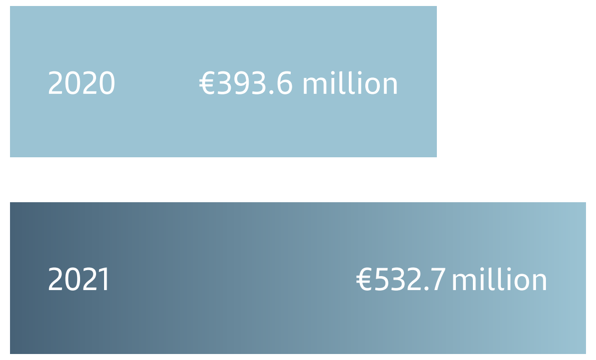
Santander
Your bank. Anytime. Anywhere.

Annual Report 2021

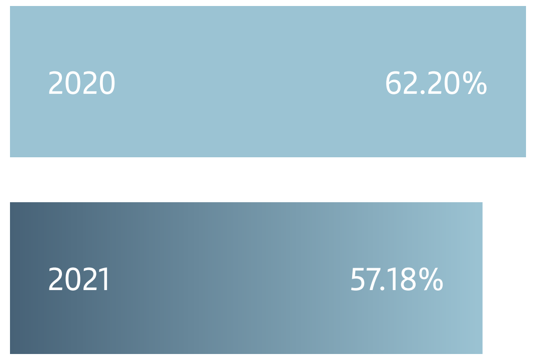
Snapshot of Success Numbers

Profit and Loss Figures Santander Consumer Bank AG

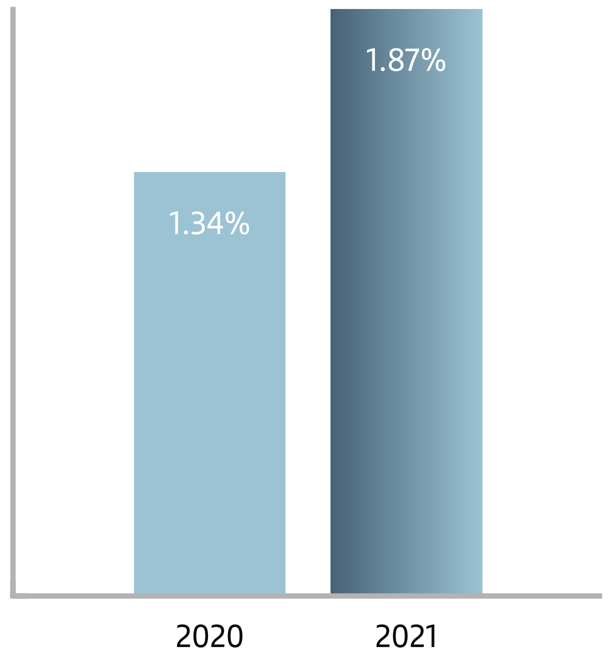
Profit before Income Taxes



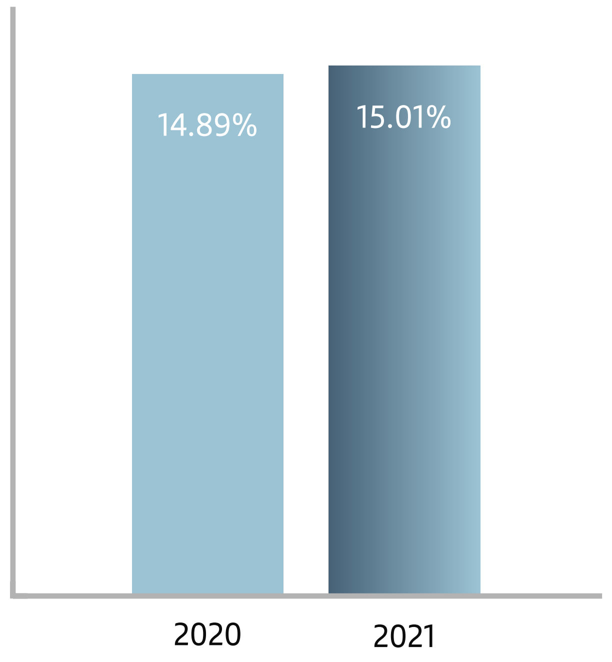
Cost-Income Ratio



Return on Risk Weighted Assets



CET 1



German GAAP (HGB)	**01/01/–31/12/2021 (in € million)**	01/01/–31/12/2020 (in € million)	Change (in %)
Net Interest Income	1,045.5	1,009.7	3.5
Net Fees and Commissions	182.0	158.0	15.2
Income from Capital Instruments	25.3	0.2	11,438.5
Gross Margin	**1,252.8**	**1,167.9**	**7.3**
Personell Expenses	270.3	294.7	–8.3
General Expenses	373.3	376.4	–0.8
Amortizations	72.7	55.4	31.4
Other Operating Income and Expenses	48.4	2.5	1,869.9
Operating Income	**584.9**	**443.9**	**31.8**
Net Loan Loss Provisions	134.3	123.7	8.5
Depreciation and valuation allowances to investments, shares in associated companies and securities held as fixed assets	26.5	–0.1	n. a.
Earnings from Profit Transfer Agreements	108.7	74.1	46.7
Profit before Income Taxes	**532.7**	**393.6**	**35.4**

Ratios	**01/01/–31/12/2021 (in %)**	01/01/–31/12/2020 (in %)	Change (in percentage points)
Cost-Income Ratio	57.18	62.20	–502
Return on Risk Weighted Assets	1.87	1.34	52
NPL Ratio	1.5	1.7	–20

Banking Regulatory Ratios	**31/12/2021 (in %)**	31/12/2020*** (in %)	Change (in percentage points)
Common Equity Tier 1 Ratio (CET 1)	15.01	14.89	12
Total Capital Ratio	17.08	16.92	16
Leverage Ratio	6.70	7.32	–62

Balance Sheet Figures	**31/12/2021 (in € billion)**	31/12/2020 (in € billion)	Change (in %)
Balance Sheet Total	55,623	50,127	11.0
Liabilities to Costumers	23,390	22,774	2.7
Receivables from Customers	28,856	29,217	–1.2
Equity *	3,318	3,318	0.0

Ratings **	**Long Term**	**Short Term**	**Outlook**
Moody's	A2	P1	Stable
Standard & Poor's	A	A–1	Negative
Fitch Ratings	A–	F2	Stable

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
*** A subsequent amendment was made to the previous year's figures

Figures may not add up due to rounding.

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Dear readers,

we have made good progress in fiscal year 2021. We remain agile and flexible, which is the hallmark of Santander Consumer Bank's agile mindset. Despite the continuing burden of the COVID 19 pandemic, we have achieved impressive results in the year under review. Thanks to our high resistance to the crisis, we achieved a strong increase in profits of 35.4% in the second fiscal year under Corona conditions. At the same time we increased the provisions for losses on loans and advances.

+35.4%
Increase in Annual Result

Every one of us has made a valuable contribution to this very good result with consistently high commitment and productivity. I sincerely would like to thank each and every employee of Santander Germany for their special commitment under difficult conditions. I would also like to thank our business partners and customers. Good relationships are characterised by the fact that you also master difficult phases together.

At €532.7 million, the 2021 annual result was up 35.4% over the previous year (€393.6 million). We achieved this remarkable profit increase despite the forward-looking increase in net risk costs by 6.5% to now €134.3 million.

New brand campaign:
Santander – Your Bank. Anytime. Everywhere.
With a 360-degree brand campaign, Santander has effectively increased its visibility on the market and presented itself as a partner to customers. With the brand claim "Your bank. Anytime. Everywhere.", Santander addresses customers as an omni-channel bank and offers them the right support for realizing their plans through its credit range. In this context, the flame underlines Santander's role as a realiser, helping to grasp opportunities and overcome challenges in crucial situations. This holistic campaign communication, which restaged and recharged the Santander brand at all relevant touchpoints, addressed the target groups with concrete product benefits. Measurable results confirmed the success of this campaign. It also served as a turbo for our sales activities and consumer lending business.

Strong results in a challenging environment
In the year under review, we significantly increased new business sales in direct business by 19.2% to 2.52 billion Euros. In particular, the fact that we have remained close to our customers through our local branches even in times of crisis is paying off. In addition to our extensive online offering and successful Santander direct telephone consulting, branches remain an anchor point of our omni-channel strategy.

The number of private ownership registrations fell by 4.5% to 6.7 million nationwide in fiscal year 2021. This is due to the significantly reduced production and delivery of new cars – in particular as a result of the chip crisis – and the used car market suffering from lower supply with a time lag. In this difficult market environment, our credit turnover in the Mobility sector decreased disproportionately low compared with 2020, by only 3.7% to €5.2 billion. I consider that an impressive success. In line with our strategy of sustainably strengthening digital business models, we expanded our platform business as an Internet sales channel to complement our bricks-and-mortar retail business and presented our partners with compelling offers for their own digitization.

€5.2 billion
Loan Turnover in Mobility Sector

As part of further process optimization of our Mobility activities, we were able to support selected retail partners with an end-to-end channel and additional services, thus offering around-the-clock credit purchasing without media breaks. In 2021, we have continued to demonstrate our reliability as a fair and innovative lender at the side of our Mobility partners. For many consumers, our comprehensive range of services, from car purchase and financing to vehicle registration and delivery, has been the decisive purchase trigger.

Our e-commerce business also recorded a strong leap forward. In the year under review, we expanded our factoring products 'invoice purchase' and 'instalment purchase' by adding new sales partners. For example, the number of bill payment transactions rose year-on-year from the low six figures to seven figures. As expected, trade credit sales increased by 19.1% to €0.5 billion.

Our growth trajectory also extends to our Business & Corporate Banking. New lending business increased by 11.8% to €1.3 billion in the reporting period. In the future, our distinctive know-how and a good network will continue to support our export-oriented corporate customers into foreign markets in which the Santander Group has a strong presence, particularly South America.

Our stability-oriented credit strategy is also reflected in the good risk quality of our entire loan portfolio. The evidence: The non-performing loan ratio decreased to 1.5% in 2021 compared with 1.7% in the previous year.

1.5%
Non-Performing Loan Ratio

Rating upgrades achieved
Santander Consumer Bank's consistent success over the years is also recognised by two upgrades of our rating by the market-leading agencies. In July 2021, Moody's raised our long-term rating from A3 to A2. Against the background of an adjustment to the rating method, our improved loss absorption capacity in particular led to this upgrade. This again demonstrates how future-proof and stable Santander Consumer Bank is positioned in the market. Similarly, Standard & Poor's raised our long-term rating from A– to A in December 2021.

In addition to our improved ratings, we also received two important awards by the prestigious "European Securitization Awards 2021", which reflect the outstanding performance of our experts. The research company GlobalCapital has named Santander Consumer Bank "ABS Issuer of the Year" and awarded us for the "ABS Deal of the Year". We are particularly pleased that these awards are the result of a vote among market participants.

In fiscal year 2021, Santander placed its second so-called Full Stack ABS on the market. Due to high investor demand, the volume was increased by €0.4 billion to €1.5 billion. As in the case of the award-winning "SC Germany Consumer 2020-1", the equity-relief effect was also fully exercised in this transaction. Governed by a trustful cooperation with our international investors, ABS issues will remain an important strategic instrument for managing our bank's capital and liquidity in the future.

Santander was a relevant and strong partner in all areas in 2021, presenting itself with reliability and a willingness to innovate. In 2022, we will continue to work on supporting our business partners, assuming social responsibility, providing our employees with a positive working environment and a secure future, and becoming a little better for our customers every day. All our actions are geared to their needs. This is how we ensure our success!

Kind regards,

Vito Volpe
Chairman of the Board
Santander Consumer Bank AG

from left to right:

Jochen Klöpper
Chief Risk Officer

Fernando Silva
Chief Officer Retail and Corporates

Thomas Hanswillemenke
Chief Officer Mobility & CFS

Vito Volpe
Chief Executive Officer

Walter Donat
Chief Accounting Officer

Financial Management in the 2021 Financial Year

In addition to the very important deposit business with retail customers, the Financial Management department is responsible for the bank's financial market-oriented refinancing. Santander manages its funding 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 funding mix primarily includes deposits from retail customers, placements on the money and capital markets and ABS originations. We will continue to make opportunistic use of targeted longer-term refinancing operations by the ECB (TLTRO).

The Financial Management department implemented numerous projects in the financial year, examples of whose successes we would like to highlight below:

1) ABS origination and structuring received multiple awards

Santander has a long history of securitisation activities, which began as early as 1997 with the issue of private transactions. In 2006, we issued our first public transaction from our flagship auto program, SCGA, and added securitisations of unsecured consumer loans in 2008. In the financial year, the origination of ABS reached its peak to date: As part of the prestigious "European Securitisation Awards 2021", we received two important awards from the research company GlobalCapital: "ABS Issuer of the Year" and "ABS Deal of the Year".

The basis for this is that we succeeded in one of the largest cash-risk transfer transactions on the European ABS market in the autumn of 2020. Due to the high demand for the "SC Germany Consumer 2020-1" notes in the amount of €1.8 billion were placed with around 40 international investors – across seven tranches. The lowest tranche of €40.5 million was pre-placed as an equity tranche via a bookbuilding syndication. It should also be emphasised that this transaction was a large-volume consumer credit ABS offered to the public for the first time in Germany and fully utilised during the pandemic.

In the financial year, Santander originated its second Full Stack ABS, with a volume of €1.5 billion; the advantage for the bank here (as with the award-winning "SC Germany Consumer 2020-1") was the capital relief effect. In the future, ABS issuances will remain a key strategic instrument to steer both: liquidity and capital of the bank.

2) Improvement of our rating

It is our attempt to maintain an intense exchange with the rating agencies that monitor us. In the second year of the COVID-19 pandemic special interest was again focused on the bank's risk profile, its funding strategy and its operating performance.

In the financial year, our credit rating was upgraded by two agencies: In July, Moody's raised our long-term rating from "A3" to "A2". Our increased loss absorption capacity combined with a rating method change resulted in this gratifying upgrade. This was followed by S&P in December 2021: The agency also raised our long-term rating by one notch from "A–" to "A."

Our current ratings with the agencies' publications can be found on the bank's investor relations portal at **https://www.santander.de/ueber-santander/investor-relations/ratings/**

> *"In the future, ABS issuances will remain a key strategic instrument to steer both: liquidity and capital of the bank."*
>
> Andreas Glaser
> CFO, Santander Consumer Bank AG

Report of the Supervisory Board on the Financial Year 2021

The year 2021 was again 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 2021. The Supervisory Board wishes all those involved a lucky hand and every success in meeting the challenges ahead.

In the 2021 financial year, the Supervisory Board performed the duties incumbent upon it under the law and the Articles of Association.

At four regular 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.

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.

Four meetings of the Audit Committee were held in the 2021 financial year. The auditor attended three 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 Control Committee met four times in 2021 to discuss the Bank's remuneration system and other statutory issues.

The Nomination Committee met four times in 2021 and dealt in particular with personnel matters relating to the Management Board.

The Risk Committee met four times in 2021 and dealt in particular with the Bank's risk appetite as well as other statutory issues.

There was one personnel change in the Supervisory Board in 2021.

At the beginning of 2021, Ms Patricia Benito was appointed to succeed Ms Inés Serrano in the ordinary Shareholder's Meeting on 23rd of February 2021.

We warmly welcome Ms Benito to the Supervisory Board of Santander Consumer Bank AG. We are looking forward to the cooperation.

In this way we wish Ms Serrano all the best for the future and thank her for the good cooperation in the board.

The annual financial statements and the management report for the 2021 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.

Mönchengladbach, 24 February 2022

The Supervisory Board

Mónica López-Monís Gallego
Chairwoman

COMPOSITION OF THE SUPERVISORY BOARD IN 2021

Shareholder Represenatives	Employee Representatives
Mónica López-Monís Gallego (Chairwoman)	Martina Liebich (Dpt. Chairwoman)
Dirk Marzluf	Peter Blümel
Rafael Moral	Stefan Eck
Adelheid Sailer-Schuster	Paloma Esteban
Cristina San José	Uwe Foullong
Inés Serrano (until February 23rd, 2021)	Thomas Schützelt
Patricia Benito (as of February 24th, 2021)	

MANAGEMENT REPORT

In the management report we explain in detail the development of Santander in the last financial year 2021 as well as the macroeconomic and industry-spedific framework conditions and their impact on the performance of the bank. In addition, we give an outlook on the expected development of Santander in the current year 2022 as well as the expected framework conditions.

Management Report for the 2021 Financial Year

Santander Consumer Bank AG, hereinafter also referred to as the "Bank" or "Santander", is one of the five largest private banks in Germany in terms of customer numbers, with around 3.8 million customers[1] in retail banking. We offer our customers a wide range of financial services, from current accounts and credit cards to securities transactions. In Germany, we are one of the largest manufacturer-independent financing partners of mobility and also a leader in the financing of consumer goods. In consumer lending, we work in the areas of mobility, consumer financial services (CFS), and private customers. Financial services for corporate customers and the mortgage bond business round off our product range.

€3.8 million
Retail Customers

To improve customer service and increase efficiency through standardised processes and economies of scale, we have outsourced IT processes and various back-office activities. These services are now provided by our subsidiaries, among others.

In selected areas (e.g. mobility, structuring of ABS transactions), we also offer services for other banks (so-called banking as a service).

We are consistently developing our omni-channel market presence with our uniform distribution network and product range: The customer determines the manner in which he wishes to use the bank's services and communicate with it. In addition to the nationwide branch network, the 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 one of the largest manufacturer-independent financing partners (so-called non-captive sector) in the car, motorcycle, and (motor) 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 area) such as Mazda and Volvo. We also cooperate with manufacturers of motorcycles and recreational 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 are also active in the leasing business through our subsidiary Santander Consumer Leasing GmbH.

Since 2019, the bank has held a 51% stake in Hyundai Capital Bank Europe GmbH (HCBE), which in turn holds a 92.07% equity interest in Allane SE (formerly SIXT Leasing SE). In addition, PSA Bank Deutschland GmbH is part of our Group.

