For this, damage data is assigned to the seven Basel II event type categories and the damage frequency per year and the respective damage amounts are modelled. Loss distributions are calculated using the Monte Carlo simulation. The economic capital for operational risks is calculated in the form of a value at risk for an observation period of one year and amounted to €435.6 million (previous year: € 435.8 million) as of the balance sheet date.

The liquidity value at risk is based on the liquidity maturity balance sheet and is calculated using the differences between a reference ratio and simulated ratios. These ratios are calculated using historical spread curves, based on a data history since 2012. A holding duration of 62 trading days is used for the closing of liquidity gaps. The value at risk at the end of the year amounted to €0.0 million, unchanged from the previous year's value.

Business risk calculations are based on a standard distribution. This is calibrated using the deviations between budgeted and achieved profits. The value at risk as of 31 December, 2020 was €65.2 million (previous year: €71.6 million).

The pension risk is calculated using the Monte Carlo simulation. The risk consists of the interest rate risk for pension cash flows, where the interest rate changes are determined by a Hull-White model, and the longevity risk, which is assumed to be normally distributed. The value at risk amounted to €110.2 million as of the balance sheet date (previous year: €70.7 million).

The model risk is calculated implicitly in the above-mentioned risk types. It is taken into account through mark-ups on the parameters underlying the risk types.

The use of the Santander Group's risk capital models ensures consistent risk measurement.

In addition, our bank regularly carries out an overall bank stress test, which has an impact on all significant risk types. An additional, more detailed view of sensitivity is achieved by performing stress tests for the individual risk types: using historical and hypothetical scenarios as well as stress tests with macroeconomic factors. Idiosyncratic and market-wide scenarios as well as combinations thereof are depicted. In addition, potential risk sources for the performance of inverse stress tests were identified. The bank calculates a total of four crisis stress tests with inverse orientation, which are of particular importance in the preparation of the recovery plan for the Santander Group.

With the onset of the coronavirus pandemic in Germany and Europe, we carried out a separate stress scenario at consolidated level in February 2020. Although this resulted in a significant increase in risks, the risk-bearing capacity was also given under the assumptions made.

In total, the bank calculates four inverse crisis stress tests that have special significance in the Santander Group's restructuring planning. In 2020, the capitalisation of the bank was ensured at all times in both control groups used. As of the balance sheet date, the capital surplus ratio was 177.6% (previous year: 158.1%). The ratio is composed of the internal capital of €3,002.9 million and the sum of economic losses of the main risk types amounting to €1,690.8 million (previous year: €1,782.6 million).

The Common Equity Tier 1 capital ratio in accordance with section 10 KWG in conjunction with Article 92(1) a) CRR amounted to 14.44% (previous year: 12.99%), the Tier 1 ratio 14.44%, up from 13.00% in 2019. Own funds in accordance with Section 10 KWG in conjunction with Art. 72 CRR amounted to €3.274 billion (previous year: €2.928 billion). Own funds requirements amounted to €2.389 billion (previous year: €2.405 billion). This results in the total capital ratio as defined in Art. 92(1) (c) CRR of 16.45% at the end of 2020 (in the previous year: 14.61%).

The two ICAAP perspectives are closely linked and influence each other. The forward-looking, normative perspective provides future information that is evaluated within the economic perspective. In contrast, all significant risks for the normative perspective are taken into account in the form of scenario losses.

All capital topics are presented and explained to the local capital committee from both regulatory and economic perspectives. On the part of our Management Board, the committee is represented by the CFO (Chair), CAO, and CRO

CONCLUDING REMARKS ON THE RISK REPORT

The fiscal year 2020 was dominated by the coronavirus pandemic, however, the established risk appetite was confirmed by the overall robust portfolio performance during the coronavirus crisis. For this reason, and because of the continuing uncertainties, there are no plans to increase risk appetite. Close monitoring and targeted adjustment of credit purchase rules have been implemented. While maintaining the risk appetite, it will be necessary in the coming year to precisely manage and monitor the portfolio. We are therefore closely monitoring the domestic economic situation, especially insolvencies, and will furthermore consider the crisis evolvement within our stress test concept. Even during the crisis, our bank enjoyed a very stable liquidity position; in addition, we benefited from the ECB's monetary easing measures. We strengthened our already solid capital base in the year under review and will continue to manage it conservatively in 2021. In 2020, we further developed and optimised the risk management and risk controlling system as key components for an adequate bank management in accordance with supervisory law requirements. For example, Banco Santander S.A. continued the Group-wide Capital Tools Project, which is designed to improve the capital base by making more efficient use of regulatory and economic capital. The project components were related to the data quality, the applications and their infrastructure, the working model, the methods used, and the possible uses. All capital-related processes should be consistently improved: from planning to data provision to central calculation. We completed the project in the year under review.

In addition, we have launched a programme in the bank to implement a modern, uniform and robust IT infrastructure ("single point of truth") – for alignment with a data-oriented, omni-channel based business model. This programme is intended to gradually implement fully automated reporting solutions, user-specific applications, and consolidation and consistency checks for all major risk types. The first application to be used was the Asset&Liability Management (ALM) DataMart for the fully automated generation of the regulatory reports LCR and NSFR. The ALM DataMart is being successively further developed in order to calculate the interest rate risk within the framework of the regulatory requirements for interest rate risk in the banking book (IRRBB). Another application is the Credit Risk DataMart, e.g. for the regulatory FINREP report and for all other credit risk management requirements.

In the year under review, our bank entered a new business segment: Providing services to other credit institutions, primarily for middle and back office operations. In 2020, for example, risk management and risk controlling processes were carried out on behalf of the joint venture with Hyundai Capital Bank Europe GmbH (HCBE), which was established in 2019.

In addition to developing this new business segment and continuously expanding existing business segments, our bank will expand its refinancing options by placing money market paper, medium-term bonds and Pfandbrief, and by extending existing or new refinancing lines with third-party banks. We have also entered into additional ABS transactions with and without regulatory risk transfer for risk and capital management purposes and for liquidity management.

With a view to further optimising the risk management and risk controlling processes, our bank will carry out the transfer of additional vehicle financing portfolios to the IRBA from a credit risk perspective as part of the so-called third wave. The application to use the IRBA is planned for 2021.The regulatory requirements regarding the new definition of default are taken into account as part of a two-stage approach.

The coming financial year will be shaped by the further course of the coronavirus pandemic and the associated challenges for the economy and society. We will analyse the effects on the basis of experience to date and initiate appropriate measures. In addition, we will continue to monitor legal and regulatory requirements and changes, such as the start of application of the Regulation (EU) 2019/876 (CRR II), via the RADAR information system.

FORECAST AND OPPORTUNITIES REPORT

In our view, the **German economy will recover noticeably by around 4% in 2021** after a subdued start, primarily due to the restrictions on economic and social life required to combat Covid-19. Important support comes from a continued very expansive monetary and fiscal policy.

Private consumer spending is expected to make a disproportionately large contribution to this noticeable recovery. Finally, private households should become more confident as the economy is expected to pick up. In addition, there is a catch-up demand, as many purchases were not made in 2020. However, the significant increase in disposable income will be tempered by the fact that employees are more willing to make wage concessions due to a still difficult situation on the labour market. In addition, transfer incomes will increase at a noticeably slower rate in 2020 following the sharp rise in the reporting year due to the crisis. The savings rate will fall significantly again, to an expected 12%.

Exports will also recover at an above-average rate in the coming year. The demand for products manufactured in Germany is increasing noticeably again with the stronger global economy. This is due not only to robust growth in China, but also to the impact of the change of administration in the United States, which could improve relations between the US and Europe. In contrast, the UK's exit from the European Union could have a negative effect. Imports are also expected to pick up noticeably due to the noticeable revival of the German economy. Nevertheless, foreign trade as a whole is likely to have a slightly stimulating effect for the first time in several years.

The recovery in equipment investment is likely to be even stronger, albeit starting from a relatively low level. With the noticeable economic recovery, the utilisation of production capacities is increasing again and with it the willingness of companies to invest. Other investment motives include greater digitalisation and the switch to more sustainable production processes. Thanks to the very low capital market interest rates, financing conditions remain favourable.

By contrast, construction investments are providing comparatively weak impetus. It is true that demand for housing remains high due to continuing bottlenecks in the housing market, especially in conurbations, and the continuing very favourable financing conditions should also have a positive effect. On the other hand, the above-average rise in construction prices and the shortage of building land and, in particular, qualified skilled workers are having a weakening effect.

At an annual average of just under 2%, the inflation rate is expected to be significantly higher than in 2020, thus approaching the ECB's price stability target of "below but close to 2%". However, special factors play a major role here. In the spring, there will be a strong stimulus from higher oil prices. Furthermore, the return to the VAT rates applicable until mid-2020 will lead to a temporary increase in inflation in the second half of 2021. However, the fact that employees are likely to be reluctant to seek wage increases due to the uncertain situation on the labour market argues against a sustained acceleration in inflation. In addition, the import of price stability due to the appreciation of the euro last year should continue to have an impact.

The inflation rate in the eurozone is also likely to be higher, at around 1% on average next year. This should again be well below the ECB's price stability target of "below, but close to, 2%". The ECB will therefore at least maintain its very expansionary monetary policy, if not extend it even further. There is no prospect of an increase in the deposit rate from the current level of −0.50%. Instead, the ECB will consistently implement the securities purchase programme decided at its December 2020 meeting.

The prerequisite for a return to normality is a correspondingly high vaccination rate among the population. But the challenges for public budgets remain great even with increasing vaccination coverage. Some of the stabilising benefits included in the 2020 stimulus and assistance programmes will not be drawn down until 2021. Even though tax revenues will rise again, they will initially be noticeably lower than expected before the outbreak of the pandemic. Overall, the government deficit ratio, i.e. the share of new debt in economic output, is likely to decline only slightly to around 4.5% compared with 4.8% in 2020. Some relief will come from further reductions in government interest expenditure. This is primarily due to the very low to negative interest rates for German government bonds, as government debt – measured in terms of economic output – will rise slightly next year to ca. 70% following the sharp increase of around 10 percentage points in the year under review.