MAIN SEGMENTS

Mobility	Consumer Financial Services
Direct Business	Business & Corporate Banking

In December 2021, Santander Consumer Finance and European car maker Stellantis announced they were renegotiating the terms of their 2014 partnership to finance Peugeot, Citroën, and DS vehicles. It is planned that Santander Consumer Finance will sell its Interests in PSA Bank Deutschland GmbH, including the Austrian branch, and PSA Finance UK Ltd to BNP Paribas Personal Finance. The exact impact cannot yet be quantified at the time of preparing the financial statements, as the usual regulatory approvals are still pending and the agreement is expected to enter into force in the first half of 2023.

Our **consumer financial services (CFS)** business largely comprises the furniture, consumer electronics/computer, home improvement, and e-commerce retail sectors. We work with some of the top-selling furniture and electronics retailers in Germany.

[1] For reasons of better readability, we use the generic masculine in the following. All personal designations apply equally to women, men, and non-binary people.

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

In **direct business**, our bank offers cash loans, checking 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 savings products from cooperation partners. As of 31 December 2021, Santander had a nationwide network of 189 branches (previous year: 209).

189 branches

Business with corporate customers is bundled in the **business & corporate banking** area. The target customers are German medium-sized companies and international companies with sales in the range of €25 million to €1 billion.

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. as a subgroup; this in turn is included in the consolidated financial statements of Banco Santander S.A., Madrid.

ECONOMIC REPORT

Macroeconomic and Sector-Specific Conditions

The coronavirus pandemic also had a major impact on economic development in 2021. The restrictions on economic and social life associated with a lockdown played a key role in ensuring that the start to the year was still restrained. However, the German economy recovered noticeably in the spring and summer. Economic momentum again slowed noticeably at the end of the year, due in part to continuing global supply bottlenecks and the effects of the new omicron variant of the virus.

In 2021 as a whole, economic output therefore increased by only 2.8%. This means that the recovery in Germany was significantly weaker than in the Euro zone, where the decline was 5.2%; however, at 6.5%, the decline there in the previous year had also been higher than in Germany, where it had been 4.6%.

In view of strong growth in the global economy, exports were the main contributor to this recovery: they rose by 9.4% despite the sometimes massive disruptions to global supply chains. Imports increased at a slightly lower rate of 8.6%. In both cases, however, this is primarily a counter-reaction to the significant declines in 2020, when exports contracted by 9.3% and imports by 8.6%. As a result, the overall effect of foreign economic relations, measured in terms of net exports, was slightly positive again in 2021.

Investment in machinery and equipment, which had fallen very sharply by 11.2% in the previous year, recovered only slightly by 3.2% in the year under review. The major shortage of preliminary products, which only allowed the full order books to be processed to a limited extent, had a braking effect.

Construction investment, which had also expanded by 2.5% in the crisis year 2020, grew only slightly by 0.5%. The fact that there was no higher increase was due to bottlenecks in construction materials; these led to at times very sharp price increases for some important construction raw materials such as wood. This was compounded by the worsening shortage of skilled workers.

Consumer spending by private households merely stagnated in 2021. It thus remained at a low level in the year under review following the noticeable decline of 5.9% in 2020. There were two main reasons for this: on the one hand, consumer demand declined again at the beginning of the year; this was due to anticipatory effects resulting from the temporary reduction in value-added tax at the end of 2020. Secondly, the surprisingly strong acceleration in the rate of inflation created uncertainty and thus also led to consumer restraint on the part of private households. By contrast, the marked improvement in the situation on the labour market had a positive effect, as unemployment fell again noticeably over the course of the year and the number of employees subject to social security contributions is now back above the pre-pandemic level. Due to the reluctance to spend, the savings rate, i.e. savings as a percentage of disposable income, remained at 15.0%, well above the long-term average of previous years.

Of the industrial sectors of particular importance to the German economy, mechanical engineering recovered significantly after a noticeable decline in the previous year. In the chemical industry, production increased noticeably. By contrast, the downward trend in the automotive sector actually accelerated once again; this sector, which is very important for Germany, suffered particularly badly from the major shortage of preliminary products in the year under review, with a shortage primarily of electronic components such as semiconductors.

The inflation rate in Germany for 2021 as a whole was 3.1%, significantly higher than expected. Prices were driven up in particular by the sharp rise in raw material and especially energy prices, which had fallen appreciably in the previous year due to low demand caused by the coronavirus crisis. Added to this was the introduction of the new national CO_2 levy at the beginning of the year under review. Transport problems and supply bottlenecks for important preliminary products further intensified the already severe price pressure. The base effect from the temporary VAT reduction in the second half of 2020 continued to contribute to a higher rate of price increases; this also explains why the inflation rate in Germany was higher than in the Euro zone, where it averaged 2.6% for the year.

Even though the inflation rate reached 5.0% in December 2020, the highest level since the introduction of the Euro in early 1999, the European Central Bank (ECB) largely maintained its very expansionary monetary policy. In mid-December 2021, the ECB announced its intention to curb securities purchases noticeably, primarily by ending the Pandemic Emergency Purchase Programme (PEPP) as scheduled. However, it continued to reject an increase in key interest rates, which are at record lows – pointing out that the sharp rise in consumer prices was mainly temporary and that the inflation rate would fall back to or even below the 2% level it had targeted in the medium term.

The German passenger car market contracted unexpectedly sharply in 2021. According to the Federal Motor Transport Authority, new registrations fell by 10.1% to 2.622 million vehicles in the year under review. In 2020, the decline was as much as 19.1% to 2.918 million vehicles. Private new vehicle registrations included in this figure decreased by 16.3% to 0.907 million units. The total number of private ownership registrations fell by 4.5% to 6.703 million.

Disrupted supply chains and, in particular, the shortage of available semiconductors and other electronic components caused production falls, which in turn resulted in significantly longer delivery times for new cars. With a time lag, these supply bottlenecks also led to a lower supply of used cars via lower daily registrations and a lower supply of used vehicles. The sum of these two effects triggered this unexpected decline in the number of new registrations in Germany. By contrast, the market share for motor vehicles with electric drive (full electric vehicles and cars with hybrid drive systems) developed encouragingly: Their share of new car registrations doubled to 26% in Germany in the year under review.

BUSINESS PERFORMANCE

Within this overall market, the bank's loan revenue (excluding dealer purchase financing) in the mobility sector declined more sharply than expected compared with 2020: by 3.7% to €5.235 billion. However, the higher share of used car loans in the loan revenue mix in 2021 caused a clearly disproportionately low decline in loan revenue from end customers compared with the market as a whole. Finally, as explained above, supply chain disruptions in the used car segment have a delayed impact.

Santander's loan sales in Germany broke down as follows: The new car business fell by 12.8% from €1.426 billion to €1.243 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 the year under review: 0.5% to €3.992 billion. The credit exposure in dealer purchase financing fell by 3% to €6.488 billion.

We have also successfully developed our mobility business in cooperation with our dealer partners. Distribution agreements were concluded with the British mobility partner Cazoo and the Swedish-Chinese manufacturer of hybrid and electric vehicles Polestar. In addition to the traditional car financing business via bricks-and-mortar retail outlets, Santander has strengthened the internet sales channel via the so-called platform business. With online marketplaces such as AutoScout24, we are responding to the need for an online shopping experience, which has grown in the pandemic; in addition to car purchases, AutoScout24 also offers financing, vehicle registration, and delivery of the used car. We continued to drive forward the digitisation of our processes in the year under review by optimising the end-to-end route with selected dealer partners with additional services relating to credit purchases without media discontinuity. With around 160 sales representatives and nine decentralised dealer sales centres nationwide, we have the largest manufacturer-independent motor vehicle sales network in Germany.

160
Sales Representatives in Mobilty

The trend toward using alternative drive technologies continues unabated. In the financial year, the share of new lending (electric and hybrid drive) in total new lending (in each case including leasing business, which is operated in Germany by our subsidiary Santander Consumer Leasing GmbH) grew from 15% to 27%. This is primarily attributable to the increase in new business with our cooperation partner Tesla.

Our subsidiary Santander Consumer Leasing GmbH increased its lease portfolio from just under 174,000 (end of 2020) to around 177,000 (end of 2021). Business with Volvo and Mazda was a key driver.

Consumer financial services recorded an increase in new business in 2021. As expected, trade credit sales increased by 19.1% to €0.499 billion. While traditional point-of-sale new loan business declined due to the pandemic and supply chain disruptions (e.g., bicycle loans), our e-commerce business came on in leaps and bounds. In the year under review, our bank strengthened its factoring products 'invoice purchase' and 'instalment purchase' by adding new sales partners. For example, the number of bill payment transactions rose year-on-year from a low six figures to seven figures.

Direct business is generated through branches, online, and via Santander Direct Consulting. There was a reversal in the trend in new instalment loan business in 2021: After a 2.9% decline in new business in 2020, we strongly increased new business in the year under review by 19.2% to €2.522 billion. The main reasons for this positive development were improved sales performance, also due to new partners in direct consulting, and our brand campaign. However, the predicted very strong increase to €2.7 billion was not quite achieved.

New mortgage lending business was again below target in the year under review, but grew by 18.5% to €293.4 million despite the coronavirus-related uncertainties. In addition to the low level of interest rates, the bank's own decisions, such as the activation of additional cooperation partners and process optimisation in the back office areas, which led to efficiency improvements in the workflow, also contributed to this.

+18.5%
Growth in Mortage
Lending New Business

New lending business in **business & corporate banking** fell by €355.6 million year-on-year to €703.4 million. The main reason for this very strong decline in sales is a change in reporting: In 2021, unlike in the previous year, prolongations will no longer be reported in the segment's new business. On a comparable basis, i.e. adjusted for this prolongation effect, we increased new lending business by 11.8% to €1.296 billion. In terms of new customer acquisition and new business, we were therefore significantly more successful in the year under review than in the first year of the coronavirus, 2020. In particular, we made use of the Santander Group's international corporate customer network: in this way, we support export-oriented companies to foreign markets where the Group already has a strong presence.

ANNUAL RESULTS

For 2021, our bank had expected an improvement in annual results in the 2020 management report, but at the same time had not ruled out a decline in earnings due to the effects of the pandemic, which are difficult to assess. Actual **profit before income taxes** in the year under review amounted to €532.7 million (previous year: €393.6 million) and thus exceeded our expectations.

€532.7 million
Profit before Income Taxes
(Previous Year: €393.6 million)

The profit for the year includes the profit transfer from Santander Consumer Leasing GmbH amounting to €108.7 million (previous year: €74.1 million).

Number of Customer Accounts in Thousands

	2019	2020	**2021**
Total	5,384	4,788	**4,574**
Of which Credit Accounts	3,803	3,278	**3,086**
Deposit Accounts	1,090	1,027	**993**
Current Accounts	491	484	**494**

The total number of accounts fell by 4.5% to 4.6 million in the year under review. The streamlining of our credit card portfolio and the decline in mobility business were the main factors affecting credit accounts. The number of deposit accounts fell by 3.2% to just below 1 million due to changes in customer preferences as a result of the persistently low level of interest rates. The number of current accounts rose, against the trend, namely by 2.1% to 494,000.

Total assets grew by 11% from €50.127 billion to €55.623 billion as of 31 December 2021. The main reason for the increase in total assets was the use of the ECB's longer-term refinancing operations (TLTROs).

+11%
Increase in Balance Sheet Total

DEVELOPMENT OF THE ASSET AND FINANCIAL SITUATION OF THE BANK

The balance sheet structure reflects our focus on consumer lending on the **assets side** and refinancing through deposits from private and institutional customers and liabilities from issuing business (reported under securitised liabilities) and ABS securitisations (reported under other liabilities) on the liabilities side. The utilisation of favourable central bank funds is reported under liabilities to financial institutions.

Loans and advances to customers decreased by 1.2% to €28.856 billion as of 31 December 2021 (previous year: €29.217 billion). Retail receivables from instalment loans (mobility, consumer financial services, and direct business) as a proportion of total receivables increased slightly from 65.7% in the previous year to 67.1%. Dealer purchase financing accounted for a slightly lower 4.7% of total volume (previous year: 5.6%). Receivables in the mortgage lending business accounted for a share of 8.7% (previous year: 9.3%).

Loans and advances to financial institutions fell from €2.86 billion to €2.755 billion as of 31 December 2021. This was due to lower overnight deposits and time deposits at other banks.

At the balance sheet date, Santander reported €11.969 billion (previous year: €11.435 billion) under **debentures and other fixed-income securities**. The reasons for the 4.7% increase are the further expansion of the Bank's Depot A and the fact that newly originated ABS transactions significantly exceeded scheduled repayments. In addition, we increased the volume of an existing transaction by €1.8 billion in the year under review and structured one ABS transaction (please refer to our comments under the position "other liabilities"). This was offset by repayments of own securities during the year. The senior tranches of securities generated from own assets were submitted to the ECB. They serve as a reserve for possible unexpected liquidity outflows and as collateral for refinancing operations at the ECB.

In addition to cash in hand amounting to €94.1 million, the **position cash and cash equivalents** includes €10.663 billion (previous year: €5.252 billion) invested with Deutsche Bundesbank to ensure compliance with the liquidity coverage ratio (LCR) and the liquidity buffer, among other things.

€10.757 billion
Cash and Cash Equivalents

Shares in affiliated companies remained unchanged year-on-year at €761.0 million as of the reporting date 2021.

Balance Sheet Structure Assets in € million

	2019	2020	**2021**
Balance sheet total	46,102	50,127	**55,623**
Cash and cash equivalents	3,496	5,349	**10,757**
Loans and advances to customers	29,961	29,217	**28,856**
Loans and advances to financial institutions	2,152	2,860	**2,755**
Securities	9,515	11,435	**11,969**
Other assets	978	1,266	**1,286**

Intangible assets decreased from €234.7 million to €224.4 million as of 31 December 2021. Two developments had a counteracting effect: The increased advance payments for intangible assets did not fully offset the amortisation expense.

Property, plant, and equipment decreased from €52.1 million to €42.1 million as of 31 December 2021 due to scheduled depreciation.

The **liabilities side** reflects the bank's solid, since broadly diversified, refinancing.

Liabilities to customers increased to €23.39 billion in the year under review (previous year: €22.774 billion). As in previous years, customers' changing maturity preferences were evident in 2021: While overnight deposit balances increased by €1.859 billion, savings deposits decreased by €29.9 million to €870.2 million. Online sales and our nationwide network of 189 branches and offices throughout Germany 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 broadly diversified refinancing mix, we were able to raise the necessary funds at any time. Our refinancing mix primarily includes deposits from retail customers and institutional investors, placements on the money and capital markets (e.g., bond issues), and funding raised through the ECB's TLTRO targeted, longer-term refinancing programme.

€23.39 billion
Liabilities to Customers

Santander complied with the relevant regulatory liquidity requirements at all times. On the balance sheet date, the liquidity ratio LCR was 519.6% (previous year: 236.6%) above the regulatory minimum requirement.

Liabilities to financial institutions increased from €7.253 billion to €10.473 billion in the year under review. This was due to the new utilisation of TLTROs, which increased from €6.8 billion in the previous year to €10.3 billion as of the 2021 balance sheet date.

Other liabilities increased from €13.143 billion to €14.642 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. In the year under review, Santander issued its second full-stack ABS after 2020 (in which all issued securities are sold to external investors in tranches) with a volume of €1.5 billion; in addition to the liquidity injection, the capital relief effect was advantageous for us here.

The **securitised liabilities** item grew by €125 million from €2.506 billion to €2.631 billion. This was due to an increase of €100 million in drawings under the existing commercial paper programme and a bond issued and retained in 2021.

Balance Sheet Structure Liabilities in € million

	2019	2020	**2021**
Balance sheet total	46,102	50,127	**55,623**
Deposits	959	900	**870**
Other liabilities to customers	22,211	21,874	**22,520**
Liabilities to financial institutions	4,999	7,253	**10,473**
Securitised liabilities	2,359	2,506	**2,631**
Other liabilities	11,488	13,187	**14,688**
Provisions	689	685	**720**
Equity*	3,397	3,722	**3,721**

* Data including subordinated liabilities and profit participation certificates

Provisions amounted to €719.5 million at the end of the year under review (previous year: €685.2 million). This increase of €28.2 million is attributable to higher provisions for pensions and similar obligations.

Balance sheet **equity** (excluding subordinate liabilities and profit participation capital) remained unchanged year-on-year at €3.318 billion. **Own funds** in accordance with Article 10 of the German Banking Act [Kreditwesengesetz, KWG] in conjunction with Article 72 of Regulation (EU) No. 575/2013 (CRR) amounted to €3.308 billion as of the balance sheet date (previous year: €3.339 billion). The Common Equity Tier 1 capital ratio in accordance with Article 10 KWG in conjunction with Article 92 (1) a) CRR was 15.01% (previous year: 14.89%), the Common Equity Tier 1 capital ratio (Article 92 (1) b) CRR) was 15.02% after 14.90% in the previous year, and the total capital ratio (Article 92 (1) c) CRR) reached 17.08% at the end of the year under review (previous year: 16.92%)[2].

Our 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 into account any changes that may occur in the meantime, we regularly review the planning and adjust it 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

Our bank achieved **net income of** €532.7 million in 2021, up 35.4% on the previous year (€393.6 million), representing a very strong increase. RoRWA (return on risk-weighted assets) increased by 52 basis points year-on-year to 1.87%. We therefore exceeded the forecast made in last year's management report, in which we expected a strong increase in net income.

In the 2020 financial year, the result included expenses for staff adjustment measures, as well as for a coronavirus-related post-model adjustment in risk costs. For comparative purposes, we have used the previous year's earnings adjusted for these special expenditures: This results in an increase of 22.3% for 2021. Adjusted RoRWA increased by 38 basis points.

Net interest income in 2021 came to €1,045.5 million, slightly (+3.5%) above the previous year's figure of €1.01 billion and thus better than expected. Our bank had forecast a slight increase in interest income, but in fact it fell strongly by €120.4 million (10.1%) to €1.067 billion. The opposite was true of interest expense: We had expected a strong increase here, but in fact we were able to reduce these expenses significantly by €156.2 million to €21.3 million. As the decline in interest income was smaller than the reduction in interest expense, net interest income increased by 3.5%. Loans and advances to customers decreased slightly (1.2%) compared with the previous year and amounted to €28.856 billion. In addition to a further decline in the portfolios of consumer financial services and mortgage lending, the weak performance of the automo-

[2] A subsequent amendment was made to the previous year's figures.

tive market also led to a drop in receivables in the mobility and dealer stock finance areas in the year under review. Direct business, on the other hand, picked up, although its volume was unable to offset the above-mentioned declines.