In this challenging environment, the bank expects the developments described below in its four main business areas (mobility, consumer financial services, direct business and business & corporate banking).

In the **mobility** business segment, our bank is the largest manufacturer-independent financing partner for cars, motorcycles and (motor) caravans and has positioned itself as one of the largest lenders among the manufacturer banks known as captives in Germany. Our strategy is geared to defending our strong market position in the long term.

Santander forecasts around 7.0 million owner registrations and around 3.1 million new registrations in Germany in 2021. We therefore assume that vehicle registrations in the German market as a whole will be down from the previous year. As far as the private share is concerned, we expect both new registrations and transfers of ownership in the coming year to be at a comparable level to 2020.

For 2021, we expect loan revenue in new car financing to decline to €1.2 billion. The used car loan business is expected to amount to just under €4.2 billion. As a result, we expect loan revenue in the automotive retail business to remain more or less unchanged year-on-year at just under €5.4 billion. In dealer stock financing, we forecast a slight increase in loan revenue to around €6.8 billion (previous year: €6.7 billion).

The bank also intends to intensify its cooperation with dealers and importers in the coming year. Special attention is paid to the used car business. Improved leasing offers for young used cars and our online sales channel Autobörse.de should have a positive effect here. We also want to strengthen our own marketplace **by expanding digital distribution**. In order to meet market requirements (e.g. direct sales by car manufacturers or online sales by retailers), end-to-end online processes for loans and financial leasing are becoming increasingly important.

We **intend to consolidate our market position in the leasing sector**. Through our subsidiary Santander Consumer Leasing GmbH, we are already one of the most important providers of private and commercial vehicle leasing in Germany. Our plan is to increase the number of leasing contracts: from around 174,000 vehicles (as of the end of 2020) to approximately 176,000 contracts by the end of next year.

We also expect positive effects for the leasing business via SIXT Leasing SE, which is indirectly held by HCBE. For example, we want to add innovative mobility services and vehicle fleet business to our existing product portfolio and improve our marketing of leased vehicles at the end of the contract.

In our **consumer financial services (CFS) business segment, we want to continue to strengthen digital sales channels in the future**. By expanding our e-commerce services and further diversifying through new retailer relationships, our goal is to grow profitably. Measures here include reducing the acquisition costs for new customers and (re)acquiring customers from other business areas. In the future, we would like to further develop our business model: We are transforming ourselves from a provider of financing for stationary retail to a provider of payment solutions for end customers. To this end, we can also enter into strategic partnerships with e-commerce partners. Following the declines of the previous two years, we expect new business to rise to €0.5 billion for the first time next year thanks to the measures we have introduced.

In **business & corporate banking**, the focus of our sales activity will continue to be on acquiring customers with an international orientation in the core countries of the Santander Group. In the long term, we want to **establish a sustainably profitable partnership with German SMEs**. The lending business will continue to be characterised by a highly competitive environment in the future.

With regard to our **direct** business segment, we plan to take account of changing customer needs by increasingly expanding our Santander Direktberatung (Santander Direct Advisory Services) in addition to the advice provided through our branches. For example, we want to increasingly address our customers via digital channels and remote services. By addressing customers on an even more personal level, we aim to increase both customer loyalty and product penetration (number of products per customer). We are thus consistently improving our omni-channel market presence, in which our customers determine how they use our services and wish to communicate with us.

In direct business, we expect new business in 2021 to be very clearly higher than in the year under review at around €2.7 billion. We intend to achieve this increase in lending turnover through sales initiatives and the expansion of our digital direct business.

In the area of mortgage lending, we are again aiming for strong growth in new business in 2021. The expanded product range via cooperation partners in the fourth quarter of 2020 and a redesign of the pricing strategy are expected to contribute to the success. Our focus continues to be on expanding the agency business and examining additional cooperations.

We also expect a highly competitive environment in 2021, characterised by new digital competitors, permanently low interest rates, and higher regulatory requirements. In order to ensure the long-term success of the bank, our Management Board had already decided in 2020 to further streamline the organisation of the corporate headquarters as well as the Frankfurt am Main and Recklinghausen locations. Furthermore, the Management Board will be reduced to 5 persons as of January 2021.

In the coming years, the bank will cover its refinancing requirements primarily through customer deposits acquired in Germany. In addition, it continues to rely on a tried and tested approach: the securitisation of customer receivables, e.g. from car loans, and the subsequent placement on the capital markets. In order to optimise the duration of the liabilities side, we plan to establish ourselves as a regular issuer of mortgage Pfandbrief. In 2021, Santander also intends to issue a senior unsecured bond to further diversify its sources of long-term funding. The use of the ECB's Targeted Longer-Term Refinancing Operations (TLTRO) will remain important in 2021, as it allows the bank to raise funds in a cost-effective and predictable manner.

Santander Consumer Bank has made adequate provisions for all currently known pending litigation and for potential legal risks. However, it cannot be ruled out that the bank may still be burdened by known pending legal disputes.

We also monitor the development of case law and pay attention to any potential risks arising from this.

Covid-19 already had an impact on our earnings in the year under review; our Management Board also expects the ongoing pandemic to have an impact in 2021. However, at the present time – while the annual financial statements are being prepared – we can only forecast these very roughly due to the imponderables of the current situation. Against this backdrop, we expect the key earnings figures to develop as described below:

We forecast a slight decline in net interest income for the coming year. Interest income, which has been declining steadily in recent years due to low market interest rates, will stabilise and probably be slightly above the level of the year under review. One of the factors contributing to this is the renewed growth in new business in the direct segment. Lower customer interest rates due to the expiry of higher-yielding fixed-interest investments and a generally declining portfolio of customer deposits have a reducing effect on interest expenses. However, we expect higher expenses from ABS transactions: in terms of amount, these will exceed the reduction in expenses from customer business. All in all, this will lead to a clear increase in interest expenses.

After slightly increasing net fee and commission income in 2020, we also forecast growth for 2021. However, we expect: Losses that may result from a continuation of the lockdown, which is uncertain at the time the annual financial statements are being prepared, would primarily affect net commission income. We therefore anticipate only slight growth in commission income. In particular, this is affected by the fact that income from the servicing fee for HCBE 2021 will be received for a full twelve months. We expect a slight decline in commission expenses, primarily due to lower dealer commissions.

In the coming year, we expect a moderate decline in general administrative expenses, including depreciation, amortisation and value adjustments on intangible assets and tangible fixed assets.

This reduction is to be achieved mainly by digitalising processes and optimising back-office activities. Expenses for external service providers are also to be reduced. Furthermore, we assume that cost-cutting effects will result from the measures taken to adjust the workforce. In addition, the expenses for the restructuring project will no longer be incurred in the forecast year. Overall, we anticipate a savings potential in the mid double-digit million range. Finally, between €5 million and €10 million of higher software amortisation will be incurred in 2021.

The cost-income ratio will improve clearly in the coming year as a result of falling administrative expenses combined with moderate growth in income.

For 2021, we expect a clear decrease in risk provisioning compared to 2020, despite very clearly lower income from the sale of written-off receivables; according to plan, we expect lower cash inflows of around €18 million here.

This is primarily due to the post-model adjustment made in the year under review: The expected deterioration in the macroeconomic environment was thus adequately taken into account in the forward-looking component on the basis of the currently available information.

On the other hand, the forecast for 2021 assumes a stabilisation of the direct portfolio, less the effects already anticipated from the Post Model Adjustment and further one-off effects. While the cost of risk for this portfolio is clearly higher than the very good 2019, it is also very clearly lower than the cost of risk for the year under review.

For the other operating result, we anticipate expenses in the low single-digit million range in the coming year. Other operating income will decrease significantly, primarily due to lower income from the release of provisions. In addition, unlike in the year under review, we do not expect any extraordinary income in connection with operational risks. We expect a significant decrease in other operating expenses. The main reason for this is the discontinuation of the expenses incurred in 2020 from the extraordinary derecognition of intangible assets.

As a result, we expect that lower administrative expenses in particular will more than offset the slight decline in net interest income.

In summary, we therefore forecast a clear year-on-year increase in net profit and RoRWA for the 2021 financial year. Our forecast is based on our original assumption that the further development of the coronavirus pandemic will not have any material impact on the credit-financed consumption behaviour of our bank customers. However, due to the existing uncertainties, we have made additional pandemic-related adjustments to the expected earnings figures.

In addition, the **further development of the pandemic could have an impact on the profit forecast for 2021**. On 19 January, 2021, the Federal Government, in conference with the premiers of the federal states, decided to extend and further tighten the lockdown. With its decision, the Federal Government reacted in particular to the mutations of the coronavirus detected in Germany so far. Santander Consumer Bank has analysed the consequences of these decisions with a view to their impact on the expected profit trend. As the further course of the infection is beyond the bank's control and the effect on the expected business development is currently difficult to estimate – in particular due to the virus mutations that have occurred – the expected profit for the 2021 financial year could also be lower.

Targets

	Target figure	Actual figure
Supervisory Board	30.0%	50.0%
Management Board	12.5%	0.0%
First reporting level (Area head)	26.0%	21.9%
Second reporting level (Department head)	26.0%	21.1%

DECLARATION ON CORPORATE GOVERNANCE

On May 1, 2015, the Act on the Equal Participation of Women and Men in Management Positions in the Private Sector and in the Civil Service came into force. The aim of the law is to increase the proportion of women in management positions and ultimately to establish gender parity. According to this law, our bank must independently determine targets for increasing the proportion of women and set deadlines for achieving them in the Supervisory Board, the Management Board and the upper management levels.

Our Supervisory Board and Management Board have set targets for the proportion of women. The deadline for achieving these goals was set at June 30, 2017. The target figures continue to apply beyond June 30, 2017. As of 31 December, 2020, the degree of target achievement for the individual variables is listed in the above table.