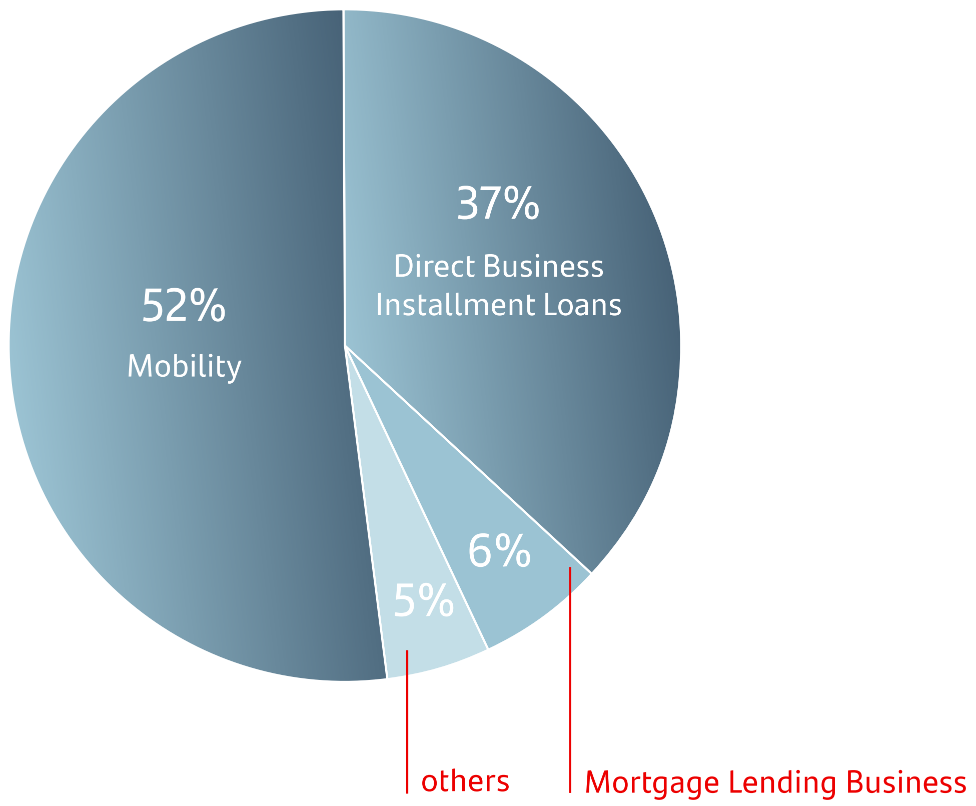
Even though market interest rates rose for longer maturities toward the end of the year, they remained at a very low level. As a result, the reduction in the average interest rate on loans and advances to customers continued. It fell by 5 basis points to 4.09% in 2021, causing interest income from customer lending to decline slightly by 4.4% or €46.7 million.

Customer interest rates in new lending business remained under pressure in the year under review. Characterised by the highly competitive market environment, a steady reduction was observed in the mobility area over the course of the year; this resulted in the average interest rate declining by 20 basis points year-on-year. The effect was somewhat less pronounced in the overall portfolio: here, the corresponding figure fell by 8 basis points. In direct business, the average customer interest rate in new business was 41 basis points lower than in the previous year, mainly due to the rising proportion of online loans. In the portfolio, the decline was somewhat smaller, by only 13 basis points. In 2021, the CFS business area was impacted by the growth of the e-commerce business (instalment purchases and purchases on account). As a result, the average customer interest rate in new business decreased by 17 basis points. Despite the increase in e-commerce business, the decline in receivables already evident in previous years continued; the reasons for this are, on the one hand, that instalment purchases and purchases on account usually have very short terms and, on the other hand, that the traditional segments, especially the furniture business, continued to shrink. The average interest rate on the portfolio stabilised at the previous year's level. In our mortgage lending business – with its long loan terms – the persistently low level of interest rates is having an ever greater impact. Year-on-year, the average yield on our portfolio decreased by 39 basis points. The average interest rate in dealer purchase financing also declined, falling by 18 basis points.

A look at the shares that the individual product areas have in total customer interest income shows a continued leading position for the mobility area. The share of the largest portfolio within loans and advances to customers was on a par with the previous year at just under 52% of interest income. Direct business instalment loans (including credit cards and current accounts) continued to rank second: As a result of the increase in new business in the year under review, their share increased to almost 37%. Mortgage lending business, the third-largest portfolio, still contributed almost 6% to customer interest income despite the lower risk-related interest rate compared with the other portfolios and the decline in the portfolio size.

Interest income in the non-customer business fell by €73.7 million or 60.1% in 2021. On the one hand, a very strong reduction of €32.8 million in interest income from securities had an impact. In addition to lower income from ABS bonds from own securitisation transactions, negative interest income from securities in the portfolio of high-quality liquid assets (HQLA) increased; this was incurred for a full 12 months for the first time in the year under review. In addition, we considerably increased the portfolio of securities in the course of the year.

SHARE OF BUSINESS AREAS OF TOTAL INTEREST INCOME



On the other hand, interest income from receivables from banks decreased by €17.2 million compared with the previous year. While income from deposits in the Group was only slightly higher than in the previous year, expenses from negative interest on minimum reserve balances at the Bundesbank increased by €17.6 million due to volume-related factors.

To hedge any interest rate risks that may arise from the longer maturities of customer assets compared with liabilities and to hedge the fair value risk of a bond issued, we had entered into interest rate swaps in the past; these expired in full in 2020. In November 2020 and 2021, we concluded new large-volume interest rate swaps to manage the interest rates of the variable-rate securitisation transactions. Due to the expiring swap volume and the simultaneous high negative interest income from the newly concluded swaps, swap income decreased by €13.4 million compared with the previous year.

We had expected a strong increase in interest expense. In fact, it fell significantly year-on-year by €156.2 million to €21.3 million, thus performing noticeably better than expected. Expenses for liabilities to customers decreased as expected, falling by a very strong 42.7%. The largest effect is attributable to condition adjustments made in the course of 2021 due to the persistently low market interest rates. The second largest effect resulted from the shift within customer deposits: the trend towards a shift from savings bonds to lower-interest overnight deposits continued in the year under review. Viewed in isolation, however, the increase in total liabilities to customers would have a minor expense-increasing effect.

The biggest effect on interest expense was achieved by the non-customer business; here, expenses decreased significantly year-on-year. We had expected an increase here, in particular due to higher expenses for the refinancing of securitised loans. However, we were able to strongly reduce expenses by €30.9 million compared to 2020, thanks to the issue of new securitisation transactions with very good ratings and the associated lower interest costs, the amortisation of existing transactions, and thanks to the continued low level of interest rates at the same time. In addition, we bought back two older transactions in the first half of the year under review.

Due to the intensive use of TLTROs, the bank again generated negative interest expenses on open market transactions. In addition, as we complied with the credit approval criteria of the ECB, we benefitted from a bonus, i.e. an additional discount on the interest rate. Therefore the negative interest expense increased to €119,8 million in the year under review.

Another reason for the decrease in interest expense in non-customer business was a €14.4 million reduction in expenses for swaps. In addition to the expiring swap volumes, these are attributable to the high negative interest expense on the newly concluded swaps. In addition, the higher negative interest on the receiver interest rate swap concluded in 2020 to hedge the fair value risk of a bond transaction issued led to a further reduction in interest expense.

Compared with 2020, we were able to increase **net fee and commission income** strongly by 15.2% to €182.0 million. This fulfilled the predicted increase. Commission income increased moderately to €514.5 million, slightly more than forecast. Commission expenses also increased moderately by +5.5%, although we had expected a slight decrease.

Total fee and commission income increased by €41.4 million or 8.8% in the year under review. This was primarily due to increased fee income from servicing for HCBE generated for a full 12 months for the first time in 2021. This resulted in a year-on-year increase of €23.1 million.

Income from securities services grew very strongly year-on-year by €14.4 million to €57.6 million. This increase was accompanied by a very strong rise in the average volume of deposits.

Thanks to higher new business in the direct business, we recorded a slight increase in income from insurance brokerage compared with 2020. As in previous years, this income accounted for the largest share within fee and commission income.

Fees from customer business were slightly below the previous year's figure, mainly due to lower fee income from payment transactions.

Commission expenses increased moderately by €17.3 million or 5.5% to €332.5 million in 2021. Brokerage commission expenses, which continued to account for by far the largest share of commission expenses, increased only slightly compared with 2020. This was mainly due to higher new business with online loans in the direct segment. Accordingly, the share of direct business in brokerage commissions grew from just under 13% in the previous year to 18% in the year under review. The share of the Mobility segment decreased from 79% to 76%, as did CFS's share from 7% to just over 3%.

The greatest effect on the increase in commission expenses was attributable to expenses for credit reports on customers, which we recognised in this line for the first time in the year under review at €13.6 million. In the previous year, they were included in administrative expenses.

In other fee items, lower expenses in connection with synthetic ABS transactions were the main reason for a decrease compared with 2020.

Current income from investments increased by €25.1 million compared with the previous year. This was due to dividend income from the investment in PSA Bank Deutschland GmbH, whereas no dividend was received in the previous year.

Administrative expenses and depreciation, amortisation and impairment losses on intangible assets and property, plant and equipment totalled €716.3 million in the year under review (of which personnel expenses €270.3 million and other administrative expenses €373.3 million), compared with €726.4 million in the previous year (of which personnel expenses €294.7 million and other administrative expenses €376.4 million).

Overall, administrative expenses fell slightly by €10.1 million compared with the previous year; we had expected a moderate, i.e. slightly higher, reduction.

Personnel expenses fell slightly in 2021 compared with 2020; here, too, we had expected a moderate reduction. This decrease was due to lower expenses for restructuring measures and lower expenses for salaries as a result of the reduced number of employees.

The average number of employees declined by 207 to 2,868 in the year under review.

Other administrative expenses decreased slightly by €3.1 million; we had expected a moderate, i.e. slightly higher, decrease. Unlike in the previous year, the credit information fees, in the amount of €13.6 million are no longer included in other administrative expenses. In addition, the costs for consulting and IT have decreased. The effects of institutional expenses, expenses for Santander Consumer Operations GmbH and Banco Santander S.A. were offsetting.

Depreciation, amortisation and impairment losses on intangible assets and property, plant and equipment increased very strongly year-on-year by €17.4 million to €72.7 million and were thus higher than we had forecast in the 2020 management report; here we had only assumed a strong increase. This increase is attributable to higher amortisation of software, of which €7.4 million was due to corrections.

The cost-income ratio (CIR, cost/income ratio) decreased year-on-year from 62.2% to 57.2%. So the ratio improved as expected, primarily due to the rise in income.

57.2%
Cost-Income Ratio (Previous Year: 62.2%)

Net risk costs amounted to €134.3 million – a moderate increase of 8.5% compared with the previous year's figure of €123.7 million; we had expected a strong decrease.

This was primarily due to the development of risk costs for the direct portfolio. Specifically, the continuing effects of the coronavirus pandemic have led to a continuously high level of risk costs, particularly in the direct portfolio. While the macroeconomic trend had still been positive in 2019, the pandemic brought about an economic turnaround in 2020. Average portfolio performance in the year under review remained at the elevated level of the second half of the previous year. In our planning, on the other hand, we had assumed a faster economic recovery – and thus lower risk costs below the level at the start of the coronavirus pandemic in the first half of 2020.

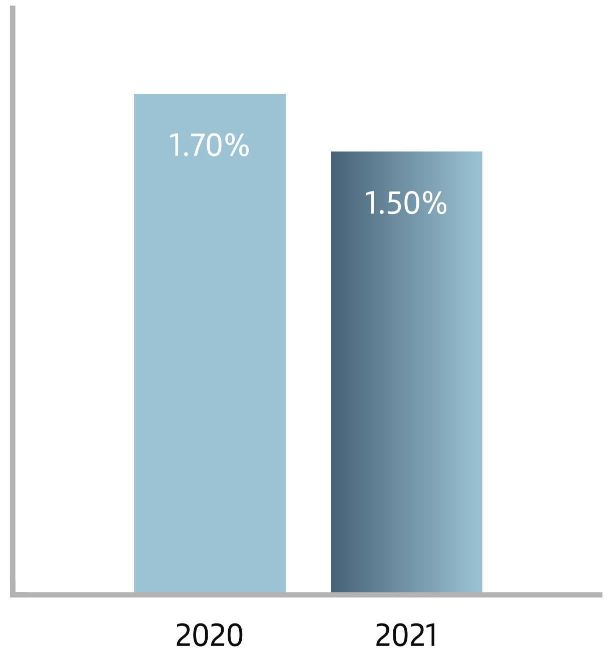
Our non-retail business had developed positively in the previous year despite the economic slowdown; this trend did not continue in the year under review. The deterioration in the economic circumstances of individual corporate customers („Business & Corporate Banking") unexpectedly necessitated the recognition of specific allowances.

The IFRS 9 parameters used to determine the allowance (default and loss rate) were updated in two steps during the year under review. A first update included the extension of the historical period considered in the estimate up to and including the first quarter of 2020. Due to the overall very positive risk development in the time window of the update, before the start of the coronavirus pandemic, risk provisioning decreased by €14.7 million in this step. Separate from this, a second step later in the year involved the inclusion of the Covid time window in the parameter estimation. Furthermore, the changed macroeconomic outlook due to the pandemic was taken into account accordingly in the forward looking component of the impairment parameters, as a result of which the special item formed in the previous year as a post-model adjustment is no longer required. A systemic addition to the allowance for losses on loans and advances in the amount of €22.1 million in the second step of the update was therefore offset by the reversal of the special item in the amount of €18.5 million; the net effect was accordingly €3.6 million.

Furthermore, payments received on written off receivables reduced risk costs by €49.7 million in the year under review. Although the positive impact on risk costs was thus strongly lower than in the previous year (€65.5 million), it was at an unexpectedly high level given the challenging macroeconomic environment. This was primarily due to income from the sale of receivables amounting to €46.9 million, which reduced the net risk costs by €38.4 million. Overall the positive impact on risk costs was strongly lower than in 2020, although it was strongly higher than our planning assumption due to a higher sales volume.

Our bank's NPL ratio in relation to loans and advances to customers decreased to 1.5% (balance sheet date 2020: 1.7%) despite the defaults in the corporate customer business, since write-offs exceeded net new defaults in the year under review.

NPL Ratio



The passing on of losses from an ABS transaction to external investors had a positive effect of €8.8 million on the overall result of our bank. However, this effect is made up of offsetting accounting items. While the position **depreciation and valuation allowances** to investments, shares in associated companies and securities held as fixed assets recorded an expense of €26.4 million, other operating income rose by €35.3 million.

For **other operating income**, we had predicted an expense in the low single-digit million range in the previous year. In fact, we generated earnings of €48.4 million (previous year: €2.5 million).

We had expected a significant decline in other operating income, which in fact grew significantly by €28.5 million to €84.5 million. The main reason for the increase was income in the amount of €35.3 million from the passing on of losses from an ABS transaction to external investors. As described above, the associated expense (€26.4 million) was recognised in depreciation and value allowances on investments, shares in associated companies and securities held as fixed assets; overall, there was a net effect on total comprehensive income of €8.8 million.

We had expected a significant reduction in other operating expenses; after all, the previous year's result had been burdened by the extraordinary derecognition of intangible assets. Although other operating expenses decreased very strongly in the year under review by €17.4 million to €36.1 million, the decrease was not quite as pronounced as forecast. Expenses from the derecognition of intangible assets also decreased considerably from €26.3 million in the previous year to €4.0 million in 2021. By contrast, expenses for operational risks increased by €7.9 million. This was mainly due to the recognition of provisions in connection with the Federal Supreme Court ruling on the implied consent of customers.

Business developed favourably in the year under review 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 the Santander Consumer Bank are completely transferred to the Santander Consumer Holding GmbH.

OTHER INFORMATION ABOUT THE BANK

Santander Consumer Bank is a member of the Bundesverband Deutscher Banken e.V. (Association of German Banks). It also belongs to the Bankenfachverband e.V. (German Banking Association) and the Verband deutscher Pfandbriefbanken e.V. (Association of German Bond Banks). It is also affiliated with the following institutions: Entschädigungseinrichtung deutscher Banken GmbH (deposit guarantee scheme of German banks), Prüfungsverband deutscher Banken e.V. (Audit association of German banks), and the Deposit Protection Fund of the private banking industry.

The current compensation report of Santander Consumer Bank AG can be viewed at the following link in our Investor Relations Portal (https://www.santander.de/ueber-santander/investor-relations/offenlegung).

Employees

Four key issues dominated the work of our HR department in the year under review: the coronavirus pandemic, the promotion of young talent, ongoing digitisation, and diversity & inclusion.

Coronavirus & Health Management

At the beginning of 2020, we had already increased our focus on “mobile work” in response to the outbreak of the pandemic. We continued this promotion of mobile working in the year under review. During the phase of relaxing coronavirus measures in the summer, our bank targeted a company-wide rate of 50% mobile working on average for all employees who can also perform their activities from home. In the main administrative offices, around half of the office workstations were available, taking into account the security guidelines.

The health of our employees has always been a high priority for us. That is why we are constantly involved in occupational health management.

We have offered vaccination through the company at the Mönchengladbach, Recklinghausen, Munich, Berlin, Hanover, and Frankfurt sites. More than 200 employees had themselves vaccinated there. We also provide all employees with free protective masks and rapid tests at regular intervals. In addition, we offer free flu jabs. In December 2021, we offered our employees the opportunity to receive the booster vaccination. Our health management is rounded off by lectures and workshops that we offer in cooperation with our service providers – spread throughout the year and also during “BeHealthy” week.

We can provide our employees with information about coronavirus via telephone and e-mail seven days a week, around the clock. Our HR department (People & Culture) also has its own coronavirus hotline. Our colleagues from People & Culture deal with the employees' concerns and questions directly and as quickly as possible.