Although we have developed a catalogue of measures to increase the proportion of women in management positions, we have not yet been able to fully achieve the targets we set. We will continue to press ahead with the implementation of these measures in the future.

Our Diversity Committee meets twice a year. The committee monitors the development of the number of women in management positions and provides impetus for the promotion of female employees. Other initiatives include corporate seminars specifically for female high potentials and the general promotion of a work-life balance, which particularly benefits female employees and managers with children.

Mönchengladbach, 15 February 2021

The Management Board

Volpe

Donat

Thomas Hanswillemenke

Hanswillemenke

Klöpper

Silva

Balance Sheet as of 31 December 2020

of Santander Consumer Bank AG, Mönchengladbach/Germany

Assets	2020 EUR	2020 EUR	2019 TEUR	2019 TEUR
1. Cash reserve				
a) Cash-in-hand	96,444,377.49		87,246	
b) Central bank balances	5,252,463,372.52	5,348,907,750.01	3,408,486	3,495,732
of which with German Central Bank 5,252.463,372.52 (prior year TEUR 3,408,486)				
2. Receivables from banks				
a) Due on demand	129,694,339.82		103,130	
b) Other receivables	2,730,083,210.69	2,859,777,550.51	2,049,156	2,152,286
3. Receivables from customers		29,217,331,773.73		29,960,946
of which: collateralized by mortgages EUR 2,181,967,555.59 (prior year TEUR 2,433,967)				
of which: mortgage bonds EUR 2,849,107,595.69 (prior year TEUR 3,110,928)				
4. Bonds and other fixed-income securities				
a) Bonds and debentures				
aa) from public issuers	1,174,379,244.98			
ab) from other issuers	10,260,243,599.50		9,514,820	
b) Own securities	0.00	11,434,622,844.48	0	9,514,820
of which: eligible as collateral for borrowings German Central Bank EUR 9,935,111,015.08 (prior year TEUR 7,623,519)				
5. Shares and other non-fixed-income securities		70,001.62		103
6. Investments		59,054.00		59
7. Shares in affiliated companies		760,952,291.93		504,319
of which in financal institutions EUR 620,116,828.40 (prior year TEUR 363,483)				
of which in financal services institutions EUR 100,749,049.08 (prior year TEUR 100,749)				
8. Trust assets		30,668.77		65
of which loans on a trust basis EUR 30,668.77 (prior year TEUR 65)				
9. Intangible fixed assets				
a) concessions acquired for consideration, trademarks and similar rights and assets as well as licenses to such rights and assets	179,048,018.70		121,137	
b) advance payments	55,669,252.43	234,717,271.13	119,555	240,691
10. Tangible fixed assets		52,134,881.54		56,717
11. Other assets		203,589,405.60		162,844
12. Prepaid expenses				
a) from issuance business and credit business	8,198,942.91		7,396	
b) other	7,018,014.92	15,216,957.83	6,141	13,537
Total assets		50,127,410,451.15		46,102,119

Balance Sheet as of 31 December 2020

of Santander Consumer Bank AG, Mönchengladbach/Germany

Equity and liabilities	2020 EUR	2020 EUR	2020 EUR	2019 TEUR	2019 TEUR
1. Liabilities to financial institutions					
a) Due on demand		70,079,446.24		17,348	
b) Subject to agreed term or notice period		7,183,400,597.48	7,253,480,043.72	4,981,931	4,999,279
2. Liabilities to customers					
a) Savings deposits					
aa) Subject to three months' agreed notice period	898,761,956.57			956,745	
ab) Subject to agreed notice period of more than three months	1,406,342.39	900,168,298.96		2,572	
b) Other liabilities					
ba) Due on demand	15,519,442,418.32			14,527,311	
bb) Subject to agreed term or notice period	6,354,376,836.90	21,873,819,255.22	22,773,987,554.18	7,683,446	23,170,074
3. Securitised liabilities					
a) Pfandbrief		1,000,308,060.12		500,089	
b) Medium Term Notes		1,506,031,420.76	2,506,339,480.88	1,859,034	2,359,123
4. Trust liabilities			30,668.77		65
of which loans on a trust basis EUR 30,668.77 (prior year TEUR 65)					
5. Other liabilities			13,142,784,761.74		11,445,665
6. Deferred income					
a) from issuance and credit business		41,330,999.00		39,128	
b) others		2,696,628.44	44,027,627.44	2,916	42,044
7. Provisions					
a) Provisions for pensions and similar obligations		404,516,353.00		371,695	
b) Provisions for taxes		0.00		0	
c) Other provisions		280,697,368.92	685,213,721.92	317,555	689,250
8. Subordinated liabilities			185,241,836.11		110,226
9. Participatory capital			217,955,498.12		218,044
of which due within two years EUR 0.00 (prior year TEUR 0)					
10. Equity					
a) Subscribed capital					
aa) Share capital	30,002,000.00			30,002	
ab) Silent partners' capital contributions	5,112,918.81	35,114,918.81		5,113	
b) Capital reserves		3,282,774,774.98		3,032,775	
c) Revenue reserves					
ca) Legal reserve	100,213.21			100	
cb) Other revenue reserves	359,351.27	459,564.48		359	
d) Net retained profits/net accumulated losses		0.00		0	
			3,318,349,258.27		3,068,349
Total equity and liabilities			**50,127,410,451.15**		**46,102,119**
1. Contingent liabilities					
a) Liabilities under guarantees and warranty agreements			238,086,071.48		213,714
2. Other commitments					
a) Irrevocable loan commitments			999,418,733.54		1,480,468

Profit and Loss Statement

of Santander Consumer Bank AG, Mönchengladbach/Germany for the Period from 1 January to 31 December 2020

Expenses	2020 EUR	2020 EUR	2020 EUR	2019 TEUR	2019 TEUR	2019 TEUR
1. Interest expenses		203,217,232.63			218,604	
negative interest expenses		–25,778,412.01	177,438,820.62		–24,799	193,805
2. Commission expenses			315,141,420.97			323,548
3. General administration expenses						
a) Personnel expenses						
aa) Wages and salaries	222,223,693.57			233,682		
ab) Social security, post-employment costs and other employee benefits	72,446,867.48	294,670,561.05		81,859	315,541	
of which: post-employment costs EUR 33,082,607.19 (prior year TEUR 39,385)						
b) Other administration expenses		376,376,138.87	671,046,699.92		416,490	732,031
4. Amortization and write-downs of intangible assets and depreciation on, and write-downs of, tangible assets depreciation on, and write-downs of, tangible assets			55,357,483.03			59,288
5. Other operating expenses			53,467,371.88			41,737
thereof compounding and discounting effects EUR 10,922,044.93 (prior year TEUR 12,387)						
6. Write-downs of, and allowances on, receivables and certain securities as well as additions to loan loss provisions			123,718,424.95			33,150
7. Other taxes unless disclosed under item 5			803,759.25			228
8. Profits transferred on account of cash pools, profit transfer or partial profit transfer agreements			393,589,423.33			454,230
9. Net income for the financial year			0.0			0
Total expenses			1,790,563,403.95			1,838,017

Profit and Loss Statement

of Santander Consumer Bank AG, Mönchengladbach/Germany for the Period from 1 January to 31 December 2020

Income	2020 EUR	2020 EUR	2020 EUR	2019 TEUR	2019 TEUR	2019 TEUR
1. Interest income from						
a) Lending and money market transactions	1,111,829,596.88			1,151,986		
Negative interest from lending and money market transactions	−15,080,852.26	1,096,748,744.62		−13,370	1,138,616	
b) Fixed-income securities and book-entry securities		90,398,285.96	1,187,147,030.58		98,661	1,237,277
2. Current income from						
a) Shares and other non-fixed-income securities		56,780.70			37	
b) Investments		162,398.50	219,179.20		11,133	11,170
3. Income from Profit Poolings and Profit & Loss Transfer Agreements			74,066,164.36			54,219
4. Commission income			473,093,383.51			478,278
5. Other operating income			55,923,257.68			57,073
thereof compounding and discounting effects EUR 0,00 (prior year TEUR 0)						
6. Income from revaluation of investments, shares affiliated companies and securities treated as fixed assets			114,388,62			0
7. Refunded income taxes			0,00			0
Total income			1,790,563,403.95			1,838,017

Annex for the 2020 Financial Year

I. GENERAL ANNUAL FINANCIAL STATEMENT EXPLANATIONS

Santander Consumer Bank AG has its business address at Santander-Platz 1, 41061 Mönchengladbach, Germany. Its registered office is in Mönchengladbach and Santander Consumer Bank AG is registered at the Mönchengladbach Local Court under HRB 1747.

The annual financial statement for 31 December 2020 was prepared on the basis of the accounting requirements for large corporations of the German Commercial Code [Handelsgesetzbuch, HGB] and the German Accounting Ordinance for Banks and Financial Service Institutions [Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute, RechKredV].

In addition to these regulations, the German Stock Corporation Act [Aktiengesetz, AktG] and the German Mortgage Pfandbrief Act [Pfandbriefgesetz, PfandBG] had to be observed. To represent Santander Consumer Bank AG's universal banking operations appropriately, the structural requirements for Pfandbrief banks were taken into account by including an "under" remark in the respective items. Information on the mortgage Pfandbrief business is described in Section V. Other information.

II. EXPLANATION OF THE ACCOUNTING AND VALUATION METHODS

Asset and liabilities items are stated on the balance sheet and valuated under adherence to general accounting and valuation principles.

Specifically, the following accounting and valuation methods were applied:

Cash reserves are stated at their nominal value.

Receivables from financial institutions and customers are recognised at nominal value including interest accrued up to the balance sheet date and reduced by valuation allowances.

For part of the portfolio, receivables are recognised in the amount of the outstanding balances or outstanding repayment instalments minus future credit fee portions and valuation allowances.

Loan fee deferrals are posted according to the annuity method for the portfolio of Santander Consumer Bank AG which is posted according to the gross loan method.

Interest already received from third parties for a period after the balance sheet date in the amount of €20,561 thousand is reported under "deferred income".

For **credit risks in the lending business**, provisions are formed in the amount of the expected default in accordance with prudent standards. In the case of general valuation allowances, the calculation is carried out using a formula-based procedure on the basis of the expected loss ratio (loss given default LGD) and probability of default (PD) in the IFRS 9 context. For receivables that have experienced a significant increase in credit risk since origination, the expected loss over the remaining life of the receivable is recognised instead of the one-year loss.

The impact of the coronavirus pandemic was a particular macroeconomic event in 2020. With the onset of the pandemic, the macroeconomic outlook has deteriorated, necessitating a review of risk provisioning. In line with the principles of IFRS 9 regarding a forward-looking component and consistent guidance from Banco Santander across the Group, a post model adjustment of €18.5 million was recognised to reflect the deterioration in the macroeconomic environment. The main components of the Post Model Adjustment are a macroeconomic forecast from Banco Santander's Research Department, which serves as input to the forward-looking models used under IFRS 9 and provide a Group-wide methodology for forecasting loan loss provisions.

There is no obligation to separate the embedded derivative in the case of long-term loans with variable interest rates, which include a lower interest rate limit of 0%. Accordingly, these loans are uniformly accounted for according to the general principles mentioned above.

Acquisition valuations of **bonds and other fixed-income securities** are made at the respective acquisition costs. Unless they could be assigned to assets, subsequent valuations are performed according the strict lower-of-cost principle. Values are retained for projected temporary value reductions of securities in the portfolio, except for securities purchased above their nominal value. In deviation from this, securities from asset-backed securities transactions with regulatory risk transfer (Art. 243 (5) CRR) are written off if the receivables provided as collateral have actually defaulted. Where fair values were determined on the basis of models because market values were not available, current market models and cash flow analyses were used.

In December 2019, a synthetic ABS transaction was executed with an underlying customer receivables portfolio of €1,100,000 thousand. The credit protection transaction concluded in this connection in two mezzanine tranches (total volume €154,000 thousand) is recognised as loan collateral received and is not valued individually but taken into account in the valuation of the receivables portfolio.

SCB acquired 5% of the credit linked notes (CLN) issued by the SPV. These CLNs represent structured products as defined in IDW RS HFA 22 and are accounted for separately. They are broken down into their components: the underlying instrument (the issuer's debt security) and the credit default swap. The bonds are accounted and valuated as described above. The credit default swap is recognised as provided collateral and reported as a contingent liability.

Investments and shares in affiliated companies are carried at cost. If the annual impairment test shows a lower fair value and this impairment is considered to be other than temporary, the asset is written down to this lower value.

Intangible assets and **tangible fixed assets** are stated at their acquisition costs and depreciated through scheduled linear depreciation. The useful life of intangible assets is three and five years respectively. The useful lives of tangible fixed assets are generally between five and ten years. Unscheduled depreciations are performed if permanent reductions in value are projected. Advance payments are carried at acquisition cost.

Low-value assets with acquisition costs of up to €250 are written off in full in the year of acquisition. The remaining low-value assets are combined in a collective item and depreciated over a period of five years.

Other assets are reported at nominal value.

Accruals are divided into those "from issuance and loan business" and into "other". The former are released over the term in instalments via interest income, the other deferred items are released on a linear basis over the period of the consideration obligation.

Liabilities are stated at their settlement amounts, including the interest payments that accrued by the balance sheet date. The interest payment on the TLTRO III drawings depends on the net new credit business originated in certain time frames. As the accomplishment of the net new credit business goal can only be stated upon expiry of the second period (31 March, 2021), the certain applicable minimum interest payment (i. e. the main refinancing rate of zero minus 50 basispoints for the period from 24 June, 2020 to 31 December, 2020) was booked as a negative interest expense on a pro-rata basis. The minimum interest payment applies to the so called special interest period from 24 June, 2020 to 23 June, 2022.

Securitised liabilities are also recognised at their settlement amount including interest accrued up to the balance sheet date. Accruals are created for issuance discounts.

Deferred income is divided into those "from issuance and loan business" and into "other". The former are released over the term in instalments via interest income, the other deferred items are released on a linear basis over the period of the consideration obligation.

Provisions for pensions and similar obligations are valued at the repayment amount under reasonable commercial assessment. They were determined by independent actuaries using the projected unit credit method. The determination was made using insurance-mathematical principles on the basis of the 2018 G mortality tables of Prof. Dr. Klaus Heubeck. Provisions for pensions and similar comparable obligations with long-term payment dates are discounted uniformly in accordance with Section 253(2) Sentence 2 of the German Commercial Code using the average market interest rate for assumed remaining terms of 15 years. The discount rates published by the German Federal Bank in accordance with the German Regulation on the Discounting of Provisions [Rückstellungsabzinsungsverordnung, RückAbzinsV] are used. The average interest rate of the past ten years is used for provisions for pensions and similar obligations.

Other provisions are stated at the settlement amounts deemed necessary under reasonable commercial assessment and in consideration of future price and cost increases and in accordance with Section 253(1) Sentence 2 of the German Commercial Code.

The provisions for insurance cancellations are estimated on the basis of cancellation rates. Additions for provisions are charged at the expense of fee and commission income and dissolutions are included with other operating income.

In accordance with Section 253(2) Sentence 1 of the German Commercial Code, provisions with a remaining duration of more than one year are discounted at the average market interest rate of the past seven fiscal years for their remaining durations.

In accordance with Section 277(5) Sentence 1 of the German Commercial Code, income and expenses from compounding and discounting effects of provisions must be stated separately in the profit-and-loss statement. This is reported under other operating expenses or other operating income. Among other things, for the balance sheet date, other provisions included outstanding cash payment obligations with uncertain amounts for statutory deposit insurance.

Profit participation capital and subordinated liabilities are recognised at the settlement amount including accrued interest.

Contributions by silent partners are reported under equity.

Deferred taxes

A control and profit transfer agreement has existed between Santander Consumer Bank AG and Santander Consumer Holding GmbH since 23 December, 2003. Since overall the requirements of a tax group are met, all differences arising in the calculation of deferred taxes for the parent company are taken into account.

Negative interest

Negative interest from lending business and negative interest from deposit business are openly deducted respectively from interest income / expenses in the Profit & Loss statement. The net interest from interest rate swaps is recognised in interest income or interest expense, depending on the balance.

Derivative financial instruments

Interest rate swaps are used for banking book hedging and included in the loss-free valuations. Loss-free valuations are based on gap profiles. This includes all interest-bearing balance sheet items of the customer and interbank business, including all interest rate swap transactions and forward loans with their contractual cash flows and fixed interest rates. Valuations are performed by discounting and viewing individual period results periodically. Risk costs are taken into account in the amount of expected defaults. Administrative expenses are included by the share of portfolio business in the business volume. They are averaged using a weighted five-year average. Provisions were not required.

The fair values of the swaps were determined using the cash value method. The net present value method (discounted cash flow method) is a dynamic calculation in which all interest payments arising during the term of the swap are discounted to the time of valuation. The cash flows of the amortisation of the underlying transaction were taken into account in the valuation of the swaps in the context of the sales of receivables.

Foreign currency conversion is carried out in accordance with the provisions of Section 340h HGB in conjunction with Section 256a HGB. Receivables and liabilities in foreign currencies are converted at the reference rates of the European Central Bank at the end of the year. The Bank closes its currency items after each banking day so that nearly full cover for assets and liabilities in the respective currencies is ensured. The profits and losses resulting from the conversion of the respective foreign currency assets and liabilities are therefore fully included in the profit-and-loss statement.

III. INFORMATION REGARDING THE BALANCE SHEET

ASSETS

Receivables from financial institutions

The item includes receivables from affiliated companies in the amount of €2,822,304 thousand (previous year: €2,092,007 thousand).

The balance sheet disclosure of other loans and advances to financial institutions by remaining term is broken down as follows:

	€ thousand
up to 3 months	233,100
more than 3 months up to 1 year	956,000
more than 1 year up to 5 years	1,496,000
more than 5 years	39,880
plus interest	5,103

Receivables from financial institutions include subordinated loans and advances in the amount of €39,500 thousand (nominal) (previous year: €39,500 thousand nominal). In addition there are receivables in the amount of €2,687,459 thousand (nominal) (previous year: €2,006,000 thousand nominal) from financial institutions the bank has an economic interest in.

Receivables from customers

This item includes receivables from affiliated companies in the amount of €4,011,812 thousand (previous year: €3,796,324 thousand).

The balance sheet figure includes receivables with an indefinite term amounting to €930,105 thousand.

The balance sheet is broken down by remaining terms as follows:

	€ thousand
up to 3 months	2,310,478
more than 3 months up to 1 year	4,930,107
more than 1 year up to 5 years	21,045,529
more than 5 years	1,113,400

As of the balance sheet date, net receivables sold amounting to €12,771,344 thousand are reported under the item "Receivables from customers"; from a commercial law perspective, these have not been disposed of.

The Bank has set up commingling provisions of €13,396 thousand; they serve to cover the on-lending risk due to a potential commingling of securitised receivables with other assets of Santander Consumer Bank AG.

In addition, the Bank has set aside liquidity provisions of €3,811 thousand to cover the risk of non-payment until interest is paid on the highest-ranking tranche. Such a risk may arise from a failure to pass on instalment payments received and early repayments of principal.

Finally, the Bank has formed default provisions of €70,544 thousand available in the form of subordinated loans, which serve to cover counterparty default risks of borrowers.

The item "Receivables from customers" includes subordinated receivables amounting to €70,544 thousand (nominal) (previous year: €101,881 thousand nominal).

In addition, there are receivables in the amount of €3,912,006 thousand (nominal) (previous year: €3,636,960 thousand nominal) from corporate customers the bank has an economic interest in.