Because as a bank we belong to an essential sector, our branches remained open – in compliance with extensive hygiene and security concepts. We offered coronavirus vaccinations to our employees and provided them with face masks and self-tests. Further, employees who are at increased risk of a severe bout of Covid19 are given special protection.

In addition, the federal state resolutions and state ordinances were implemented in our bank together with the Occupational Safety Committee (ASA).

Promotion of Young Talent

Santander attaches great importance to the promotion of young talent. That is why we train numerous people in various training programmes every year. In 2021, a total of 95 apprentices, 13 dual students, 29 interns and 29 trainees were employed. Of these, we took on 33 apprentices, four dual students and 18 trainees in the year under review.

As in previous years, our bank received a large number of recognitions in its role as an employer in 2021: for example, the Mittlerer Niederrhein Chamber of Industry and Commerce honoured us for the thirteenth time as the best training company, and also with the “Special Award for Commercial Training”. In addition, seven of our former trainees are among the top 225 graduates. We have carried the “Fair Trainee Programme” seal for eight years.

For the thirteenth time in a row, the independent Top Employers Institute recognised our bank as a “Top Employer Germany”. All participating companies go through a standard validation process where all responses and supporting documents are reviewed by an independent and centralised entity. Our institute was certified in the categories of HR strategy, work environment, talent acquisition, training & development, well-being, and diversity & inclusion.

Digitisation

To drive the digitisation of HR topics, we launched the new Workday platform in October 2021. The implementation of this platform is aligned with the global digital strategy to harmonise global HR processes for more transparency and better international exchange. As a strategic priority, Workday is also a milestone in our bank's Roadmap 2021. There, employees can view their own personnel and employment data, the organisational charts of the entire Group, and access the internal job board.

In the wake of the pandemic, self-directed digital learning is gaining strong momentum alongside mobile working. That's why we offer our employees the Masterplan learning platform – with a large amount of training content in video format that is constantly updated and supplemented. These courses are not company-specific and cover a wide range of topics: from digitisation, soft skills, leadership topics, marketing to product development and new technologies.

Diversity & Inclusion

We also made progress again 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. We set the tone with presentations on various occasions, including International Women's Day, German Diversity Day, and International Day of People with Disabilities. We have also entered into a cooperation with the social enterprise myAbility: myAbility is committed to an equal-opportunity society and supports us in inclusion measures and the expansion of digital accessibility.

For the fifth time, we participated in the Women's Career Index (FKI) survey (the data basis for the 2021 survey was the 2020 financial year). The FKI instrument was launched in 2012 by the German Federal Ministry of Family Affairs to evaluate women's opportunities for advancement. We also continued to support the Women into Leadership initiative, a non-profit association dedicated to the sustainable development of female leaders. In the year under review, we implemented a Germany-wide women's mentoring programme for the second time, with 12 mentees and mentors each, to promote young female talent. For the first time we also launched a global women's mentoring programme involving five mentees and one mentor from Germany. In March, we celebrated a "Women Week" in view of "International Women's Day" – with lectures, round tables, and a global meeting.

Sustainability and Responsible banking[3]

As early as 2020, Santander Group committed to making its entire portfolio CO_2 neutral (net zero) by 2050. In the year under review, our Group reinforced this intention through further activities such as participation in the Net Zero Banking Alliance. To meet the Net Zero CO_2 emissions target and facilitate the transition to a low-carbon economy, our bank will, among other things, align its power generation portfolio with the Paris Agreement by 2030. We published the following decarbonisation targets:

- By 2030, Santander will no longer provide financial services to power generation customers where more than 10% of sales depend on hard coal.
- By 2030, the bank will eliminate all exposure to global coal mining.

Embedded in these Group targets, we drove forward the following activities in particular in Germany in 2021 – divided into the three main topics of our own CO_2 footprint, product-related activities, and social commitment:

Own CO_2 footprint

- Since 2020, Santander has been neutralising the CO_2 footprint of its business operations. These include, for example, the operation of the company administration and all branches, energy and resource consumption, waste disposal, business trips, and the emissions of company vehicles. In the year under review, we significantly reduced our emissions and offset the remaining emissions by purchasing CO_2 certificates.
- We also compensated for the CO_2 impact caused by our 2021 marketing campaign. We also do not use disposable plastic packaging at our headquarters and have significantly reduced paper consumption.
- The share of electric and hybrid vehicles in company cars has risen to around one-third.

Product-related activities

- To offer our customers even better investment opportunities in terms of sustainability, we significantly expanded our range of ESG-compliant investment funds in the year under review.
- In 2021, we sharply increased the share of financed electric and plug-in hybrid vehicles from 15% in the previous year to 27% in the year under review. Customers can also take advantage of a comprehensive range of e-mobility services, such as applying for the government's environmental bonus.
- With the Apple Education Programme, we offer parents an Apple iPad for their children's school lessons; zero% financing via instalment purchase without a credit check.
- To help employees, dealers, and customers affected by the floods in North Rhine-Westphalia and Rhineland-Palatinate, we are providing them with debt service relief. For example, affected customers can choose between a three-month instalment break or a six-month instalment reduction. .

Social commitment

- The bank maintains a network of university cooperation with "Santander Universities". In 2021, for example, 28 universities in Germany were working with us.
- As part of our social commitment, we provided financial support to 14 charitable organisations in the year under review.

[3] This section was not subject to review by the auditor.

RISK REPORT

Risk Strategy Guidelines 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 model risks arise from decisions on strategic and sales targets in specific business areas or due to 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 area, 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 riskrelevant business. Approvals relating to proprietary business are generally granted on the basis of a resolution of the Management Board.

Our Treasury and Capital Markets areas 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, bearer bonds in the form of medium-term notes (MTNs), money market paper, and promissory notes as well as mortgage bonds.

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

Our Management Board and our sales units manage business model risks using planning instruments (e.g., budgets) and through appropriate sales or marketing measures; the Controlling area reports on these risks, and the strategic risk function monitors them.

Specially trained OpRisk coordinators manage operational risks on a decentralised basis in the respective areas. The Non-Financial Risk & Internal Control area is responsible for risk measurement and monitoring.

Our Risk Controlling area monitors model risks; it 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 defined in the currently valid Risk Strategy 2021 (as amended in November 2020) approved by the Management Board. The risk strategy targets for 2022 were approved by our Management Board in November 2021.

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 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;
- pursue a transparent policy with regard to the disclosure of risks.

The development and promotion of the risk culture is the responsibility of our Management Board. 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 willing to take in order to achieve its strategic objectives.

To establish and promote an appropriate risk culture, we also initiate various measures 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 area manages the liquidity, pension, market price, and related counterparty default risks of counterparties and issuers.

The Controlling, Accounting & Regulatory Information, Finance Enablement and Finance Business Partner areas are assigned to our Chief Financial Officer (CFO). The Controlling area is responsible for business and financial planning. Our Accounting & Regulatory Information area maps the transactions carried out in external accounting; it is also responsible for regulatory reporting.

Our Chief Risk Officer (CRO) is responsible for the following areas: Risk Steering, Risk Execution, Risk Controlling, Risk Modelling, Compliance and Non-Financial Risk & Internal Control.

RISK MANAGEMENT

Since the 2021 financial year, our risk management has been divided into two units: firstly, a Risk Steering unit, which is responsible for the overall risk management of the individual loan portfolios and thus, among other things, for the credit approval rules and restructuring requirements; and secondly, a Risk Execution unit, which is responsible for secondary approvals and credit decisions for risk-relevant business and for the restructuring and settlement of commercial exposures. In this context, both units are organised according to their competencies in the following categories:

- Automotive (dealer purchase financing, motor vehicle retail financing, leasing)
- Non-automotive (instalment loans in direct business, private real estate financing, card products, and consumer financial services)
- Corporates & Financial Institutions (corporate loans)

In order to grant, amend or roll over counterparty and issuer limits, our Risk Execution area prepares templates on the basis of which our Management Board makes the final investment decisions.

We have established a cross-portfolio collateral management function that coordinates a comprehensive response to regulatory requirements and ensures uniform standards for our loan collateral.

To address the increasing importance of residual value risks, we have also established the function of Residual Value Manager within Risk Steering Auto; this person is responsible for the risk management of residual value risk.

RISK CONTROLLING

The Risk Controlling and Non-Financial Risk & Internal Control areas, which are independent of the risk management units, are responsible – for internal as well as external and regulatory purposes – for risk reporting and the analysis of our bank's risk situation with regard to the material risk types of credit risk, market price and pension risk (in particular interest rate risks), liquidity risk (in particular refinancing risks), operational risk and model risk. Business model risk is analysed by the Controlling area; our Strategic Risk function monitors and reports on it.

Each month we report comprehensively on risks directly to our Management Board in the form of the risk report – broken down by product line and risk type. In addition, we also calculate the loan loss provision for the entire loan portfolio on a monthly basis. Furthermore, our area analyses material concentration risks.

To determine the risk situation, our Risk Controlling area 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.

In addition to monitoring credit risk, the Credit Risk Oversight department has taken on IRBA-related tasks in connection with the planning and implementation of the IRBA project (IRBA: Internal Ratings Based Approach). For example, when introducing the advanced IRB approach for the main asset classes, it prepares conceptual and technical specifications for implementation, carries out appropriate tests, and is responsible for ensuring compliance with the roll-out plan and the documentation required for regulatory purposes.

The area is also responsible for the risk identification, monitoring, and control processes for the bond business. In addition to the general requirements of the German Banking Act (Kreditwesengesetz) and the minimum requirements for risk management, the tasks are based in particular on the provisions of Article 27 and 28 of the German Bond Act (PfandBG).

In addition to the requirements for cover assets set out in the PfandBG, we have defined individual warning thresholds as part of our risk management. These regularly exceed the statutory requirements; thus, we have imposed stricter requirements on our institution with regard to the cover pool than is required by law. We use the TXS Covered Bond software to monitor compliance with the statutory limits and the institution's own warning thresholds on a daily basis.

RISK MODELLING

The Risk Modelling area is responsible for the initial or further development of local, productive decision models in the loan application process (application and behavioural scorecards for the retail business and rating models for the commercial lending business). It is also responsible for developing and regularly estimating the credit risk parameters used in connection with regulatory and economic capital and in the impairment context. Since 2017, the area has also been designing IFRS 9 provision models and creating them for contractual partners as part of "banking as a service". It also determines the correlations of these parameters with macroeconomic factors as a basis for calculating the IFRS 9 forward-looking component and for stress tests. The Risk Modelling area is also responsible for the initial validation of the further development of Banco Santander's economic capital model and the development of individual models for specific risks. In addition, the P&L forecast models (PPNR) are also created here, as well as the forecast models of the defaults and recoveries for liquidity risk and fraud identification modules. The area acts on behalf of the following functions: Risk Steering, Risk Controlling, Collection Business Unit, Controlling, and Compliance.

COLLECTIONS MANAGEMENT

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

In order to minimise risk costs, our goal is to return payment-disturbed accounts to an orderly payment process. 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 process for accounts in arrears. Here, an important role is played by proactive and early contact with the customer, 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 digital self-service platform. By providing payment settlement via an alternative payment method or obtaining a new payment agreement, they can manage their arrears independently.

Furthermore, the Collection Business Unit's tasks include the securing and liquidation of collateral.

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

The Risk Execution area's Intensive and Problem Loan Processing unit is responsible for the management of commercial loan exposures with payment problems. In order to wind up these exposures after unsuccessful restructuring attempts or after the liquidation of the collateral, this task is transferred to the CBU.

Business customers in the Business & Corporate Banking portfolio with accounts in default are also serviced by the Intensive and Problem Loan Processing department in the Risk Execution area; in contrast, the CBU Termination/Write-Off department commissions external service providers to recover loan exposures that can no longer be restructured following termination and to liquidate existing collateral – bundled for private and commercial customers.

INTERNAL CONTROL AND MONITORING SYSTEM

Our bank's internal monitoring system comprises process-dependent and process-independent measures. Process-independent monitoring is primarily performed by Internal Audit or Corporate Audit. Non-Financial Risk & Internal Control performs supporting and bank-wide coordinating tasks with regard to assessing 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 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 by means of manual and automatic processes (e.g. integrated dual control principle; separation of functions, regulations regarding competence regulations, method specifications, requirements for 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 are designed to ensure a specified level of security (e.g. analysis/monitoring of loan agreements with regard to systematic risks in the contract design and implementation of a rule check at individual transaction level). Control measures are integrated into the work processes and serve to prevent or detect errors.

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

As process-independent institutions, our Internal Auditing and Corporate Auditing departments regularly review the processes and methods used in accordance with the risk-oriented audit approach, both for compliance with statutory and regulatory requirements and for adherence to Group specifications. Subsequently, the Audit department prepares audit reports and follows up on the issues identified. Guidelines for internal auditing can be found in the bank's Audit Manual.

In accordance with the standards of the European Banking Authority (EBA), our bank has implemented the compliance function as an integral part of internal governance. The Conduct Compliance 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 uniformly and that consumer protection regulations are followed. Furthermore, the department reviews existing products as part of the Product Monitoring Forum (PMF) and is responsible for following up on complaint grounds; the underlying facts are analysed and serve as indicators of maladministration.

The Regulatory Compliance department monitors, controls, and works to ensure that the guiding principles and guidelines we have imposed on ourselves to comply with the rules and regulations that are essential to our bank are implemented and adhered to. These include, above all, data protection regulations and relevant regulations on financial market supervision (e.g. EMIR regulation and Volcker Rule). In addition, the Early Warning team advises management and the areas on the implementation of new legislation, relevant supreme court rulings and 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 main shareholdings. The Compliance area also helps to prevent, identify, and resolve conduct or situations relevant to criminal law (corporate defence); it also provides the framework for managing reputational risks and monitors these risks for our bank.

In order to comply with the regulatory requirements for our bank's "central office," our Financial Crime Prevention compliance unit monitors and controls customer transactions, embargo regulations, and financial sanctions; the aim here is to prevent financial crime, money laundering, terrorist financing, and other criminal acts. This ensures an overall concept that minimises risk (Article 25h para. 1 sentence 1 in conjunction with para. 7 sentence 1 of the German Banking Act), taking into account the risk aspects defined in organisational terms as part of a regular risk analysis (Articles 5 and 9 of the German Money Laundering Act).

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

RISK TYPES

The Management Board has adapted our bank's risk strategy to the complexity of its 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, illiquidity 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 incorporates 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, counterparty credit, investment/equity, foreign currency, strategy execution, process, compliance and conduct risks, money laundering, reputation, and staff risks.
In the year under review, the effects of sustainability risks in particular were taken into account as part of the risk inventory. Sustainability risks act as risk drivers for other types of risk, such as credit risks or operational risks, 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 areas.

The main risks are described below:

Credit risks

The bank refers to credit risks (here: counterparty credit risks) as the risk of loss due to expected and unexpected default.

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 portfolio in the total portfolio (NPL ratio), and the degree of coverage of the non-performing portfolio by risk provisions (NPL coverage). These and other key figures are measured at segment level as part of the monthly risk reporting system 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-stage impairment model in accordance with accounting standard IFRS 9. In addition to the currently available data, the approach 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 legally effective termination of the commitment. For larger credit exposures in the areas of dealer stock financing or business and corporate banking, indications of impending default or financial difficulties on the part of the borrower may also be found during an individual case assessment without the above criteria being 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 default, 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, including through the transfer of the credit exposure to collection agencies, 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 stock financing or business and corporate banking in level 3 are considered separately; for these, an individual 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 of the PDs shown differs according to classification into Level 1 (expected defaults over the next twelve months) or Levels 2 and 3 (defaults expected over the remaining term; please refer to the table on the next page).

Most of the borrowers are economically dependent; the vast majority (approx. 84%) also have a default probability of less than 1%.

The core elements of credit risk management are the constant review of all credit exposures and the credit exposure and restructuring rules, as well as the maintenance and documentation of competencies, including compliance monitoring and responsibility for all relevant policies and organisational instructions.

Net total per PD bands by business segment as of 31/12/2021 (in % and € million)

PD band / Segment	Retail customers	Business customers	Real estate financing private	Real estate financing commercial	Total
< 1.0%	80.3%	94.9%	98.9%	83.4%	**83.7%**
	16,075	2,602	2,393	149	**21,219**
1.0% – 99.9%	17.9%	4.6%	0.8%	15.6%	**14.8%**
	3,587	126	20	28	**3,761**
100%	1.8%	0.5%	0.3%	0.9%	**1.5%**
	362	15	7	2	**386**
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
	20,024	**2,744**	**2,420**	**178**	**25,365**

Credit risk management also includes the receivables securitised as collateral for asset-backed securities (ABS) and bond issues – irrespective of whether the bank bears these risks economically or not. The 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 have an impact, including, for example, a resurgence in personal bankruptcies or unemployment and growing divorce rates.

Such macroeconomic events were the consequences of the coronavirus pandemic in the past two years. The post-model adjustment to the allowance for losses on loans and advances of €18.5 million recognised in the 2020 financial year was integrated into the system-side calculation of the allowance for losses on loans and advances in the year under review by updating the IFRS 9 parameters to the coronavirus pandemic time window and adjusting the macroeconomic outlook accordingly.

Market Price Risks

Our bank defines market price risk as the risk of potential losses due to declines in the value of securities or the interest-bearing portfolio that the bank may incur as a result of changes in prices and interest rates on the financial markets. In our case, these risks are largely interest-induced. In addition, there are very limited foreign currency risks. 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, a number of other interest rate scenarios are calculated and reported in the risk report, broken down into management-relevant, regulatory, and other observation scenarios. The extent to which parallel shifts in the interest rate curve affect net interest income is also examined (income statement-oriented approach).

Using standard software, cash flows of all interest-bearing items including existing pension obligations are prepared and the present value of the interest book is calculated. The legal standards applicable to the bank are fully implemented. The results for interest rate risk are presented in a consolidated form in a separate report in the monthly risk report. As of the balance sheet date, the interest rate risk in the event of a change in interest rates of minus 25 basis points amounted to €26.1 million (as of the end of December 2020: risk of €9.9 million). The opportunity at an interest rate change of plus 25 basis points was €14.6 million at the end of December 2021 (compared with an opportunity of €24.4 million at year-end 2020). A key driver of interest rate risk in 2021 was the continued and expanded participation in the TLTRO-III programme. 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 €237.6 million at the end of December 2021, 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 amounting to 8.2% 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 year-end 2020, the highest risk value was minus €208.0 million.