Debentures and other fixed-income securities

The identified bonds and other fixed-income securities are all listed on the stock exchange. This item includes bonds issued by affiliated companies in the amount of €9,910,736 thousand.

The bonds include securities with a carrying amount of €3,476,812 thousand above their fair value. Since these constituted exceptional depreciations, unscheduled depreciations under Section 253(3) Sentence 4 of the German Commercial Code were not performed. The fair value of these securities is €3,414,674 thousand. There are no indications that the repayments from these securities will be reduced.

Shares and other non-fixed-income securities

The securities reported under this item are all listed on the stock exchange.

Participations

The marketable investment in SCHUFA Holding AG reported under this item is not listed on the stock exchange.

Shares in affiliated companies

The following are also considered affiliated companies: Hyundai Capital Bank Europe GmbH, Frankfurt a.M., PSA Bank Deutschland GmbH, Neu-Isenburg, Santander Consumer Leasing GmbH, Mönchengladbach, Santander Consumer Technology Services GmbH, Mönchengladbach, Santander Consumer Operations Services GmbH, Mönchengladbach, and VCFS Germany GmbH, Cologne.

Reference is also made to the Investment Overview.

Trust business
The fiduciary assets of €31 thousand consist exclusively of receivables from customers from development loans that have been passed on. Trust liabilities are the corresponding liabilities to financial institutions.

Intangible assets and tangible fixed assets
For the classification and development of intangible assets and tangible fixed assets, please refer to the Asset Overview.

Advance payments for intangible assets include the following in particular: Advance payments for digitalisation projects and IT applications to implement banking supervisory requirements (including the new and further development of risk and credit management systems). In the year under review there were losses on disposal and write-offs from advance payments on intangible assets amounting to €9,454 thousand, as the IT projects concerned could no longer be finalised in their original form or were stopped.

Other assets
The figure shown includes receivables from profit transfer in the amount of €74,066 thousand and claims against insurance companies in the amount of €71,522 thousand.

Foreign currency assets amounted to €137,921 thousand as of the balance sheet date.

Repurchase agreements
As of the balance sheet date, bonds in the amount of €6,800,000 thousand were given as collateral under repurchase agreements with the Deutsche Bundesbank.

LIABILITIES

Liabilities to financial institutions
This item includes liabilities to affiliated companies in the amount of €112,163 thousand (previous year: €65,289 thousand). On the balance sheet, the statement of liabilities to financial institutions with an agreed maturity or notice period is broken down by remaining terms as follows:

	€ thousand
up to 3 months	88,571
more than 3 months up to 1 year	103,138
more than 1 year up to 5 years	6,976,818
more than 5 years	29,643
plus interest	55,310

The remaining term band "more than 1 year up to 5 years" includes an amount of €6,800,000 thousand from participations in the European Central Bank's longer-term refinancing program (TLTRO: Targeted Longer-Term Refinancing Operations), which consists of €1,850,000 thousand borrowed in December 2019, €2,000,000 thousand borrowed in March 2020, €1,450,000 thousand borrowed in June 2020, and €1,500,000 thousand borrowed in September 2020 under the TLTRO III program.

The liabilities from TLTRO transactions are fully secured by financial securities.

Liabilities to customers
This item includes liabilities to affiliated companies in the amount of €2,511,968 thousand (previous year: €1,746,522 thousand).

Deposits with an agreed period of notice are broken down by remaining terms as follows:

	€ thousand
up to 3 months	1,372
more than 3 months up to 1 year	24
more than 1 year up to 5 years	11
more than 5 years	0

On the balance sheet, the statement of other liabilities to customers with an agreed maturity or notice period is broken down by remaining terms as follows:

	€ thousand
up to 3 months	1,533,036
more than 3 months up to 1 year	1,614,842
more than 1 year up to 5 years	3,109,013
more than 5 years	97,485

Securitised liabilities
Mortgage Pfandbriefe amounting to €1,000,308 thousand are reported under securitised liabilities.

Medium-term notes in the amount of €1,001,031 thousand and commercial papers with a volume of €505,000 thousand are reported under bonds. €505,000 thousand of the securitised liabilities become due in the following year.

Valuation Assumptions as of 31 December 2020

Obligation type	Discount rate*	Wage trend	Pension trend	BBG trend	Fluctuation**
Pensions	2.30%	2.75%	1.90%	2.75%	2.50%
Deferred compensation	2.30%	–	–	2.75%	2.50%

* according to the Ordinance on the Discounting of Provisions dated 18 November, 2009
** according to company-specific assessment

Other liabilities
This item primarily includes liabilities from asset-backed securities transactions (ABS transactions) to special purpose vehicles (SPVs) in the amount of €12,711,344 thousand. This amount includes all passthrough obligations from the sale of receivables. Cash collateral in the amount of €17,207 thousand was provided for liabilities from ABS transactions. A liability of €393,589 thousand is reported for the year under review from the profit and loss transfer agreement and similar agreements (silent partnership) with Santander Consumer Holding GmbH, Mönchengladbach; this includes interest for the silent partnership of €1,534 thousand (before deduction of capital gains tax and solidarity surcharge).

Foreign currency liabilities amounted to €135,401 thousand as of the balance sheet date.

Provisions for pensions and similar obligations
Provisions for pensions and similar obligations amount to €404,516 thousand. The parameters in accordance with the German Regulation of November 18, 2009 on the Discounting of Provisions, on which the calculation is based, are shown in the above table.

Discounting the provision for pensions and deferred compensations at the average market interest rate of the past ten years compared to discounting at the average market interest rate of the past seven years results in a difference of €55,452 thousand. There is no block on the transfer of funds for this purpose.

Other provisions
The reported figure primarily includes provisions for insurance cancellations of €72,525 thousand, for personnel costs of €72,715 thousand, for bonus payments to dealers of €66,084 thousand for material costs of €38,553 thousand for material costs. Provisions for personnel costs include provisions for restructuring of €23,339 thousand and for social plans and other severance payments of €16,071 thousand. For the discounting of provisions, the interest rates in accordance with Section 253(2) of the German Commercial Code as of November, 2020 range between 0.45% and 1.64%, depending on the remaining term.

Subordinated liabilities
After Santander Consumer Holding had raised a subordinated liability of €110,000 thousand in 2019 with an interest rate of 1.77% above three-month Euribor and a maturity of ten years starting 06 November, 2019, Santander Consumer Holding raised another subordinated liability of €75,000 thousand in the year under review with an interest rate of 3.04% above three-month Euribor and a maturity of ten years starting 25 June, 2020. The Interest expenses totalled €242 thousand in the financial year 2020. An obligation to make premature repayment is contractually excluded. Repayment on a voluntary basis is possible after five years at the earliest and must be announced three months in advance. An additional condition is the prior approval of the competent supervisory authorities.

The loans are subordinated as defined in Article 63 sentence 1 (d) CRR and are eligible as Tier 2 (supplementary capital). The loans are bail-in eligible under Article 59 BRRD and can be both written down and converted into Tier 1 capital by the relevant resolution authority, provided that the authority decides to apply this resolution measure.

Profit participation capital
As of the balance sheet date, the total amount of profit participation rights issued was €217,955 thousand (including accrued interest of €7,725 thousand).

A total of 17 profit participation rights are perpetual (nominal €210,231 thousand); however, they may be terminated by Santander Consumer Bank AG after a minimum term of five years, subject to a notice period of at least two years, in each case at the end of the financial year. The profit participation right holder has no right of termination.

The profit-sharing rights issued grant creditors' rights but do not include shareholder rights, in particular the right to attend, participate in, and vote at the Annual General Meeting of Santander Consumer Bank AG. In the event of a profit, the profit participation certificates carry interest. Profit participation rights with a fixed interest rate exist in the amount of €112,231 thousand, and with a variable interest rate in the amount of €98,000 thousand. The total interest expense for profit participation rights in the year under review was €7,725 thousand.

Disclosures pursuant to Section 152 (1) AktG

Share capital
On the balance sheet date, the share capital of Santander Consumer Bank AG amounted to €30,002 thousand. All shares (30,002 bearer shares with a nominal value of €1 thousand each) were held by the sole shareholder, Santander Consumer Holding GmbH, Mönchengladbach.

Contributions from silent partners
The shareholder Santander Consumer Holding GmbH holds a silent partnership in the amount of thousand €5,113 thousand. The shareholder agreement is concluded for an indefinite period of time. Either contracting party may terminate the silent partnership at the end of each fiscal year with a two-year notice period.

This silent partnership does not meet the requirements for additional core capital according to Art. 51 CRR. However, as it met the requirements for other capital as defined in of Section 10(2a) sentence 1 no. 10 KWG in conjunction with Section 64m(1) KWG in the version applicable until 31 December 2013, the Bank may utilise the transitional arrangements in accordance with Art. 486(4) CRR in conjunction with Section 31 SolvV. With partially declining amounts which amounted to €1,534 thousand during the reporting period, the silent participation may partially be credited to additional core capital. The portion that can no longer be recognised as core capital is reported as supplementary capital in accordance with the new legal situation.

Capital reserve
In the year under review, the capital reserve was increased by €250,000 thousand to €3,282,775 thousand. The allocation to the capital reserve was made by Santander Consumer Holding GmbH in accordance with Sections 266(3A II) and 272(2) (4) HGB.

Off-balance sheet transactions
The Bank's off-balance sheet items include contingent liabilities and irrevocable loan commitments below the line for which no provisions were created.

Contingent liabilities
This item includes guarantees in the amount of €214,083 thousand, import letters of credit in the amount of €19,559 thousand, and an obligation from a credit-linked note (CLN) in the amount of €4,444 thousand.

Risks from the utilisation of contingent liabilities are reflected in a risk provision.

Other obligations
Other obligations existed exclusively in the form of irrevocable loan commitments.