To assess the intrinsic interest rate fluctuation risks of mortgage bonds or their underlying cover assets, interest rate stress tests are performed using the mortgage bond software TXS. In accordance with the static approach defined in Article 5 of the Covered Bond 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, which are based on own assets, amounted to €10.3 billion at 31 December 2021 (previous year: €9.9 billion). During the year, a new consumer ABS was issued and an existing mobility transaction was topped up. Furthermore, two ABS transactions were settled (clean up calls). As a result, there was a slight increase in the investment portfolio. 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 €7.8 million for own ABS securities due to short-term price fluctuations (previous year: €62.1 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 ratings (at least AA). This acquisition was made as part of liquidity management. Securities are classified as fixed assets. As of 31 December 2021, the securities portfolio stood at €1,650 million. The value at risk on the same date was €1.13 million with a confidence level of 99%, 500-day observation period and 20-day holding period.

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

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, and managed and monitored via the individual limit defined in the risk-bearing capacity calculation. In addition, the cash flows resulting from pension obligations are taken into account in the interest rate shock scenario (+/- 200 basis points). With the publication of BaFin Circular 06/2019, 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 area acts as the first line of defence, Risk Controlling as the second.

Liquidity risks

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

Funding 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 illiquidity risk described below is also part of the ILAAP. Liquidity risk is managed from an economic perspective using the liquidity maturity statement, which compares expected cash inflows and outflows over a period of 72 months, as well as using current forecasts prepared daily by Treasury. In addition, our institution calculates liquidity stress tests in different scenarios based on the maturity profile; these in turn result in the calibration of the liquidity buffer.

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 (58%), lending on securities at the ECB including participation in the long-term, earmarked refinancing programme TLTRO (26%), the issue of bearer bonds in the form of ABS, medium-term notes, commercial papers and mortgage bonds (15%), and borrowing from third-party banks (1%).

Thanks to our bank's diversified refinancing structure, liquidity was not at risk at any time during the year under review and was secured at all times. We also did not see excessive liquidity outflows during Covid 19-related lockdown periods. 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 sources of liquidity that are immediately available.

In order to ensure that payment obligations in the covered bond business can be met at all times and to identify liquidity bottlenecks, we have set warning thresholds and limits 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 covered bond business is also designed to ensure that the statutory limits and the internal early warning indicators in the liquidity forecast are met.

As of 31 December 2021, the liquidity coverage ratio, LCR was 519.6% (previous year: 236.6%). We will continue to closely monitor future specifications of liquidity ratios at national and European regulatory level. Furthermore, in order to adequately reflect the risk from increased refinancing costs, we calculate a risk measure in the form of a liquidity value-at-risk as part of the ICAAP as part of overall bank management.

With regard to liquidity risks, the monthly risk report includes the liquidity progress review and ratios to assess the dispositive and structural liquidity view. The Treasury area provides information on cash management, refinancing, and investment policy at the meetings of the Management Board.

Illiquidity Risk

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.

Using the Daily Liquidity Status and Outlook report, our bank monitors and forecasts liquidity requirements for the next five days, ensuring sufficient short-term liquidity.

In order to ensure intraday liquidity management, our institution maintains accounts with the ECB as a basis for the minimum reserve. In addition, payment transactions with large positions are processed 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 Independent Liquidity Reserve indicator and presented in the risk report. In order to cover these short-term liquidity requirements, our bank currently maintains a liquidity buffer of at least €2.1 billion; the amount of this buffer 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

In line with the Capital Requirements Regulation (CRR), our institution defines operational risk as the risk of losses caused by the inadequacy or failure of internal processes, people, and systems or by external events. This definition also includes legal risks; explicitly excluded from this are strategic, business, and reputational risks.

Operational risks are managed within the framework of the defined economic capital limits for operational risks and the risk appetite ratios. As of 31 December 2021, the primary metric of net loss to gross margin, "OpRisk Net Loss to Gross Margin," was 1.26% (previous year: 0.66%). Compliance with the limits is primarily monitored by the risk committees.

As with the other risk types, our bank organisationally follows the principle of the three-lines-of-defence model, according to which the first line of defence manages the risks. In terms of operational risk, this includes all our business areas. In addition, independent control functions assist these areas in managing specific operational risks (e.g., technology, cyber, fraud, or outsourcing risks). The second line of defence monitors and assists with operational risk management and reports to the Local Operational Risk Committee and the Management Board. Internal Auditing represents the third line of defence as an independent control authority.

Our bank actively manages operational risks using Group-wide tools and procedures – with the aim of identifying the operational risk profile and risk concentrations and systematically mitigating these risks through measures.

We use a range of tools to identify and assess operational risks: these include, in particular, loss events that have already occurred (internal loss data), the risk self-assessments and scenarios for anticipating high operational risk potential, and the risk indicators that serve as an early warning system. In addition, control testing identifies control weaknesses that may trigger increased operational risk.

Our institute has also implemented a business continuity management concept to ensure its functionality so that business processes identified as critical can continue in the event of a disruption or emergency.

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 operations as a result of a change in the legal situation.

The Legal & Governance, Compliance, and Public Policy areas keep the relevant areas of our bank up to date on current statutory and legal developments; in this way, they are taken into account in our business activities. Contracts and standard forms are coordinated with our legal department. Adequate provisions are recognised 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; this also includes the risk of inappropriate applications of available models. The line manager responsible for the model manages the risks. The Risk Controlling area is responsible for monitoring model risks that may arise from deficiencies in the models. To ensure adequate management and monitoring of this risk type, we have 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 Communications Technology Risks, Including Risks from Cybercrime

In recent years, the risks arising from the use of new technologies, advancing digitisation, and cybercrime have continued to grow. That is why our bank pays particular attention to these operational risks.

The main objectives of our cyber security strategy for managing cyber risks are to protect against cyber crime and ensure a resilient infrastructure; in doing so, we leverage current technological capabilities.

To implement these goals, we have implemented a cyber security framework based on the methodology of the German Federal Office for Information Security (BSI) and international security standards. Regulatory requirements (banking supervisory requirements for IT, BAIT) are observed and corresponding guidelines and procedures are derived and implemented.

Our bank has introduced a holistic approach to minimise the probability of occurrence of cyber risks by implementing appropriate countermeasures, thus keeping losses from cyber crime as low as possible. When using cyber security services, our institute benefits from the expertise, services, and resources of the Santander Group. To further improve cyber security measures, our Group launched strategic initiatives during the year under review to implement more advanced and detailed countermeasures, such as Security by Design, Fraud Overwatch, and Supply Chain Security.

A major source of cyber risk is outdated systems and applications. To close these vulnerabilities, our bank follows Santander Group's "zero tolerance" policy. Based on the criticality rating of IT assets, priorities are set to ensure there is no outdated software or hardware, no overdue critical security patches, and no overdue critical vulnerabilities. For this purpose and in order to review measures, the bank has established corresponding key figures and monitoring mechanisms.

The cyber security team assigned to the Chief Information Security Officer (CISO) is to ensure the implementation and control of IT security standards. Operational risk indicators and risk appetite indicators were defined for monitoring the main operational risks (fraud, IT, cybercrime, and outsourcing). In addition, we have further developed the control environment within the first line of defence. On a monthly basis, the Non-Financial Risk & Internal Control area reports the above indicators to management and also monitors relevant IT, cyber activities, and measures.

As part of our "Banking as a Service" business area, we offer contractual partners banking services; these include the provision and maintenance of IT systems and applications for business operations and mapping the required application workflows. In addition, Cyber Security Services are offered, such as Identity & Access Management and Network Security.

BUSINESS MODEL RISKS

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

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

Migration Risk
Migration risk refers to the risk of loss due to deterioration in the creditworthiness of a borrower within the agreed credit period. The risk management units are responsible for controlling and the Risk Controlling area for monitoring.

Sector Risks
Sector risk describes the risk affecting companies in a particular sector. It arises due to the focus on certain products that are exposed to different economic developments over time (e.g. changing consumer habits or rising raw material prices). Any sector risks are monitored as part of concentration risk monitoring. Our risk management team prepares regular industry reports for the main sectors.

Counterparty Credit Risks
Our bank considers counterparty credit 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 because the counterparty fails to perform the service agreed for a later date, the bank has to make advance payments in trading transactions or difficulties arise in the settlement of transactions.

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

Collateral and Residual Value Risks
Residual value risks arise if the contractual residual value cannot be realised when a vehicle is sold and this loss is borne by our bank, e.g., due to dealer insolvency (so-called indirect residual value risk). These are monitored by our Risk Steering area and taken into account in risk provisioning.

Our risk management units manage collateral risk primarily in accordance with the requirements of the collateral strategy and the collateral manual.

Compliance Risks
The bank describes compliance risk as the risk of potential losses arising from non-compliance with regulatory or statutory requirements. These risks are managed by the responsible line manager, and the Compliance area is responsible for monitoring.

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

Conduct Risks
Conduct risk is defined as the existing or future risk of losses incurred by an institution as a result of the inappropriate provision of financial services, including cases of intentional or negligent misconduct such as unfair sales practices of products and services, irregular application of incentive procedures in sales, and conflicts of interest within the bank. Possible indicators include penalties and customer complaints. In principle, the first line of defence counteracts the behavioural risks; it is in turn monitored by the second line of defence. The Compliance area has set up a detailed monitoring system for the securities business: in addition to supporting the introduction of new products, this includes monitoring all existing products. All documents intended for the customer are reviewed on a random basis and, if necessary, approved with modifications to ensure the required probity and transparency, especially with regard to product risks and costs for the customer. Employee training programmes are also reviewed for content accuracy and desired prioritisation of customer interests. The same applies to all internal work instructions and guidelines.

Reputational Risks

Our institution defines reputational risk as the risk of current or potential negative economic impact on the bank due to damage to the perception of the bank by its stakeholders (customers, employees, shareholders, and the general public, such as rating agencies and regulators). Reputational risks rarely occur on their own, but are usually complementary to other types of risk. They are controlled by the responsible line managers. To this end, the Regulatory Compliance department has drawn up guidelines according to which the areas identify, analyse and evaluate potential risk scenarios in order to define and take action where necessary. These risk scenarios are reported to the Regulatory Compliance department, which in turn supports the areas in managing their reputational risks.

Staff Risks

Personnel risk is defined as the risk of losses due to insufficient qualitative and quantitative staffing. The Human Resources area is responsible for staffing. In doing so, it reviews qualitative staffing levels based on annual employee 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 Organisation unit that confirm the need for new positions. These decision papers are presented to our Management Board.

Foreign Exchange 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 2021, there was an open position in foreign currencies amounting to €6.3 million (previous year: €2.3 million) in the bank's portfolio. Foreign currency risks are managed by the Treasury area and monitored by the Risk Controlling area.

Process Risks

Process risk is the risk of losses arising from inappropriate processes. The respective process owner must ensure proper process execution. These risks are monitored by means of organisational security measures and controls. Measures designed to prevent errors are integrated into both the bank's organisational structure and process organisation and ensure a specified level of security. As a process-independent institution, Internal Auditing regularly reviews the processes and methods used. To this end, it uses a risk-oriented audit approach, both with regard to conformity with statutory or regulatory requirements and with regard to compliance with Group requirements.

Sustainability Risks

Sustainability risks have environmental, social, and governance aspects. These act as risk drivers on other risk types (such as credit risks or operational risks) and are not considered a separate risk type but a secondary risk. Sustainability risks are already taken into account in the "established" types of risk, e.g. within the lending process of our Business & Corporate banking business, or in operational risk management as part of the recording of external events. Taking into account current social, economic, and regulatory developments, we are working on the further integration of sustainability risks into risk management and risk controlling processes, e.g. in the form of stress tests or risk appetite monitoring.

Concentration Risks

In addition, the bank manages and monitors potential concentration risks. The Herfindahl-Hirschmann index is used as a concentration measure. Concentration risks are defined as risks arising from an uneven distribution of business partners in lending and other business relationships or from sectoral or geographical business focuses, which may have a significant adverse effect on the operating result and/or jeopardise the continued existence of the bank. Concentration risks can occur within a single risk type or together in different risk types and have a compounding effect. Due to our business model, potential concentrations mainly result from the type of objects to be financed (motor vehicles, real estate). The effects of identified concentrations are presented monthly in the notes 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.

Sector risks are also considered from a concentration risk perspective, whereby our bank has established clear rules regarding the limitation and exclusion of certain sectors. As part of the expansion of our business model to include SME financing, we have also implemented sector monitoring in the form of sector reports.

In the context of covered bond business, possible concentration risks – in relation to the cover pool underlying the covered bond – must be limited in accordance with the PfandBG. The bank meets this requirement by setting internal warning 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 made for liquidity risk; here, the liquidity structure and maturities are monitored regularly.

Identified concentration risk scenarios are depicted as part of the risk-bearing capacity calculation.

ICAAP

The ECB's guidance on the Internal Capital Adequacy Assessment Process (ICAAP) is 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 depicts the appropriate level of capitalisation and its utilisation. Capitalisation is adequate if the sum of the material risks is consistently 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 if the ratio exceeds the value of 100%. The economic perspective is based on a uniform confidence level of 99.95% for all risk types.

The economic perspective considers internal capital and economic capital requirements on a present value basis. 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.

Counterparty risk is determined by calculating the loss distribution for a holding period of one year using Santander Group's credit portfolio model from the credit risk measurement data sets. The economic view is represented by a multi-factor model variant that takes into account correlations derived from the portfolio property. By taking migration risks into account, the present value view is also ensured.

Credit risk is quantified in the form of value at risk for a holding period of one year. As of 31 December 2021, the total credit risk charge was €819.3 million (previous year: €950.3 million). At the same date, the excess coverage ratio of the defined risk tolerances for the main business segments in relation to the total credit risk charge ranged from 76% to 695%.

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 at the balance sheet date amounted to €61.1 million (previous year: €92.8 million). In addition, the changes are calculated for different historical and hypothetical stress scenarios (including parallel yield curve shifts of 100 basis points as a key internal control variable).

The value at risk for ABS risks measures the loss in value of repurchased securitisations at the confidence level. This loss in value is derived from historically observed spread changes. As of 31 December 2021, the risk amounted to €11.1 million (previous year: €31.1 million).

For existing securities risks, the value at risk for a 20-day holding period amounts to €1.4 million (previous year: €3.0 million). The reason for the lower holding period compared to the other risk types is the acquisition of exclusively highly liquid assets with an external AAA rating; we assume that these assets can be sold on the market at any time.

The value at risk for managing foreign exchange risks was €1.2 million in December 2021 (previous year: €2.6 million) and thus within the defined limit. In determining the market price risk, the historical simulation with a holding period of 62 working days is used for the foreign currency risk; the basis is the exchange rate data history since 1999.

Operational risk is determined using the loss database as well as 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 as of the balance sheet date (previous year: €435.6 million).

The liquidity value at risk is based on the liquidity maturity statement and is calculated from the differences between a reference ratio and simulated ratios. These ratios are calculated using historical spread curves, based on a data history since 2012. The holding period for closing liquidity gaps is set at 62 trading days. As in the previous year, the value at risk at the end of the year under review was €0.0 million.

The calculation of business risk is based on a normal distribution calibrated with the deviations of budgeted to realised profit. The value at risk at 31 December 2021 was €63.0 million (previous year: €65.2 million).

The pension risk is calculated using the Monte Carlo simulation. It consists of interest rate risk for pension cash flows, where interest rate changes are determined by a Hull-White model, and longevity risk, which is assumed to be normally distributed. The value at risk at the balance sheet date amounted to €86.3 million (previous year: €110.2 million).

The model risk is calculated implicitly in the above-mentioned risk types and it is taken into account through mark-ups on those parameters on which the risk types are based.

In addition, our bank regularly conducts an overall bank stress test, which affects all material 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 their combinations are presented. In addition, potential risk drivers for the implementation of inverse stress tests were identified. The bank conducts a total of four inverse crisis stress tests, which have particular significance in the preparation of a recovery plan for Santander Group.

As the coronavirus pandemic in Germany and Europe progresses, we calculated a separate stress scenario in February 2021. Although this resulted in a significant increase in risks, the risk-bearing capacity was also in place under the assumptions made.

The adequacy of the bank's capital resources is monitored by a three-level risk tolerance system, both at overall bank level and at the level of risk types and business lines. In 2021, our bank's capitalisation was adequate at all times in both control groups applied. As of the balance sheet date, the capital surplus coverage ratio was 213.5% (previous year: 177.6%). The ratio is derived from internal capital of €3,159.7 million (previous year: €3,002.9 million) and the sum of the economic losses of the main risk types of €1,479.8 million (previous year: €1,690.8 million).

The Common Equity Tier 1 capital ratio pursuant to Article 10 KWG in conjunction with Article 92 para. 1 a) CRR was 15.01% (previous year: 14.89%), the core capital ratio 15.02% (after 14.90% in 2020). Own funds in accordance with Article 10 KWG in conjunction with Article 72 CRR amounted to €3.308 billion (previous year: 3.339 billion). Capital requirements amounted to €2.324 billion (previous year: €2.389 billion). This results in the total capital ratio as defined in Article 92 para. 1 c) CRR of 17.08% at year-end 2021 (previous year: 16.92%)[4].

The two ICAAP perspectives are closely related 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 discussed in the local capital forum with regard to both their regulatory and economic aspects. The Management Board is represented in this forum by the CFO (Chair), CAO, and CRO.

[4] A subsequent amendment was made to the previous year's figures.

CONCLUDING REMARKS ON THE RISK REPORT

The 2021 financial year was dominated by the coronavirus pandemic, with the established level of risk appetite proven by overall robust portfolio performance during the coronavirus crisis. As a result, and in view of the continuing existing uncertainties, there are no plans to increase risk appetite. Close monitoring and targeted adjustment of lending guidelines have been implemented. Until the economy has recovered sustainably, portfolios will still need to be managed and monitored more closely in 2022. We are therefore monitoring macroeconomic developments very closely, particularly with regard to the increase in insolvencies, and will continue to take the progress of the crisis into account as part of our stress testing concept. Even during the crisis, our bank maintained a very stable liquidity position and additionally 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 2022. In the year under review, we further developed and optimised the risk management and risk controlling systems as key components of adequate bank management in line with regulatory requirements.