Irrevocable loan commitments
Irrevocable loan commitments amounted to €999,419 thousand. These primarily relate to instalment and mortgage loans (€839,419 thousand), a loan commitment to Sixt Leasing SE (€110,000 thousand), and a loan commitment to Hyundai Capital Bank Europe GmbH (€50,000 thousand).

The irrevocable loan commitments generally lead to short-term liquidity losses. Their benefit is that they generate future interest income.

There are no particular default risks due to irrevocable loan commitments. Therefore, the risk of utilisation is considered low.

IV. NOTES ON THE PROFIT AND LOSS STATEMENT

Expenses
Other operating expenses
Other operating expenses include in particular expenses from the loss of asset disposals of €26,311 thousand, expenses for operational risks, such as claims or goodwill payments, of €14,797 thousand, and expenses from the compounding of provisions of €10,922 thousand.

Taxes on income and earnings
As the parent company, the Santander Consumer Holding GmbH, Mönchengladbach, has constituted a tax entity in the Federal Republic of Germany since 1 January 1993. This tax entity includes corporate, trade and income taxes.

Profits transferred under a profit pooling, profit transfer, or partial profit transfer agreement
Based on the control and profit transfer agreement, a profit of €392,055 thousand was transferred to Santander Consumer Holding GmbH, Mönchengladbach, for the year under review. Interest from a silent partnership is paid in the amount of €1,534 thousand (before deduction of capital gains tax and the solidarity surcharge).

Earnings

Other operating income
This item mainly includes non-period income the reversal of provisions of €26,585 thousand from other periods, income from affiliated companies from cost reimbursements of €14,470 thousand, and extraordinary income, mainly insurance reimbursements, of €4,272 thousand.

Currency conversion
Contributions to income from currency translation increased other operating income by €207 thousand (previous year: €212 thousand).

V. OTHER INFORMATION

Derivatives

As of the balance sheet date, there were 7 interest rate swaps with a total nominal amount of €2,532,473 thousand. These contracts serve to manage interest rate fluctuation risks.

Taking into account the sum of the positive fair values (excluding accrued interest) of €15,247 thousand and the sum of the negative fair values (excluding accrued interest) of €1,905 thousand, results in a total positive amount (excluding accrued interest) of €13,342 thousand.

Six of the above-mentioned interest rate swaps were concluded as back-to-back swaps as part of the sale of receivables. As of the balance sheet date, these swaps had a total nominal volume of €2,032,473 thousand.

Other obligations

For the financial year 2021, the Bank has mainly rental, leasing, and other contractual and contribution obligations, including those arising from membership in the Entschädigungseinrichtung deutscher Banken GmbH, totalling €73,343 thousand. Of this amount, €11,666 thousand is attributable to affiliated companies. A similar level of charges is expected in subsequent years. The remaining durations of these contracts are up to 15 years.

The rental and other contractual obligations primarily consist of rental contracts concluded for office and business equipment. Furthermore, the Bank especially concluded lease contracts for office and business equipment and company cars with the Santander Consumer Leasing GmbH.

The total amount of other obligations includes the irrevocable payment obligation to the statutory deposit insurance, the voluntary deposit insurance, and the Single Resolution Board (SRB).

In the 2020 financial year, total administrative expenses of €35,202 thousand were incurred for rental and lease obligations.

The purpose of these rental and lease contracts is to finance and obtain necessary operating capital. After the current contracts expire, risks may result from requirements to conclude subsequent contracts with greater costs.

One of the main advantages of these transactions is that no capital is tied up in the procurement of fixed assets required for operations. In addition, the leasing financing gives the bank the opportunity to secure the current level of technical development in the short term. This also enables the bank to avoid the realisation risk.

The purpose of membership in the statutory deposit insurance scheme is to compensate the Bank's creditors for non-repaid deposits in the event of compensation. Risks arise in particular from the increasing number of compensation cases. The risk is reduced by the mandatory collection of annual contributions until 2024.

Control agreements exist with SCTS GmbH and SCOS GmbH; these obligate the bank to assume any losses.

Pfandbrief circulation in accordance with Section 28 PfandBG

Pfandbrief and cover used

Santander Consumer Bank AG does not use derivatives for cover; foreign currencies are not in circulation or included in the cover assets. The risk-adjusted present value was determined statistically.

Calculation of Cover Assets in Accordance with Section 35(1) Number 7 of the German Accounting Ordinance for Banks and Financial Service Institutions

Cover of Pfandbrief circulation

	31/12/2020 (in € million)	31/12/2019 (in € million)
Ordinary cover		
Receivables from customers	1,117	1,030
	1,117	**1,030**
Further cover assets		
Bonds from other issuers	0	0
Balances with central banks	50	50
Total cover assets	**1,167**	**1,080**
Total amount in circulation requiring cover	**1,000**	**500**
The excess cover is as follows	**167**	**580**

Term Structure in Accordance with Section 28(1) Number 2 PfandBG

	Pfandbrief Circulation (in € million)		**Cover Assets (in € million)**	
	31/12/2020	31/12/2019	**31/12/2020**	31/12/2019
up to six months	**0**	0	**127**	101
more than six months up to twelve months	**0**	0	**80**	61
more than twelve months up to 18 months	**0**	0	**68**	73
more than 18 months up to 2 years	**0**	0	**59**	73
more than 2 years up to 3 years	**0**	0	**107**	109
more than 3 years up to 4 years	**500**	0	**119**	92
more than 4 years up to 5 years	**0**	500	**130**	102
more than 5 years up to 10 years	**500**	0	**391**	393
over ten years	**0**	0	**86**	75

Statement of Cover Assets in Accordance with Section 28(1) Nos. 1 and 3 PfandBG

	Nominal value		Cash value		Risk-adjusted cash value	
	31/12/2020	31/12/2019	**31/12/2020**	31/12/2019	**31/12/2020**	31/12/2019
Total Pfandbrief circulation (in € million)	**1,000**	500	**1,023**	508	**1,150**	473
Total asset cover amount (in € million)	**1,167**	1,080	**1,277**	1,181	**1,381**	1,101
Excess cover in percent	**16.75**	115.96	**24.79**	132.40	**20.04**	132.74

Total Number of Registered Claims (Information pursuant to Section 28(1) Nos. 4, 5 and 6 PfandBG)

There are no foreign cover assets.

	Compensation claims as defined in Section 19(1) No. 1 PfandBG		Receivables as defined in Section 19(1) No. 2 PfandBG				Receivables as defined in Section 19(1) No. 3 PfandBG		Total	
			Total		of which covered bonds					
	31/12/2020	31/12/2019	**31/12/2020**	31/12/2019	**31/12/2020**	31/12/2019	**31/12/2020**	31/12/2019	**31/12/2020**	31/12/2019
none	**0**	0	**50**	50	**0**	0	**0**	0	**50**	50
Total	**0**	**0**	**50**	**50**	**0**	**0**	**0**	**0**	**50**	**50**

Further Key Figures on the Cover Assets

		31/12/2020	31/12/2019
Total amount of claims exceeding the limitations in accordance with Section 13(1) PfandBG (Section 28 (1) No. 7 PfandBG)	in € million	**0**	0
Total amount of claims exceeding the limits of Section 19(1) No. 2 PfandBG (Section 28(1) No. 8 PfandBG)	in € million	**0**	0
Total amount of claims exceeding the limits of Section 19(1) No. 3 PfandBG (Section 28(1) No. 8 PfandBG)	in € million	**0**	0
Share of fixed-interest assets (Section 28(1) No. 9 PfandBG)	as a percentage	**100**	100
Share of fixed-interest Pfandbrief (Section 28(1) No. 9 PfandBG)	as a percentage	**100**	100
Volume-weighted average age of the receivables (Section 28(1) No. 11 PfandBG)	in years	**7.38**	7.18

Members of the Supervisory Board in the fiscal year:

Mónica López-Monís Gallego (Chairperson)
Madrid, Bank Director of Banco Santander S.A., Spain

Martina Liebich (Deputy Chairwoman)
Berlin, bank employee of Santander Consumer Bank AG, employee representative

José Luis de Mora Gil-Gallardo (until 29/02/2020)
Madrid, Bank Director of Banco Santander S.A., Spain

Rafael Moral-Salarich (since 01/03/2020)
Madrid, Bank Director of Santander Consumer Finance S.A., Spain

Cristina San José Brosa
Madrid, Bank Director of Banco Santander S.A., Spain

Adelheid Sailer-Schuster
Berlin, Senior Advisor to Santander Consumer Finance S.A., Spain

Magdalena Sofia Salarich Fernández de Valderrama (until 31/01/2020)
Madrid, Bank Director of Santander Consumer Finance S.A., Spain

Dirk Marzluf (since 01/02/2020)
Winterthur, Bank Director of Banco Santander S.A., Spain

Inés Serrano González
Madrid, Bank Director of Santander Consumer Finance S.A., Spain

Paloma Esteban
Duisburg, bank employee of Santander Consumer Bank AG, employee representative

Uwe Foullong
Bottrop, Deputy Managing Director Düssel-Rhein-Wupper ver.di district, employee representative

Peter Blümel
Mönchengladbach, bank employee of Santander Consumer Bank AG, employee representative

Stefan Eck
Frechen, bank employee of Santander Consumer Bank AG, employee representative

Thomas Schützelt
Leipzig, bank employee of Santander Consumer Bank AG, employee representative

Members of the Management Board in the fiscal year:

Vito Volpe
Madrid, Chief Executive Officer

Oliver Burda (until 31/12/2020)
Mönchengladbach, Deputy Chairman of the Executive Board

Walter Donat
Düsseldorf, Member of the Management Board

José María Echanove Labanda (until 31/12/2020)
Düsseldorf, Member of the Management Board

Thomas Hanswillemenke
Dormagen, Member of the Management Board

Jochen Klöpper
Vienna, Member of the Management Board

Fernando Silva
Mönchengladbach, Member of the Management Board

Seats held in legally required supervisory bodies of large corporations

Walter Donat, member of the Management Board of Santander Consumer Bank AG, is Chairman of the Supervisory Board of PSA Bank Deutschland GmbH and, since 1 January, 2021, member of the Supervisory Board of Santander Consumer Operations Services GmbH.

José María Echanove Labanda, member of the Management Board of Santander Consumer Bank AG until 31 December, 2020 was Chairman of the Supervisory Board of Santander Consumer Operations Services GmbH until 31 December, 2020.

Thomas Hanswillemenke, member of the Management Board of Santander Consumer Bank AG, is a member of the Supervisory Board of Sixt Leasing SE, a member of the Supervisory Board of Santander Consumer Operations Services GmbH, and a member of the Supervisory Board of Hyundai Capital Bank Europe GmbH.

Jochen Klöpper, member of the Management Board of Santander Consumer Bank AG, is Chairman of the Supervisory Board of Sixt Leasing SE and is Chairman of the Supervisory Board of Hyundai Capital Bank Europe GmbH.

Fernando Silva, member of the Management Board of Santander Consumer Bank AG, is a member of the Supervisory Board of Santander Consumer Operations Services GmbH and has been its Chairman since 1 January, 2021.

Remuneration of Management Board and Supervisory Board

The total remuneration of the members of the Management Board in the financial year amounted to €4,714 thousand. Former members of the Management Board and surviving dependants of members of the Management Board received total remuneration of €1,107 thousand. Pension reserves for former members amounted to €22,845 thousand on the balance sheet date. The total remuneration of the members of the Management Board included bonuses of €307 thousand in the form of shares (of Banco Santander S.A., Santander, Spain) with a one-year holding period and €922 thousand, which will only be paid as a deferred bonus in the next five years. The deferred bonus comprises a further €461 thousand in the form of share payments. The 2020 bonus comprises shares with a fair value of €768 thousand. In addition, the total remuneration also included a non-share-based bonus, the amount of which is based on the achievement of individual and company-wide targets. Disbursements will be made next year after the final bonus has been determined.

Santander Consumer Bank AG paid the Supervisory Board attendance fees totalling €21 thousand for its activities in 2020.

Advances and loans granted to members of the Management Board and the Supervisory Board

As of the balance sheet date, there was an outstanding balance of €7 thousand to members of the Management Board pursuant to Section 15(1) sentence 1 no. 1 of the KWG and of €15 thousand to members of the Supervisory Board.

As of the balance sheet date, members of the Management Board had been granted guarantees in the amount of €12 thousand and members of the Supervisory Board had been granted guarantees in the amount of €1 thousand.

Services provided to third parties

Santander Consumer Bank AG provided the following services to third parties: Securities account management, wealth management as well as the mediation of insurances or home savings contracts.

Annual average number of employees

On average, Santander Consumer Bank AG employed 3,075 people during the year: 1,489 female and 1,586 male employees.

Geographic markets

As the markets in which Santander Consumer Bank AG operates do not differ significantly geographically, there is no breakdown by geographical market.

Total auditor's fee

The auditor's total fee amounted to €4,481 thousand excluding VAT. The expenses break down as follows:

	€ thousand
Audit service fee	3,804
other confirmation services	660
other services	17

Within the auditor's fees €271 thousand refer to prior years.

Other confirmation services included the audit under Section 89 of the German Securities Trading Act [Wertpapierhandelsgesetz, WpHG], the TLTRO report and the issuance of a comfort letter, the process audit and random sample audit in accordance with Section V No. 11 (1) of the General Terms and Conditions of the Deutsche Bundesbank as well as the audit of the deductible items in accordance with Section 16j (2) sentence 2 FinDAG.

Other services include fees for project-related consulting services.

Significant contracts

With effect from 1 January, 2004, a controlling and profit transfer agreement was concluded between Santander Consumer Finance Germany GmbH, Mönchengladbach, and Santander Consumer Bank AG. Santander Consumer Finance Germany

GmbH was merged with Santander Consumer Holding GmbH with effect from 1 January 2009. Since then, the controlling and profit transfer agreement with Santander Consumer Holding GmbH has continued to exist.

The sole shareholder of Santander Consumer Bank AG is Santander Consumer Holding GmbH, Mönchengladbach.

Disclosures according to CRR and Section 26a KWG
The return on assets in the financial year was 0.79%.

With regard to the information to be disclosed in accordance with Part 8 of the CRR, which is not included in the annual financial statements, we refer to our disclosure report, which is published on our website www.santander.de. The information can be found in the "About Santander" section under "Investor Relations" and there under "Disclosure".

LIST OF SHAREHOLDINGS

	Share in Capital (as a percentage)	Equity 2019 (in € thousands)	Annual Results 2019 (in € thousands)
Santander Consumer Leasing GmbH, Mönchengladbach	100.00	20,025	*
Santander Consumer Technology Services GmbH, Mönchengladbach	100.00	15,245	1,282
Santander Consumer Operations Services GmbH, Mönchengladbach	100.00	10,124	1,065
Hyundai Capital Bank Europe GmbH, Frankfurt a. M.	51.00	202,074	–17,091
PSA Bank Deutschland GmbH, Neu-Isenburg	50.00	516,345	45,720
VCFS Germany GmbH, Cologne	50.00	279	65
Schufa Holding AG, Wiesbaden	0.55	118,321	41,120

* Profit and loss transfer agreement, therefore no information on the result

SCHEDULE OF ASSETS

Development of Fixed Assets in the Financial Year 2020

Histor. acquisition and production costs	01/01/2020 Euro	Acquisitions Euro	Disposals Euro	Transfers Euro	31/12/2020 Euro
Intangible assets					
Purchased concessions, commercial copyrights and similar right and values and licenses to such rights and values	775,780,048.72	33,527,625.60	36,545,361.15	83,635,638.54	856,397,951.71
Goodwill	0.00	0.00	0.00	0.00	0.00
Advance payments made	119,554,610.27	28,895,434.22	9,145,153.52	–83,635,638.54	55,669,252.43
	895,334,658.99	**62,423,059.82**	**45,690,514.67**	**0.00**	**912,067,204.14**
Tangible fixed assets					
Real estate, rights equivalent to real estate and buildings, including buildings on third-party property	3,173,376.50	49,812.73	0.00	1,303.05	3,224,492.28
Operating and office equipment	43,647,339.07	4,344,492.27	9,764,604.54	457,587.67	38,684,814.47
Fittings/installations in rented premises	94,946,228.33	3,060,505.65	4,180,508.44	655,184.46	94,481,410.00
Advance payments made	1,860,395.68	1,172,464.77	174,620.92	–1,114,075.18	1,744,164.35
	143,627,339.58	**8,627,275.42**	**14,119,733.90**	**0.00**	**138,134,881.10**
Bonds and other fixed-income securities					
Securities held as fixed assets*	9,509,399,335.31	4,722,202,742.03	2,802,542,585.93	0.00	11,429,059,491.41
Participations	1,932,270.31	0.00	1,873,216.31	0.00	59,054.00
Shares in affiliated companies	504,318,675.03	256,633,616.90	0.00	0.00	760,952,291.93
Total financial assets	**10,015,650,280.65**	**4,978,836,358.93**	**2,804,415,802.24**	**0.00**	**12,190,070,837.34**
Total	**11,054,612,279.22**	**5,049,886,694.17**	**2,864,226,050.81**	**0.00**	**13,240,272,922.58**

* The balance sheet item bonds and debentures includes accrued interest in the amount of €11,054,435.19

SCHEDULE OF ASSETS

Development of Fixed Assets in the Financial Year 2020

Accumulated Depreciation	01/01/2020 Euro	Attributions Euro	Additions Euro	Resolutions Euro	Transfers Euro	31/12/2020 Euro
Intangible assets						
Purchased concessions, commercial copyrights and similar right and values and licenses to such rights and values	654,643,232.95	0.00	44,667,925.28	21,961,225.22	0.00	677,349,933.01
Goodwill	0.00	0.00	0.00	0.00	0.00	0.00
Advance payments made	0.00	0.00	0.00	0.00	0.00	0.00
	654,643,232.95	**0.00**	**44,667,925.28**	**21,961,225.22**	**0.00**	**677,349,933.01**
Tangible fixed assets						
Real estate, rights equivalent to real estate and buildings, including buildings on third-party property	371,140.36	0.00	138,630.75	0.00	0.00	509,771.11
Operating and office equipment	28,914,719.89	0.00	5,266,812.94	9,143,729.47	0.00	25,037,803.36
Fittings/installations in rented premises	57,624,087.88	0.00	6,499,613.67	3,671,276.46	0.00	60,452,425.09
Advance payments made	0.00	0.00	0.00	0.00	0.00	0.00
	86,909,948.13	**0.00**	**11,905,057.36**	**12,815,005.93**	**0.00**	**85,999,999.56**
Bonds and other fixed-income securities						
Securities held as fixed assets*	114,388.62	0.00	5,491,082.13	114,388.62	0.00	5,491,082.13
Participations	1,873,215.31	0.00	0.00	1,873,215.31	0.00	0.00
Shares in affiliated companies	0.00	0.00	0.00	0.00	0.00	0.00
Total financial assets	**1,987,603.93**	**0.00**	**5,491,082.13**	**1,987,603.93**	**0.00**	**5,491,082.13**
Total	**743,540,785.01**	**0.00**	**62,064,064.77**	**36,763,835.08**	**0.00**	**768,841,014.70**

* The balance sheet item bonds and debentures includes accrued interest in the amount of €11,054,435.19

SCHEDULE OF ASSETS

Development of Fixed Assets in the Financial Year 2020

Net book values	**31/12/2020 Euro**	31/12/2019 Euro
Intangible assets		
Purchased concessions, commercial copyrights and similar right and values and licenses to such rights and values	**179,048,018.70**	121,136,815.77
Goodwill	**0.00**	0.00
Advance payments made	**55,669,252.43**	119,554,610.27
	234,717,271.13	**240,691,426.04**
Tangible fixed assets		
Real estate, rights equivalent to real estate and buildings, including buildings on third-party property	**2,714,721.17**	2,802,236.14
Operating and office equipment	**13,647,011.11**	14,732,619.18
Fittings/installations in rented premises	**34,028,984.91**	37,322,140.45
Advance payments made	**1,744,164.35**	1,860,395.68
	52,134,881.54	**56,717,391.45**
Bonds and other fixed-income securities		
Securities held as fixed assets*	**11,423,568,409.28**	9,509,284,946.69
Participations	**59,054.00**	59,055.00
Shares in affiliated companies	**760,952,291.93**	504,318,675.03
Total financial assets	**12,184,579,755.21**	**10,013,662,676.72**
Total	**12,471,431,907.88**	**10,311,071,494.21**

* The balance sheet item bonds and debentures includes accrued interest in the amount of €11,054,435.19

Group affiliation

The immediate parent company is Santander Consumer Holding GmbH, Mönchengladbach. It is included in the scope of consolidation of Banco Santander S.A., Santander, Spain.