For example, we have launched a multi-year programme to create a modern, uniform, and robust IT infrastructure ("single point of truth") to align with a data-driven, omni-channel business model. Gradually, fully automated reporting solutions, user-specific applications, and consolidation and consistency checks are to be implemented for all major risk types. The first application to be used was the Asset&Liability Management (ALM) DataMart. It can be used to generate the LCR and NSFR regulatory reports fully automatically and also enable user-specific applications, e.g. for Risk Controlling or Treasury.

Other indicators (e.g. Market Value of Equity) are also generated by the ALM DM. To this end, the system was expanded to include a module for interest rate risks (Interest Rate Risk Engine, IR-RE). We are currently in the parallel phase here and expect to put this into production in 2022.

For credit risk reporting (e.g. FINREP) and monitoring (e.g. MIS), a project to implement a uniform credit risk data set was initiated in 2019. The Credit Risk Data Mart (CrisDa) incorporates financial and risk information to support consolidation, increase accuracy, and improve consistency of credit risk-related reporting. In addition, the Credit Risk Metric Engine (CRIME) was set up to calculate relevant credit risk metrics at various portfolio levels, which were successively implemented in the above reports in 2021.

In the coming years, the Group's "Basel Data Repository" (BDR) will also be populated from within the SPOT environment. The goal is, among other things, to enable the calculation of capital-related metrics. In addition to the continuous expansion of existing business segments, our bank will expand its refinancing options by broadening its product and refinancing sources (e.g., third-party banks) and by increasing the number of (deposit) customers. Following the successful issue of money market paper, medium-term bonds, and covered bonds, we intend to expand the refinancing lines of existing third-party banks and take on additional 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.

In order to further optimise risk management and risk controlling processes, the bank plans to transfer further portfolios to the IRBA. In the coming financial year, the bank plans to apply for use of the internal approach for motor vehicle financing for corporate customers who are not car dealers or assigned to the Business & Corporate Banking portfolio. In addition, the transfer of follow-up financing for the automotive business to the IRBA is being reviewed by the supervisory authority.

The regulatory requirements regarding the new definition of default are implemented in a two-stage approach. While recognition of the new default definition has already been approved and implemented, testing of the associated risk parameters is scheduled for the 2023 financial year.

The coming financial year will again be dominated by the coronavirus pandemic and the associated challenges for business and society. In particular, the effects on global supply chains, which lead, for example, to resource bottlenecks in the production of motor vehicles and thus to delays, shall be mentioned. We monitor and analyse the various effects of the pandemic so that – based on these – appropriate measures can be developed and initiated.

FORECAST AND OPPORTUNITIES REPORT

The economic recovery in the German economy is expected to continue in the coming year, according to our estimates. After another slow start – mainly due to the fourth coronavirus wave caused by the new omicron variant and the measures taken to combat it – we expect to achieve tangible growth of around 4% for the year as a whole. Economic activity is not expected to return to pre-pandemic fourth quarter 2019 levels until second quarter 2022.

Consumer spending by private households is likely to make an above-average contribution to the economic catch-up process. Her, too, the prerequisite is that the production of consumer goods such as cars can be expanded accordingly. Consumers' propensity to buy should increase noticeably again from spring 2022, when significant progress in vaccinations makes it possible to noticeably relax the restrictive coronavirus measures again. Consumer demand should be additionally stimulated by the further improvement in the situation on the labour market, which will be reflected in rising employment and falling unemployment. Finally, households will probably use some of the large surplus savings they accumulated during the coronavirus crisis for additional spending. Transfer incomes should increase only slightly despite the strong increase in pensions, as short-time work is expected to decline again at the same time. However, another relatively high inflation rate will reduce purchasing power to a similar extent as in the year under review. The savings rate is expected to normalise further to around 12%.

Strong impetus should also come from investment in equipment, as signalled by high order backlogs in key industrial sectors such as mechanical and plant engineering. However, a prerequisite for a significant increase in business investment is that the supply difficulties for important preliminary products can be noticeably reduced. This, in turn, also depends primarily on the development of the pandemic in the other industrialised countries and, above all, in the emerging and developing countries. In any case, the still very low capital market interest rates do not represent an obstacle to a corresponding expansion.

Construction investment should expand at a slightly stronger rate again in 2022. In addition to fewer material bottlenecks, this should also be helped by continued very favourable capital market interest rates. The new government's measures to promote housing construction should also be supportive. The same applies to the desired transformation to a more ecologically oriented economy, since its implementation requires extensive construction activities. This is expected to be supported by comprehensive stimulus and future programmes. In addition, the approval processes are to be noticeably accelerated. However, the sharp rise in construction prices, particularly in the private housing sector, could have a dampening effect. In addition, the shortage of qualified construction workers continues to worsen.

Exports are also likely to contribute to the strong recovery of the German economy in 2022. The basic condition for this is that the massive supply bottlenecks are increasingly overcome, as German exports have a high import ratio. A significant expansion in exports is supported on the one hand by the high order backlogs in German industry and, on the other, by the increasing demand for products manufactured in Germany associated with the further revival of the global economy. The automotive industry in particular is likely to play a disproportionately large role in the high export momentum as bottlenecks are reduced. Imports are expected to increase at a similar rate to exports, so foreign trade should have a largely neutral effect.

The inflation rate is expected to fall again somewhat. On the one hand, the special effect from the return to regular VAT rates at the beginning of 2021 will disappear again at the beginning of 2022. Secondly, the base effect from the sharp rise in energy prices is gradually diminishing. In addition, the increase in the CO_2 levy is likely to be lower than in the year under review. Wage cost pressures have also remained within narrow limits thanks to moderate wage increases to date. However, the sharp rise in energy prices last year will be reflected with a time lag in consumer prices in 2022. The depreciation of the Euro is also likely to have a price-increasing effect. As a result, the average inflation rate for the year should again be above the ECB's target level of "2%" at just over 2.5%.

This also applies to the inflation rate in the Euro zone of around 3%. Despite once again exceeding its medium-term inflation target of "2%," the ECB is expected to leave its key interest rates at historically low levels in 2022, at 0.00% for the main refinancing operations rate and −0.50% for the deposit rate. It will continue to justify this on the grounds that price pressures will ease in the course of 2022 and inflation is expected to fall back to 2% or even below in 2023. However, the ECB will allow the pandemic emergency purchase programme to expire as scheduled at the end of March 2022. To this end, it will temporarily increase the securities purchase programme, which has been in place for some time and most recently amounted to €20 billion per month, and make it more flexible from April 2022.

The stimulus from the very expansionary fiscal policy of the past two years is also expected to be less pronounced in 2022. As the economic recovery continues, tax and social security contributions revenues should again grow markedly, while pandemic-related additional expenditures should be reduced. By contrast, additional government investment and spending to transform the economy into a more ecologically oriented one is likely to have a stimulating effect on the economy. Overall, however, the deficit ratio will decline markedly from 4.3% in 2021 to around 2.5% in 2022. This means that it will probably once again be well above the 0.35% of the economic output mark, which is why the debt brake is likely to be suspended for another year. Due to the high nominal growth, the debt ratio should nevertheless decline slightly.

Our Management Board expects profound changes in our market. Digitisation and mobile penetration – amplified by pandemic effects – are changing demand patterns. For example, our customers increasingly expect "end-to-end" solutions that are seamlessly integrated into all distribution channels and services that are delivered instantly, regardless of time and place. In this challenging environment, our bank anticipates the developments described below in its four business areas (mobility, consumer financial services, direct business, and business & corporate banking).

In the **mobility** business segment, we are one of the largest manufacturer-independent financing partners in the car, motorcycle and (motor) caravan sectors and also position ourselves as one of the largest lenders among the manufacturer banks known as captives in Germany. The strategy is geared to defending our strong market position in the long term.

For Germany, we forecast around 7.3 million changes or ownership and approximately 2.9 million new registrations for the coming year. We therefore expect the number of vehicle registrations in the German market as a whole to increase year-on-year, as factors such as the shortage of semiconductors will have less and less of an impact on growth in the course of 2022. As far as the private share is concerned, we expect both new registrations and changes of ownership in the coming year to be at a level comparable with 2021.

For 2022, we expect a slight increase in new car financing loan sales to just under €1.3 billion. Used car loan sales are expected to be €4.4 billion. As a result, we expect moderate year-on-year growth in retail automotive lending of just under €5.7 billion. This encouraging forecast is based on the assumption that car manufacturers will succeed in increasingly reducing the pent-up demand for new cars from 2021 in the following year. Stronger new vehicle business will also have a significant impact on registrations of new vehicles and thus have a positive effect on our credit sales in the used vehicle segment. In dealer acquisition financing, we forecast a slight increase in credit turnover to around €6.6 billion (previous year: €6.5 billion).

We would also like to intensify our cooperation with dealers and importers in the coming year. We expect car purchases to increasingly shift to digital channels. Improving the fully digital end-to-end journey is therefore the strategic thrust of our sales. To this end, online market places are to become increasingly transactional by enabling internet-savvy customers to complete the financing of a used car with just a few clicks in addition to buying a car. For example, we intend to develop our online automotive offering Autobörse.de into a comprehensive mobility platform for end customers and car dealers in the long term. We aim to further increase the loyalty of our mobility partners and end customers by closely dovetailing traditional car purchases from dealer partners with internet sales.

Our bank also wants to account for changing customer behaviour by offering car subscriptions. For the customer of tomorrow, the use of a motor vehicle will play a greater role than economic ownership. We therefore intend to further expand the sale of mobility packages via car subscriptions together with our dealer partners. With the aim of increasing customer loyalty, we will focus our sales activities on financing mobility packages over the next few years.

We aim 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. We expect the contract portfolio to decline slightly: From around 177,000 vehicles (as of the end of 2021) to just under 174,000 contracts by the end of next year.

We also expect positive effects for the leasing business from Allane SE (formerly SIXT LEASING SE), which is held indirectly via HCBE. Our focus in 2022 will remain on the further digitisation of the business model. We aim to generate stronger national and international growth through our three business areas of online sales of new vehicles, fleet leasing, and fleet management.

In our **consumer financial services (CFS)** business segment, we want to continue strengthening digital sales channels in the future. As loan sales increasingly shift to online channels, we plan to expand our e-commerce offering and establish new merchant relationships. We are continuing to work intensively on the further development of our business model – from a provider of financing in the stationary retail sector to a provider of payment solutions for end customers. Thanks to the measures we have initiated, we expect new trade credit business to increase significantly in the 2022 financial year. We expect the e-commerce business to remain the main growth driver in the coming year. However, due to pandemic-related catch-up effects, trade credit sales in the stationary retail sector are also expected to grow slightly.

In **business & corporate banking**, the focus of our sales activities will continue to be on acquiring customers with an international orientation in the core regions of the Santander Group (Europe, North and South America). In the long term, we want to establish a sustainably profitable partnership with German SMEs. The credit portfolio is to be steadily expanded in cooperation with the foreign units. 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 direct consulting services in addition to the consulting 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 2022 to be strongly higher than in the year under review at around €2.8 billion. We intend to achieve this increase in credit revenue through customer loyalty sales initiatives and the expansion of our digital direct business; this will enable us to benefit from our capacity as the customer's principal bank in the credit segment.

In the area of mortgage lending, we are aiming for a very strong growth in new business in the coming year. Further expansion of the brokerage business, efficiency enhancements, and the examination of additional cooperative ventures are expected to contribute to success. In addition, we are considering strengthening our own sales activities.

In the coming years, our bank will cover its refinancing requirements primarily through customer deposits. In addition, we continue to rely on our proven approach: the securitisation of customer receivables, e.g. from car loans, and subsequent placement on the capital markets. In parallel, we continuously review the use of the range of instruments available to us for short- and long-term refinancing. This includes drawings under our commercial paper programme as well as the issuance of unsecured and secured bonds, such as covered bonds. In this way, we aim to further diversify the liabilities side. The bank will continue to make opportunistic use of targeted longer-term refinancing operations of the ECB (TLTRO).

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

In addition, we monitor the development of case law and focus our attention on potential risks arising from this.

For 2022, our bank expects the following developments in the key earnings figures:

We forecast a slight increase in net interest income for the coming year. Interest income, which has been declining steadily in recent years due to low market interest rates, is expected to rise again and be moderately above the level of the year under review. The renewed growth in new business, especially in mobility and direct business, should contribute to the increase in net interest income. Interest expenses, which fell significantly in the year under review, mainly as a result of the recognition of negative interest expense on open market transactions, will increase again significantly. Main reason is that TLTRO drawings are scheduled to be reduced in 2022, resulting in lower negative interest expense.

Having strongly increased net fee and commission income in the year under review, we also anticipate an increase in 2022. We forecast slightly growing fee and commission income due to the planned increase in new lending business. We expect a strong decline in commission expenses, partly due to lower dealer commissions. The lower commission expenses also include a technical effect: The reclassification of credit information fees from administrative expenses to commissions was not completed until after our planning was prepared and is therefore not included.

In the coming year, we expect administrative expenses to decrease slightly. This reduction is to be realised mainly through a slight decrease in personnel expenses, which will result from the staff reductions already implemented. Depreciation, amortisation and impairment losses on intangible assets and property, plant and equipment will increase slightly.

Stable administrative expenses combined with moderately growing revenues will once again improve our cost-income ratio in the coming year.

For 2022, we expect a very strong decrease in risk costs compared with 2021. After these were still heavily impacted by the effects of the pandemic on the financial circumstances of our customers in the year under review, we expect the solvency of retail customers to improve again in the coming year, particularly in the direct segment, and lower defaults in the corporate customer business. From this, we derive a recovery in risk costs for the coming year. In addition, we expect the measures we took in the year under review to manage risk in the direct portfolio to have an increasingly positive impact in 2022.

Our bank plans to introduce the new definition of default in accordance with the Capital Requirements Regulation (CRR) in the allowance methodology for 2022. This will result in an increase in the NPL ratio and may also have an impact on the allowance for losses on loans and advances.

For other operating income, we forecast earnings in the low single-digit million range in the coming year. In the process, other operating income will decrease significantly. One reason is lower income from reversals of provisions, another is the absence of income from the passing on of losses from an ABS transaction to external investors, as no significant impact on our result is expected. We also expect a significant decrease in other operating expenses. This is due on the one hand to the fact that no more expenses from the extraordinary derecognition of intangible assets are expected for 2022, and on the other hand to the fact that we anticipate somewhat lower expenses for operational risks.

As a result, we expect the increase in net interest income and net fee and commission income, as well as the savings in administrative expenses and risk costs, to far outweigh the decline in other operating income.

In summary, we therefore forecast a strong increase in net profit for the 2022 financial year compared with the previous year, while RoRWA is expected to remain almost constant. This does not take into account any negative effects from the further course of the pandemic. However, our business performance could be negatively impacted by various factors, particularly the effects of the pandemic, but also in the context of supply bottlenecks in the automotive industry; these developments are currently difficult to foresee until the end of 2022.

Targets

	Target figure	Actual figure
Supervisory Board	50%	50%
Management Board	20%	0%
First reporting level (area head)	30%	20%
Second reporting level (head of department)	30%	25%

CORPORATE GOVERNANCE STATEMENT

In August 2021, the Second Leadership Positions Act was passed for the equal participation of women and men in leadership positions in the private and public sectors. The aim of the law is to increase the proportion of women in management positions and ultimately to achieve 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.

In 2021 our Supervisory Board and Management Board have set new targets for the proportion of women. The deadline for achieving these targets was set at the 2025 financial year.

We have developed a catalogue of measures to increase the proportion of women in management positions at our institute and to fully achieve the targets set by 2025. We will continue to press ahead with the implementation of the measures in the future.

This includes our established Diversity Committee, which meets twice a year. Among other things, this body monitors the number of women in management positions and provides impetus for the advancement of women at our bank. Other measures include a local and global women's mentoring programme and corporate seminars specifically for female high potentials.