Banco Santander S.A. prepared an exempting consolidated financial statement for 31 December 2020 in accordance with IFRS.

Santander Consumer Bank AG, Mönchengladbach, is released from the obligation to prepare a consolidated financial statement and a group management report.

The parent company that prepares consolidated financial statements for the largest group of companies is Banco Santander S.A., Santander, Spain. These financial statements are published in the electronic version of the Federal Gazette.

The lowest parent company to prepare consolidated financial statements is Santander Consumer Finance S.A., Madrid, Spain, which is included in the scope of consolidated companies of Banco Santander S.A., Santander, Spain. These consolidated financial statements are filed with the Spanish Commercial Register.

Mönchengladbach, 15 February 2021

The Management Board

Volpe

Donat

Thomas Hanswillemenke

Hanswillemenke

Klöpper

Silva

INDEPENDENT AUDITOR'S REPORT

To Santander Consumer Bank Aktiengesellschaft, Mönchengladbach

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

Audit Opinions

We have audited the annual financial statements of Santander Consumer Bank Aktiengesellschaft, Mönchengladbach, which comprise the balance sheet as at 31 December 2020, and the statement of profit and loss for the financial year from 1 January to 31 December 2020 and notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of Santander Consumer Bank Aktiengesellschaft for the financial year from 1 January to 31 December 2020. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to § [Article] 289f Abs. [paragraph] 4 HGB [Handelsgesetzbuch: German Commercial Code] (disclosures on the quota for women on executive boards).

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2020 and of its financial performance for the financial year from 1 January to 31 December 2020 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of the statement on corporate governance referred to above.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Audit Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2020. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1. Measurement of customer loan portfolios
2. Reporting of interest income and commission income
3. Audit and measurement of provisions required in the context of the restructuring projects

Our presentation of these key audit matters has been structured in each case as follows:

1) Matter and issue
2) Audit approach and findings
3) Reference to further information

Hereinafter we present the key audit matters:

1. Measurement of customer loan portfolios

1) In the Company's annual financial statements loan receivables amounting to € 29.2 billion (58,3 % of total assets) are reported under the "Loans to customers" balance sheet item. As at December 31, 2020, risk provisions for the loan portfolio consisting of individual and general valuation allowances are reported in the balance sheet. The measurement of the risk provisions for the customer lending business is determined in particular by the executive directors' estimates with respect to future loan defaults among other things taking into consideration the expected effects of the ongoing Corona crisis on the customer lending business, the structure and quality of the loan portfolios and general economic factors. The amount of the individual valuation allowances for customer loans reflects the difference between the outstanding amount of the loan and the lower value assigned to it as at the balance sheet date. Existing collaterals are taken into account. For the first time, the company has recognised so-called post-model adjustments in the calculation of risk provisions. These are for loans and advances to customers and serve to take into account the existing uncertainties as a result of the Corona crisis in order to adequately reflect the principle of prudence. The amounts of the valuation allowances in the customer lending business are highly significant for the assets, liabilities and financial performance of the Company and they involve considerable judgment on the part of the executive directors. Furthermore, the measurement parameters applied, which are subject to material uncertainties, also due the effects of the Corona crisis, have a significant impact on the recognition and the amount of any valuation allowances required. Against this background, this matter was of particular significance during our audit.

2) As part of our audit, we initially assessed the appropriateness of the design of the controls in the Company's relevant internal control systems and tested the controls' effectiveness. In doing so, we considered the business organization, the IT systems and the relevant measurement models. Moreover, we evaluated the measurement of the customer loans, including the appropriateness of estimated values, on the basis of sample testing of loan exposures. For this purpose, we assessed, among other things, the available documentation of the Company with respect to the economic circumstances as well as the recoverability of the related collaterals. In addition, for the purpose of assessing the individual and general valuation allowance, we evaluated the calculation method together with the underlying assumptions and parameters. In particular, we also evaluated the estimation of the executive directors with regard to the effects of the Corona crisis on the economic situation of the customers and the recoverability of the respective collaterals, and we examined their consideration in the valuation of the loans and advances to customers. We have examined the requirement for the recognition of post-model adjustments and have assessed how they are calculated. Based on our audit procedures, we were able to satisfy ourselves that overall the assumptions made by the executive directors for the purpose of testing the recoverability of the loan portfolio are appropriate, and that the controls implemented by the Company are appropriate and effective.

3) The Company's disclosures on risk provisions in the customer lending business are contained in section II (disclosures relating to the accounting policies) of the notes to the financial statements.

2. Reporting of interest income and commission income

1) In the financial statements of Santander Consumer Bank Aktiengesellschaft, the income statement shows interest income of €1,187.1 million and commission income of €473.1 million. These items, which are significant in terms of amount, are subject to a special risk in view of the complexity of the systems required for accurate recording and accrual, the large number of transactions to be processed and the significant influence of estimated values in some areas. The estimated values relate in particular to provisions for insurance cancellations in the amount of €72.5 million, which are estimated on the basis of cancellation rates derived from historical data and taken into account to reduce earnings. Against this background, this matter was of particular importance within the scope of our audit.

2) Within the scope of our audit, we first assessed the controls in the product-specific business processes from the initial recognition of the various business transactions in the inventory management systems to the depiction of the resulting income in the general ledger in terms of their appropriateness and effectiveness.

In addition, we also examined, among other things, the appropriate determination and representation of the various income components in random samples.

We also assessed the appropriate and consistent application of the valuation models for components that reduce income and the comprehensibility of the valuation parameters and assumptions applied.

We were able to satisfy ourselves that the systems and controls set up are appropriate and that the estimates and assumptions made by the executive directors are sufficiently documented and justified to ensure the appropriate reporting of interest and commission income.

3) The Company's disclosures about interest income and commission income as well as provisions chargeable to profit and loss are contained in the notes on the accounting policies in section II (disclosures relating to the accounting policies) and section III (disclosures relating to the balance sheet).

3. Audit and measurement of provisions required in the context of the restructuring projects

1) Santander Consumer Bank Aktiengesellschaft launched an extensive restructuring project in 2019 to reduce costs by cutting about 350 jobs. The company has announced further restructuring measures in the financial year 2020. The reduction of the headcount is to be achieved both through voluntary programmes (severance payments and early retirement programmes) and through fluctuation. Provisions for uncertain liabilities are to be set up in accordance with § 249 (1) sentence 1 HGB. For this purpose, there must be an external obligation that legally arose or was economically caused in the past, and a serious expectation that it will be claimed. If the necessary recognition criteria are met, there is an obligation to form a restructuring provision. In its assessment, the Company has come to the conclusion that the recognition criteria were met as of December 31, 2020 and has accordingly recognized restructuring provisions for severance payments and early retirement programs. The provisions for social plans and other severance payments amount to €29.4 million as of the balance sheet date, the majority of which is attributable to the provision for the restructuring project. From our point of view, this matter is of particular importance as the accounting for restructuring provisions is based to a large extent on estimates and assumptions by the executive directors and these have a significant influence on the formation or the amount of any provisions to be formed.

2) In our audit, we assessed whether the necessary recognition criteria were met. We have obtained the relevant evidence from the Company's executive directors. The status of the information provided to the employee representatives by the executive directors was also the subject of our assessment. In addition, we assessed the Bank's valuations of the individual components of the provisions with regard to their suitability, methodology and comprehensibility of the valuation. This has enabled us to gain an understanding of the underlying data, value parameters and assumptions made, to critically assess them and to judge whether they are within a reasonable range. In addition, we examined the correctness of the initial data used in the calculations on a random basis. We were able to satisfy ourselves that the facts of the case and the estimates and assumptions made by the executive directors for the recognition of a restructuring provision are sufficiently documented and justified. Overall, the valuation parameters and assumptions applied by the executive directors are in line with our expectations and are also within the ranges that we consider to be acceptable.

3) The Company's disclosures about provisions are contained in the notes to the annual financial statements, section II (disclosures relating to the accounting policies) and section III (disclosures relating to the balance sheet).

Other Information

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to § 289f Abs. 4 HGB (disclosures on the quota for women on executive boards).

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited annual financial statements, the audited management report and our auditor's report.

Our audit opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Annual Financial Statements and the Management Report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not

express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on 26 February 2020. We were engaged by the supervisory board on 30 November 2020. We have been the auditor of the Santander Consumer Bank Aktiengesellschaft, Mönchengladbach without interruption since the financial year 2016.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Peter Goldschmidt.

Düsseldorf, 19 February 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Peter Goldschmidt	ppa. Matthias Türck
Wirtschaftsprüfer	Wirtschaftsprüfer

Imprint

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Responsibilty: Investor Relations

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This Annual Report is also available in German.
Both versions are available online: https://www.santander.de/ueber-santander/investor-relations/financial-information

The German version of this Annual Report is the authoritative version and only the German version of the Management Report and the Financial Statements was audited by the auditors.

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