Mönchengladbach, 14 February 2022

The Board

Volpe   Donat

Thomas Hanswillemenke

Hanswillemenke   Klöpper

Silva

Balance Sheet as of 31 December 2021

of Santander Consumer Bank AG, Mönchengladbach/Germany

Assets	2021 EUR	2021 EUR	2020 TEUR	2020 TEUR
1. Cash reserve				
a) Cash-in-hand	**94,052,464.50**		96,444	
b) Central bank balances	**10,663,406,889.11**	**10,757,459,353.61**	5,252,463	5,348,907
of which with German Central Bank 10,663,406,889.11 (prior year TEUR 5,252,463)				
2. Receivables from banks				
a) Due on demand	**46,292,856.16**		129,694	
b) Other receivables	**2,709,096,545.14**	**2,755,389,401.30**	2,730,083	2,859,777
3. Receivables from customers		**28,855,531,996.48**		29,217,332
of which: collateralized by mortgages EUR 1,988,661,113.94 (prior year TEUR 2,181,968)				
of which: mortgage bonds EUR 2,637,376,161.28 (prior year TEUR 2,849,108)				
4. Bonds and other fixed-income securities				
a) Bonds and debentures				
aa) of other issuers	**1,015,104,555.04**		1,174,379	
ab) from other issuers	**10,928,750,217.88**		10,260,244	
b) own securities	**25,000,095.89**	**11,968,854,868.81**	0	11,434,623
of which: eligible as collateral for borrowings German Central Bank EUR 10,302,214,863.77 (prior year TEUR 9,935,111)				
5. Shares and other non-fixed-income securities		**25,864.33**		70
6. Investments		**59,054.00**		59
7. Shares in affiliated companies		**760,952,291.93**		760,952
of which in financal institutions EUR 620,116,828.40 (prior year TEUR 620,117)				
of which in financal services institutions EUR 100,749,049.08 (prior year TEUR 100,749)				
8. Trust assets		**14,281.87**		31
of which loans on a trust basis EUR 14,281.87 (prior year TEUR 31)				
9. Intangible fixed assets				
a) concessions acquired for consideration, trademarks and similar rights and assets as well as licenses to such rights and assets	**167,555,982.39**		179,048	
b) advance payments	**56,836,987.90**	**224,392,970.29**	55,669	234,717
10. Tangible fixed assets		**42,135,752.08**		52,135
11. Other assets		**245,822,436.10**		203,590
12. Prepaid expenses				
a) from issuance business and credit business	**6,322,944.29**		8,199	
b) other	**6,222,752.42**	**12,545,696.71**	7,018	15,217
Total assets		**55,623,183,967.51**		**50,127,410**

Balance Sheet as of 31 December 2021

of Santander Consumer Bank AG, Mönchengladbach/Germany

Equity and liabilities	2021 EUR	2021 EUR	2021 EUR	2020 TEUR	2020 TEUR
1. Liabilities to financial institutions					
a) Due on demand		27,924,003.65		70,079	
b) Subject to agreed term or notice period		10,445,437,357.04	10,473,361,360.69	7,183,401	7,253,480
2. Liabilities to customers					
a) Savings deposits					
aa) Subject to three months' agreed notice period	869,447,993.63			898,762	
ab) Subject to agreed notice period of more than three months	791,347.51	870,239,341.14		1,406	
b) Other liabilities					
ba) Due on demand	17,377,999,946.55			15,519,442	
bb) Subject to agreed term or notice period	5,141,729,851.73	22,519,729,798.28	23,389,969,139.42	6,354,377	22,773,987
3. Bonded liabilities					
a) Pfandbrief		1,025,308,315.07		1,000,308	
b) Medium Term Notes		1,606,034,246.58	2,631,342,561.65	1,506,031	2,506,339
4. Trust liabilities			14,281.87		31
of which loans on a trust basis EUR 14,281.87 (prior year TEUR 31)					
5. Other liabilities			14,642,348,891.11		13,142,786
6. Deferred income					
a) from issuance and credit business		43,065,897.52		41,331	
b) others		2,191,346.38	45,257,243.90	2,697	44,028
7. Provisions					
a) Provisions for pensions and similar obligations		439,437,440.00		404,516	
b) Provisions for taxes		0.00		0	
c) Other provisions		280,081,473.91	719,518,913.91	280,697	685,213
8. Subordinated liabilities			185,215,090.55		185,242
9. Participatory capital			217,807,226.14		217,955
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		3,282,775	
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		3,318,349
Total equity and liabilities			**55,623,183,967.51**		**50,127,410**
1. Contingent liabilities					
a) Liabilities under guarantees and warranty agreements			335,974,765.99		238,086
2. Other commitments					
a) Irrevocable loan commitments			1,361,573,683.62		999,419

Profit and Loss Statement

of Santander Consumer Bank AG, Mönchengladbach/Germany for the Period from 1 January to 31 December 2021

Expenses	**2021 EUR**	**2021 EUR**	**2021 EUR**	2020 TEUR	2020 TEUR	2020 TEUR
1. Interest expenses		**156,822,083.11**			203,217	
negative interest expenses		**−135,567,207.74**	**21,254,875.37**		−25,778	177,439
2. Commission expenses			**332,481,930.58**			315,141
3. General administration expenses						
a) Personnel expenses						
aa) Wages and salaries	**195,347,970.79**			222,224		
ab) Social security, post-employment costs and other employee benefits	**74,942,914.55**	**270,290,885.34**		72,447	294,671	
of which: post-employment costs EUR 36,006,999.92 (prior year TEUR 33,083)						
b) Other administration expenses		**373,302,069.57**	**643,592,954.91**		376,376	671,047
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			**72,727,656.06**			55,357
5. Other operating expenses			**36,079,198.10**			53,468
thereof compounding and discounting effects EUR 10,082,400.30 (prior year TEUR 10,922)						
6. Write-downs of and allowances on receivables and certain securities as well as additions to loan loss provisions			**134,263,552.66**			123,718
7. Write-downs and allowances for losses on investments, shares in affiliated companies and securities treated as fixed assets			**26,463,976.51**			0
8. Other taxes unless disclosed under item 5			**102,195.61**			804
9. Profits transferred on account of cash pools, profit transfer or partial profit transfer agreements			**532,745,400.01**			393,589
10. Net income for the financial year			**0.00**			0
Total expenses			**1,799,711,739.81**			**1,790,563**

Profit and Loss Statement

of Santander Consumer Bank AG, Mönchengladbach/Germany for the Period from 1 January to 31 December 2021

Income	2021 EUR	2021 EUR	2021 EUR	2020 TEUR	2020 TEUR	2020 TEUR
1. Interest income from						
a) Lending and money market transactions	1,049,834,636.36			1,111,830		
Negative interest from lending and money market transactions	–40,676,351.32	1,009,158,285.04		–15,081	1,096,749	
b) Fixed-income securities and book-entry securities		57,606,978.94	1,066,765,263.98		90,398	1,187,147
2. Current income from						
a) Shares and other non-fixed-income securities		62,310.94			57	
b) Participations		191,925.50			162	
c) Investments		25,035,800.00	25,290,036.44		0	219
3. Income from profit poolings and profit & loss transfer agreements			108,685,671.03			74,066
4. Commission income			514,512,883.02			473,093
5. Other operating income			84,457,885.34			55,923
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			0.00			115
7. Refunded income taxes			0.00			0
Total income			1,799,711,739.81			1,790,563

ANNEX

Irrespective of their legal form, banks must prepare their annual financial statements in accordance with the accounting regulations applicable to large corporations (Section 340a (1) HGB). Accordingly, their annual financial statements must be supplemented by an Annex to the financial statements, which form a unit with the balance sheet and income statement (Sec. 264 (1) Sentence 1 HGB). In principle, the provisions of Sections 284 to 288 HGB (Section 340a (1) HGB in conjunction with Section 34 (1) RechKredV) therefore apply. Size-dependent relief such as for small and medium-sized corporations cannot be applied to institutions (Section 340a (2) sentence 1 HGB).

The notes contain additional disclosures prescribed for the individual items of the balance sheet or the profit and loss statement. In addition, special features specific to the legal form must be taken into account. However, due to the specifics of the sector, certain provisions on the annex to the financial statements applicable to corporations are not applicable to institutions (Section 340a (2) sentence 1 HGB). Likewise, due to the special features of the business sector, some provisions on the annex to the financial statements generally applicable to corporations are replaced by standards of the RechKredV (Sec. 340a (2) Sentence 2 HGB).

The purpose of the annex to the financial statements is to provide a true and fair view of the net assets, financial position, and earnings of operations of the company (Section 264 (2) sentence 2 HGB) by means of supplementary quantitative and qualitative information not contained in the figures in the balance sheet and income statement.

Annex for the 2021 Financial Year

I. GENERAL ANNUAL FINANCIAL STATEMENT EXPLANATIONS

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

The annual financial statement for 31 December 2021 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 Bond Act [Pfandbriefgesetz, PfandBG] were to be followed. To represent the Santander Consumer Bank AG's universal banking operations appropriately, the structural requirements for mortgage banks were taken into account by including an "under" remark in the respective items. Information on the mortgage bond 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.

Interest accruals for Santander Consumer Bank AG's portfolio recognised using the gross loan method are generally calculated using the annuity method.

Interest already received from third parties for a period after the balance sheet date in the amount of €14,534 thousand is reported under the item "Deferred income".

For credit risks in the lending business, risk provisions are formed in the amount of the expected loss in accordance with IFRS 9. In the case of general valuation allowances, the calculation is carried out using a model-based procedure based on the exposure at the time of default (EAD), the expected losses given default (LGD), and the probability of default (PD) used 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. For defaulted receivables, on the other hand, a scenario-weighted specific valuation allowance is calculated based on the individually expected cash flows, taking collateral into account. Specific valuation allowances are also recognised, if necessary, for exposures in the areas of dealer purchase financing or business banking where there is an arrears situation or an acute deterioration in creditworthiness, following an examination of the individual circumstances.

In connection with the update of the IFRS 9 parameters carried out in the year under review, the changed macroeconomic outlook due to the coronavirus pandemic was also taken into account, as a result of which the post-model adjustment amounting to €18,500 thousand formed in the previous year is no longer necessary.

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 (Article 243 para. 5 CRR) are written down if the receivables sold as legal to the special purpose entity 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. Santander Consumer Bank, in its capacity as collateral taker, recognises the loan security transaction concluded in this connection in two mezzanine tranches (total volume €154,000 thousand) as loan collateral received and does not value it individually, but takes it into account in the valuation of the receivables portfolio.

SCB acquired 5% of the credit linked notes (CLN) issued by the SPV. As a result of the acquisition, the bank assumes the role of collateral provider in the amount of the acquired CLN and bears 5% of the default risk from the mezzanine tranches if required. In the bank's view, the 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 life of the customized software newly activated in the year under review was reduced to three years. 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 with acquisition costs of up to €1 thousand are combined in a collective item and depreciated over a period of five years.

Other assets are reported at nominal value, minus write-downs to the lower fair value where applicable.

Prepaid expenses are subdivided into those "from issuing and lending business" and "other". The former are released in instalments over the term of the underlying transactions through interest income, while the other prepaid expenses are released on a straight-line basis over the period of the consideration obligation.

Liabilities are recognised in the balance sheet at the settlement amount including interest accrued up to the balance sheet date. The interest rate on funds borrowed under the TLTRO III programme depends on the bank's net lending during certain periods. In the financial year, both the minimum interest rate to be applied with certainty (the main refinancing interest rate of 0 less −50 basis points for the period from 31 December 2020 to 31 December 2021) was recognised pro rata temporis as a negative interest expense and the premium was recognised depending on the increase of the net loan volume. The minimum interest rate is applied in the so-called special interest periods, which last from 24 June 2020 to 23 June 2022. The premium is collected for the complete period of the TLTRO III programme.

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 in instalments over the term of the underlying transactions through interest income, while the other prepaid expenses are released on a straight-line 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. In accordance with the existing option of the accounting standard IDW RS HFA 30 new version, changes in the reported discount rate are recognized in personnel expenses.

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 Article 253 para. 1 sentence 2 of the German Commercial Code.

The provisions for insurance cancellations are estimated on the basis of historical experience of cancellation rates, as well as assumptions about their future development. 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.

According to § 277 Para. 5 S. 1 HGB, income and expenses from compounding and discounting effects of provisions must be shown 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 the requirements for a tax group are met, all differences arising are taken into account in the calculation of deferred taxes at the controlling company.

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. As at the previous year's reporting date, it was not necessary to form a provision at the balance sheet date.

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.

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.

For several years, the bank has been engaged in **asset-backed securities transactions**, in which the receivables are assigned to the special purpose entity under civil law, but the bank remains the beneficial owner of the underlying receivables. As a result, future cash flows arising from the securitised receivables that the bank has to pass on to the special purpose entity are recognised as a pass-through liability.

Among the various ABS transactions, there is one special ABS transaction (SCGC 2018-1). Here, it is envisaged that defaults in the underlying receivables will generally cause the bonds issued by the special purpose entity to default or not be repaid. From the bank's point of view, the pass-through obligation is reduced accordingly if it can be assumed with a probability bordering on certainty that there will ultimately be no more cash flows to be passed on from the securitised receivables.

The bank acquired various tranches of this securitisation transaction itself, including the most subordinated tranches. These are reported under securities in non-current assets. In the financial statements up to 2020, the bank has represented expected defaults in the repurchased securities by recognising the pass-through obligation directly against the securities without affecting the income statement. This representation was made against the background that the defaults did not exceed the bank's retention in the form of the most subordinated tranche. Since in 2021 the defaults exceeded the retention, the externalization of the losses is now taken into account in the income statement. The securities held in the most subordinate tranches were written down by €26,464 thousand and the corresponding expense was reported under the item "Depreciation and valuation allowances to investments, shares in associated companies and securities held as fixed assets". At the same time, the pass-through obligation of €35,280 thousand was reversed in favour of other operating income. When the deductible is exceeded, the pass-through obligation is released to a greater extent than the securities acquired are depreciated. The resulting positive effect on net income reflects the externalisation of risks to the external ABS investors.

III. INFORMATION REGARDING THE BALANCE SHEET

ASSETS

Receivables from financial institutions

The reported figure includes receivables from affiliated companies in the amount of €2,642,586 thousand (previous year: €2,822,304 thousand).

The balance sheet presentation of other loans and advances to banks breaks down by residual maturity as follows:

	€ thousand
up to 3 months	110,000
more than 3 months up to 1 year	602,000
more than 1 year up to 5 years	1,929,000
more than 5 years	62,754
plus interest	5,342

Loans and advances to banks include subordinated receivables in the amount of €39,500 thousand (nominal) (previous year: €39,500 thousand (nominal)). In addition, there are still receivables amounting to €2,591,267 thousand (nominal) (previous year: €2,687,459 thousand nominal) to institutions in which the bank is a shareholder.

Receivables from customers

The item includes receivables from affiliated companies amounting to €4,086,988 thousand (previous year: €4,011,812 thousand).

The balance sheet presentation is structured according to residual terms as follows:

	€ thousand
up to 3 months	2,632,092
more than 3 months up to 1 year	5,919,455
more than 1 year up to 5 years	16,279,314
more than 5 years	4,024,670

Receivables of up to three months include receivables with an indefinite term in the amount of €765,107 thousand.

As of the balance sheet date, the item "Loans and advances to customers" includes net receivables sold in the amount of €14,080,931 thousand, for which the bank continues to be the beneficial owner.

The bank has set aside liquidity reserves of €1,131 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.

In addition, the bank has provided default reserves in the amount of €72,854 thousand in the form of subordinated loans, which serve to cover counterparty default risks of borrowers.

Loans and advances to customers include subordinated receivables in the amount of €72,854 thousand (nominal) (previous year: €7,544 thousand nominal). In addition, there are still receivables amounting to €3,904,165 thousand (nominal) (previous year: €3,912,006 thousand nominal) to companies in which the bank is a shareholder.

Debentures and other fixed-income securities

The identified bonds and other fixed-income securities are all listed on the stock exchange. The item includes bonds issued by affiliated companies in the amount of €10,265,411 thousand.

The bonds include securities with a book value of €5,090,223 thousand above their fair value. The fair value of these securities is €5,045,830 thousand. Non-scheduled depreciation pursuant to Section 253, Paragraph 3, Sentence 5 of the German Commercial Code was omitted for those securities where the impairment was only temporary. On the other hand, an unscheduled write-down was made for two subordinated securities which are part of a self-structured ABS transaction. The amount of the depreciation of this tranche does not follow the market price but the assessment of the forwarding obligation on the liabilities side (please refer to the above explanations under "Asset-Backed Securities Transactions").

On the balance sheet date, bonds in the amount of €10,300,000 thousand were deposited with Deutsche Bundesbank as collateral for the drawings from the TLTRO transactions.

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 shares in affiliated companies include: 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 €14 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 digitisation projects and IT applications to implement banking regulatory requirements (including new and further development of risk and credit management systems). In the year under review, there were disposal losses and write-offs from advance payments on intangible assets amounting to €2,165 thousand, as the IT projects in question could no longer be finalised in their actual form or were stopped.

Intangible assets were written down by €7,430 thousand due to corrections.

Other assets

The figure shown includes receivables from profit transfer in the amount of €108,686 thousand and claims against insurance companies in the amount of €79,924 thousand.

Assets denominated in foreign currencies amounted to €91,677 thousand at the balance sheet date.

LIABILITIES

Liabilities to financial institutions

The item includes liabilities to affiliated companies in the amount of €88,307 thousand (previous year: €112,163 thousand). On the balance sheet, the statement of liabilities to financial institutions with an agreed maturity or notice period is broken down by residual terms as follows:

	€ thousand
up to 3 months	86,882
more than 3 months up to 1 year	1,879,678
more than 1 year up to 5 years	8,587,594
more than 5 years	25,967
minus negative interest	–106,761

The maturity band "up to one year" includes an amount of €1,850,000 thousand (previous year: €0) and the maturity band "more than one year up to five years" includes an amount of €8,450,000 thousand (previous year: €6,800,000 thousand) from participation in the European Central Bank's longer-term refinancing programme (TLTRO: Targeted Longer-Term Refinancing Operations). The increase results from €3,500,000 thousand borrowed under the TLTRO III programme in March 2021.

The liabilities from TLTRO transactions are fully collateralised by debt securities.

Valuation Assumptions as of 31 December 2021

Obligation type	Discount rate*	Wage trend	Pension trend	BBG trend	Fluctuation**
Pensions	1.87%	2.75%	2.00%	2.75%	2.50%
Deferred compensation	1.87%	–	–	2.75%	2.50%

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

Liabilities to customers

The item includes liabilities to affiliated companies in the amount of €2,156,966 thousand (previous year: €2,511,968 thousand).

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

	€ thousand
up to 3 months	791
more than 3 months up to 1 year	0
more than 1 year up to 5 years	0
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 residual terms as follows:

	€ thousand
up to 3 months	1,354,328
more than 3 months up to 1 year	806,756
more than 1 year up to 5 years	2,905,280
more than 5 years	75,366

Securitised liabilities

Mortgage bonds amounting to €1,025,308 thousand are recognised under securitised liabilities.

Medium-term notes in the amount of €1,001,034 thousand and commercial papers with a volume of €605,000 thousand are recognised under debt securities issued. Of the securitised liabilities, €605,000 thousand will fall due in the following year.

Other liabilities

This item primarily includes liabilities from asset-backed securities transactions (ABS transactions) to special purpose vehicles (SPVs) in the amount of €14,080,932 thousand. This amount includes all passthrough obligations from the sale of receivables. Cash collateral in the amount of €1,131 thousand was provided for liabilities from ABS transactions. €532,745 thousand is recognised for the year under review for a liability from profit and loss transfer agreement and similar agreements (silent partnership) with Santander Consumer Holding GmbH, Mönchengladbach; this includes interest for the silent partnership in the amount of €1,534 thousand (before deduction of capital gains tax and solidarity surcharge).

Liabilities denominated in foreign currency, amounted to €96,116 thousand at the balance sheet date.

Provisions for pensions and similar obligations

Provisions for pensions and similar obligations amount to €439,437 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 compensation at the average market interest rate of the past ten years compared with discounting at the average market interest rate of the past seven years results in a difference of €44,102 thousand. There is no disbursement lock on this.

Other provisions

The figure mainly includes provisions for insurance cancellations of €70,435 thousand, for bonus payments to dealers of €61,200 thousand, for personnel costs of €53,728 thousand, and for material costs of €49,438 thousand. Provisions for personnel costs include provisions for restructuring in the amount of €16,738 thousand and for social plans and other severance payments in the amount of €7,756 thousand. For discounting provisions, the interest rates in accordance with Article 253 para. 2 of the German Commercial Code (HGB) as of 30 November 2021 are between 0.30% and 1.48% depending on the remaining term.

Subordinated liabilities

After a subordinated liability of €110,000 thousand was raised from Santander Consumer Holding in 2019 with an interest rate of 1.77% above the three-month Euribor and with a term of ten years from 6 November 2019, another subordinated liability of €75,000 thousand was raised from Santander Consumer Holding in 2020 with an interest rate of 3.04% above the three-month Euribor and with a term of ten years from 25 June 2020. Interest expenses totalled €215 thousand in the 2021 financial year. 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

At the balance sheet date, the total issued profit participation rights came to €217,807 thousand (including accrued interest of €7,577 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 thousand €112,231 thousand, and with a variable interest rate in the amount of €98 thousand. Total interest expenses for profit participation rights amounted to €7,577 thousand in the year under review.

Disclosures pursuant to Section 152 (1) AktG

Share capital

On the balance sheet date, the share capital of the 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 €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. Accordingly, the silent partnership is still partially eligible for inclusion in additional core capital with the amount to be written off, coming to €511 thousand in the period under review. The portion that can no longer be recognised as core capital is reported as supplementary capital in accordance with the new legal situation.

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 €297,837 thousand, import letters of credit in the amount of €35,550 thousand, and an obligation under a credit linked note (CLN) in the amount of €2,588 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 €1,361,574 thousand. These primarily relate to instalment and mortgage loans (€1,111,594 thousand) and a loan commitment to Allane SE (€249,980 thousand).

The irrevocable loan commitments generally result in a short-term outflow of liquidity. Their benefit is that they generate future interest income.

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

IV. NOTES ON THE PROFIT AND LOSS STATEMENT

Expenses
Interest expenses
This item includes negative interest expenses of €23,381 thousand from interest on the TLTRO III programme attributable to previous years.

Commission expenses/general administrative expenses
In the year under review, ancillary services relating to new banking business are reported for the first time under the item commission expenses. To this end, the costs of credit and identity checks on contract holders amounting to €17,603 thousand were reclassified from general and administrative expenses. These expenses are invoiced by the financial service providers when the respective service is used by the bank and also include those costs where no new customer contract has come into being. The previous year's figure under general and administrative expenses was €14,375 thousand. These expenses for ancillary services are incurred depending on the number of services received; this change in presentation compared with the previous year provides a better insight into the operating result.

Other operating expenses
Other operating expenses include in particular expenses for operational risks, such as claims or goodwill payments, amounting to €20,672 thousand, interest expenses for pensions amounting to €9,378 thousand, and expenses from the loss of asset disposals and intangible assets amounting to €4,033 thousand in total.

Depreciation and write-downs of investments, shares in affiliated companies, and securities treated as fixed assets
This item includes the write-down of securities from the asset-backed security transaction "SCGC 2018-1" in the amount of €26,464 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
Under the control and profit and loss transfer agreement, a profit of €532,745 thousand is transferred to Santander Consumer Holding GmbH, Mönchengladbach, for the year under review. This includes interest paid on a silent partnership in the amount of €1,534 thousand (before deduction of capital gains tax and solidarity surcharge).

Earnings
Other operating income
This item includes the reversal of the pass-through obligation from the asset-backed security transaction "SCGC 2018-1" in the amount of €35,280 thousand. In addition, this item mainly includes income relating to other periods from the reversal of provisions in the amount of €23,528 thousand, income from affiliated companies from cost reimbursements in the amount of €14,928 thousand, and reimbursements for losses from operational risks, mainly insurance reimbursements, in the amount of €4,095 thousand.

Currency conversion
The contributions to income from currency translation increased other operating income by €490 thousand (previous year: €207 thousand).

V. OTHER INFORMATION

Derivatives
As of the balance sheet date, there were 5 interest rate swaps with a total nominal amount of €3,742,867 thousand. These contracts are used to manage interest rate risks.

Taking into account the total of positive fair values (excluding accrued interest) of €92 thousand and the total of negative fair values (excluding accrued interest) of €13,946 thousand the total negative amount (excluding accrued interest) is €13,854 thousand.

Four of the above-mentioned interest rate swaps were concluded as back-to-back swaps as part of the sale of receivables. As of the reporting date, these swaps had a total nominal volume of €3,242,867 thousand.

Other obligations
For 2022 financial year, the bank has mainly rental, leasing, and other contractual and contribution obligations, including from membership in the Entschädigungseinrichtung deutscher Banken GmbH (Compensation Scheme of German Banks), totalling €78,228 thousand. Of this amount, €9,913 thousand relates to affiliated companies. Charges of a similar amount are expected in subsequent years. The remaining durations of these contracts are up to 14 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 2021 financial year, administrative expenses totalling €33,605 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.

Mortgage bond circulation in accordance with Section 28 PfandBG

Mortgage bonds 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.

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

Cover of circulation bonds

	31/12/2021 (in € million)	31/12/2020 (in € million)
Ordinary cover		
Receivables from customers	1,104	1,117
	1,104	**1,117**
Further cover assets		
Bonds from other issuers	0	0
Balances with central banks	51.25	50
Total cover assets	**1,156**	**1,167**
Total amount in circulation requiring cover	**1,025**	**1,000**
The excess cover is as follows	**131**	**167**

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

	Mortgage Bond Circulation (in € million)		Cover Assets (in € million)	
	31/12/2021	31/12/2020	**31/12/2021**	31/12/2020
up to six months	**0**	0	**121**	127
more than six months up to twelve months	**0**	0	**60**	80
more than twelve months up to 18 months	**0**	0	**55**	68
more than 18 months up to 2 years	**0**	0	**58**	59
more than 2 years up to 3 years	**500**	0	**125**	107
more than 3 years up to 4 years	**0**	500	**133**	119
more than 4 years up to 5 years	**25**	0	**121**	130
more than 5 years up to 10 years	**500**	500	**379**	391
over ten years	**0**	0	**103**	86

Statement of cover in accordance with Section 28(1) Nos. 1 and 3 PfandBG

	Nominal value		Cash value		Risk-adjusted cash value	
	31/12/2021	31/12/2020	**31/12/2021**	31/12/2020	**31/12/2021**	31/12/2020
Total mortgage bond circulation (in € million)	**1,025**	1,000	**1,026**	1,023	**944**	1,150
Total asset cover amount (in € million)	**1,156**	1,167	**1,235**	1,277	**1,148**	1,381
Excess cover in percent	**12.74**	16.75	**20.33**	24.79	**21.62**	20.04

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					
	31/12/2021	31/12/2020	**31/12/2021**	31/12/2020	**31/12/2021**	31/12/2020	**31/12/2021**	31/12/2020	**31/12/2021**	31/12/2020
none	**0**	0	**51.25**	50	**0**	0	**0**	0	**51.25**	50
Total	**0**	**0**	**51.25**	**50**	**0**	**0**	**0**	**0**	**51.25**	**50**

Further key figures on the cover assets

		31/12/2021	31/12/2020
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 mortgage bonds (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	**7.24**	7.38

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

Rafael Moral-Salarich
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

Dirk Marzluf
Winterthur, Bank Director of Banco Santander S.A., Spain

Inés Serrano González (until 23/02/2021)
Madrid, Bank Director of Santander Consumer Finance S.A., Spain

Patricia Benito de Mateo (since 24/02/2021)
Madrid, Bankdirektorin der Santander Consumer Finance S.A., Spanien

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

Walter Donat
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 – a member of the Supervisory Board of Santander Consumer Operations Services GmbH.

Thomas Hanswillemenke, member of the Management Board of Santander Consumer Bank AG, is a member of the Supervisory Board of Allane 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 Allane 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 Chairman of the Supervisory Board of Santander Consumer Operations Services GmbH.

Remuneration of Management Board and Supervisory Board

The total remuneration of the members of the Management Board amounted to €4,032 thousand in the financial year. Total compensation of €2,067 thousand was granted to former Management Board members and surviving dependents of Management Board members. Pension provisions for former members amounted to €29,203 thousand as of the balance sheet date. The total remuneration of the members of the Management Board included bonuses of €337 thousand in the form of shares (of Banco Santander S.A., Santander, Spain) with a one-year holding period and €1,011 thousand that will only be paid out as a deferred bonus in the next five years.

The deferred bonus includes a further €506 thousand in the form of share-based payments. The 2021 bonus comprises shares with a fair value of €843 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 €12 thousand for its activities in 2021.

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

At the balance sheet date, there was an outstanding balance of €1 thousand towards members of the Management Board pursuant to Article 15 para. 1 sentence 1 No. 1 of the German Banking Act (KWG) and €13 thousand towards members of the Supervisory Board.

As of the balance sheet date, members of the Management Board had been granted guarantees in the amount of €8 thousand and members of the Supervisory Board had been granted guarantees in the amount of €1 thousand.

Services rendered to third parties

Santander Consumer Bank AG provided the following services to third parties: portfolio management, asset management, and brokerage of insurance policies or building society contracts.

In selected areas, Santander Consumer Bank offers services for other banks (so-called banking as a service). This includes e.g. mobility, customer service, structuring of ABS transactions and the provision and maintenance of IT systems for business operations and cyber security services.

Annual average number of employees

On average, Santander Consumer Bank AG employed 2,868 people during the year: 1.502 female and 1,366 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 €3,764 thousand excluding VAT. The breakdown of expenses is as follows:

	€ thousand
Audit service fee	3,164
Other confirmation services	600

Of the fees for auditing services, lower costs of the previous year in the amount of €395 thousand were offset.

The other confirmation services relate to the audit in accordance with Article 89 of the German Securities Trading Act (WpHG), the TLTRO audit, the issuance of a comfort letter, the procedural audit and sample audit in accordance with Article V No. 11 para. 1 of the Deutsche Bundesbank's General Terms and Conditions, and the audit of the deduction items in accordance with Article 16j para. 2 sentence 2 of the FinDAG.

Significant contracts

With effect from 1 January, 2004, a controlling and profit transfer agreement was concluded between the 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 the 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 0.96%.

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 2020 (in € thousands)	Annual Results 2020 (in € thousands)
Santander Consumer Leasing GmbH, Mönchengladbach	100.00	20,025	*
Santander Consumer Technology Services GmbH, Mönchengladbach	100.00	20,548	5,303
Santander Consumer Operations Services GmbH, Mönchengladbach	100.00	11,023	899
Hyundai Capital Bank Europe GmbH, Frankfurt a. M.	51.00	700,863	–3,881
PSA Bank Deutschland GmbH, Neu-Isenburg	50.00	567,045	50,071
VCFS Germany GmbH, Cologne	50.00	352	72
Schufa Holding AG, Wiesbaden	0.55	133,624	45,063

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

SCHEDULE OF ASSETS

Development of Fixed Assets in the Financial Year 2021

Histor. acquisition and production costs	01/01/2021 Euro	Acquisitions Euro	Disposals Euro	Transfers Euro	31/12/2021 Euro
Intangible assets					
Purchased concessions, commercial copyrights and similar right and values and licenses to such rights and values	856,397,951.71	6,514,981.78	2,502,663.74	46,000,580.16	906,410,849.91
Goodwill	0.00	0.00	0.00	0.00	0.00
Advance payments made	55,669,252.43	50,850,340.89	3,682,025.26	–46,000,580.16	56,836,987.90
	912,067,204.14	**57,365,322.67**	**6,184,689.00**	**0.00**	**963,247,837.81**
Tangible fixed assets					
Real estate, rights equivalent to real estate and buildings, including buildings on third-party property	3,224,492.28	137,162.33	10,347.05	314,820.65	3,666,128.21
Operating and office equipment	38,684,814.47	1,073,001.16	4,801,996.14	454,588.00	35,410,407.49
Fittings/installations in rented premises	94,481,410.00	1,411,269.33	6,020,305.88	389,202.56	90,261,576.01
Advance payments made	1,744,164.35	552,648.22	83,053.62	–1,158,611.21	1,055,147.74
	138,134,881.10	**3,174,081.04**	**10,915,702.69**	**0.00**	**130,393,259.45**
Bonds and other fixed-income securities					
Securities held as fixed assets*	11,429,059,491.41	3,414,540,580.75	2,864,961,944.82	0.00	11,978,638,127.34
Participations	59,054.00	0.00	0.00	0.00	59,054.00
Shares in affiliated companies	760,952,291.93	0.00	0.00	0.00	760,952,291.93
Total financial assets	**12,190,070,837.34**	**3,414,540,580.75**	**2,864,961,944.82**	**0.00**	**12,739,649,473.27**
Total	**13,240,272,922.58**	**3,475,079,984.46**	**2,882,062,336.51**	**0.00**	**13,833,290,570.53**

* The balance sheet item bonds and debentures includes accrued interest in the amount of €16,836,299.59

SCHEDULE OF ASSETS

Development of Fixed Assets in the Financial Year 2021

Accumulated Depreciation	01/01/2021 Euro	Attributions Euro	Additions Euro	Resolutions Euro	Transfers Euro	31/12/2021 Euro
Intangible assets						
Purchased concessions, commercial copyrights and similar right and values and licenses to such rights and values	677.349,933.01	0.00	61,504,934.51	0.00	0.00	738,854,867.52
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
	677,349,933.01	**0.00**	**61,504,934.51**	**0.00**	**0.00**	**738,854,867.52**
Tangible fixed assets						
Real estate, rights equivalent to real estate and buildings, including buildings on third-party property	509,771.11	0.00	161,851.50	1,327.92	0.00	670,294.69
Operating and office equipment	25,037,803.36	0.00	5,038,786.19	4,239,361.75	0.00	25,837,227.80
Fittings/installations in rented premises	60,452,425.09	0.00	6,022,083.86	4,724,524.07	0.00	61,749,984.88
Advance payments made	0.00	0.00	0.00	0.00	0.00	0.00
	85,999,999.56	**0.00**	**11,222,721.55**	**8,965,213.74**	**0.00**	**88,257,507.37**
Bonds and other fixed-income securities						
Securities held as fixed assets*	0.00	0.00	26,463,976.51	0.00	0.00	26,463,976.51
Participations	0.00	0.00	0,00	0.00	0.00	0.00
Shares in affiliated companies	0.00	0.00	0,00	0.00	0.00	0.00
Total financial assets	**0.00**	**0.00**	**26,463,976,51**	**0.00**	**0.00**	**26,463,976.51**
Total	**763,349,932.57**	**0.00**	**99,191,632,57**	**8,965,213.74**	**0.00**	**853,576,351.40**

* The balance sheet item bonds and debentures includes accrued interest in the amount of €16,836,299.59

SCHEDULE OF ASSETS

Development of Fixed Assets in the Financial Year 2021

Net book values	**31/12/2021 Euro**	31/12/2020 Euro
Intangible assets		
Purchased concessions, commercial copyrights and similar right and values and licenses to such rights and values	**167,555,982.39**	179,048,018.70
Goodwill	**0.00**	0.00
Advance payments made	**56,836,987.90**	55,669,252.43
	224,392,970.29	**234,717,271.13**
Tangible fixed assets		
Real estate, rights equivalent to real estate and buildings, including buildings on third-party property	**2,995,833.52**	2,714,721.17
Operating and office equipment	**9,573,179.69**	13,647,011.11
Fittings/installations in rented premises	**28,511,591.13**	34,028,984.91
Advance payments made	**1,055,147.74**	1,744,164.35
	42,135,752.08	**52,134,881.54**
Bonds and other fixed-income securities		
Securities held as fixed assets*	**11,952,174,150.83**	11,429,059,491.41
Participations	**59,054.00**	59,054.00
Shares in affiliated companies	**760,952,291.93**	760,952,291.93
Total financial assets	**12,713,185,496.76**	**12,190,070,837.34**
Total	**12,979,714,219.13**	**12,476,922,990.01**

* The balance sheet item bonds and debentures includes accrued interest in the amount of €16,836,299.59

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 2021 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, 14 February 2022

The Management Board

Volpe

Donat

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 2021, and the statement of profit and loss for the financial year from 1 January to 31 December 2021 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 2021. In accordance with the German legal requirements, we have not audited the content of the components of the management report mentioned in the "Other information" section of our auditor's report.

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 2021 and of its financial performance for the financial year from 1 January to 31 December 2021 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 components of the management report mentioned in the "Other information" section.

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 2021. 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

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 € 28.9 billion (51.9% of total assets) are reported under the "Loans to customers" balance sheet item. As at December 31, 2021, 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. Collective allowances are recognized for expected credit losses in the lending business of banks that have not yet been specifically identified for individual borrowers. For this purpose, a collective allowance is recognized for loans for which no specific allowance has been recognized in the amount of the expected loss for an observation period of twelve months, unless credit risk has increased significantly since initial recognition. In the event of a significant increase in credit risk since initial recognition, a collective allowance is recognized for the expected losses over the remaining life of the loan. 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 design of the relevant internal control system of the Company and, based on this, tested the controls' operating 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. 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 justifiable.

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 € 1,066.8 million and commission income of € 514.5 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 €70.4 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).

Other Information

The executive directors are responsible for the other information. The other information comprises the following components of the management report that have not been audited in terms of content:

- the statement on corporate governance pursuant to § 289f Abs. 4 HGB (disclosures on the quota for women on executive boards)
- the section of the management report entitled "Sustainability and Responsible Banking"

The other information comprises further all 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 mentioned above and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report disclosures audited in terms of content or with 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 23 February 2021. We were engaged by the supervisory board on 8 December 2021. 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 Christian F. Rabeling.

Düsseldorf, February 17th, 2022

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Christian F. Rabeling	ppa. Matthias Türck
Wirtschaftsprüfer	Wirtschaftsprüfer

Imprint

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Reuters: CCKGG.UL

Responsibilty: Investor Relations

Concept and Design
wirDesign Berlin | Braunschweig

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.

Photographic Material
Sebastian Knoth (Cover)
Nils Hendrik Müller (Pages 5 to 7)