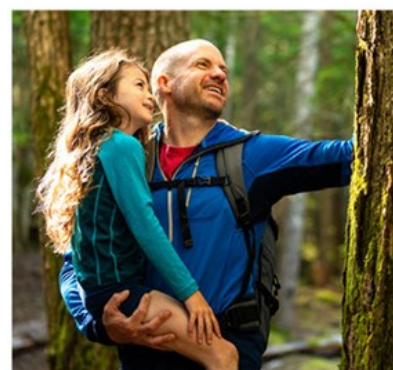


Interim consolidated directors' report 2021



All Together Now



First half



January - June

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Key consolidated data

BALANCE SHEET (EUR million)	Jun-21	Mar-21	%	Jun-21	Jun-20	%	Dec-20
Total assets	1,568,636	1,562,879	0.4	1,568,636	1,572,881	(0.3)	1,508,250
Loans and advances to customers	954,518	939,760	1.6	954,518	934,796	2.1	916,199
Customer deposits	894,127	882,854	1.3	894,127	846,832	5.6	849,310
Total funds	1,121,969	1,095,970	2.4	1,121,969	1,039,996	7.9	1,056,127
Total equity	95,745	92,686	3.3	95,745	91,859	4.2	91,322

Note: Total funds include customer deposits, mutual funds, pension funds and managed portfolios

INCOME STATEMENT (EUR million)	Q2'21	Q1'21	%	H1'21	H1'20	%	2020
Net interest income	8,240	7,956	3.6	16,196	16,202	—	31,994
Total income	11,305	11,390	(0.7)	22,695	22,268	1.9	44,279
Net operating income	6,046	6,272	(3.6)	12,318	11,561	6.5	23,149
Profit before tax	3,812	3,102	22.9	6,914	(6,410)	—	(2,076)
Attributable profit to the parent	2,067	1,608	28.5	3,675	(10,798)	—	(8,771)

Changes in constant euros:

Q2'21 / Q1'21: NII: +2.6%; Total income: -1.6%; Net operating income: -4.7%; Profit before tax: +21.4%; Attributable profit: +27.2%

H1'21 / H1'20: NII: +7.6%; Total income: +9.8%; Net operating income: +16.7%; Profit before tax: -/+; Attributable profit: -/+

EPS, PROFITABILITY AND EFFICIENCY (%)	Q2'21	Q1'21	%	H1'21	H1'20	%	2020
EPS (euros) ⁽²⁾	0.112	0.085	31.4	0.197	(0.639)	—	(0.538)
RoE	9.91	9.80		9.53	(9.28)		(9.80)
RoTE	12.29	12.16		11.82	1.73		1.95
RoA	0.64	0.62		0.61	(0.51)		(0.50)
RoRWA	1.74	1.67		1.66	(1.34)		(1.33)
Efficiency ratio	46.5	44.9		45.7	47.3		47.0

UNDERLYING INCOME STATEMENT ⁽¹⁾ (EUR million)	Q2'21	Q1'21	%	H1'21	H1'20	%	2020
Net interest income	8,240	7,956	3.6	16,196	16,202	—	31,994
Total income	11,305	11,390	(0.7)	22,695	22,518	0.8	44,600
Net operating income	6,046	6,272	(3.6)	12,318	11,561	6.5	23,633
Profit before tax	3,815	3,813	0.1	7,628	3,841	98.6	9,674
Attributable profit to the parent	2,067	2,138	(3.3)	4,205	1,908	120.4	5,081

Changes in constant euros:

Q2'21 / Q1'21: NII: +2.6%; Total income: -1.6%; Net operating income: -4.7%; Profit before tax: -1.3%; Attributable profit: -4.4%

H1'21 / H1'20: NII: +7.6%; Total income: +8.4%; Net operating income: +13.4%; Profit before tax: +122.9%; Attributable profit: +152.8%

UNDERLYING EPS AND PROFITABILITY ⁽¹⁾ (%)	Q2'21	Q1'21	%	H1'21	H1'20	%	2020
Underlying EPS (euros) ⁽²⁾	0.112	0.116	(3.4)	0.227	0.094	141.5	0.262
Underlying RoE	9.91	10.44		10.17	3.98		5.68
Underlying RoTE	12.29	12.96		12.62	5.44		7.44
Underlying RoA	0.64	0.65		0.65	0.31		0.40
Underlying RoRWA	1.74	1.77		1.75	0.80		1.06

SOLVENCY⁽³⁾ (%)	Jun-21	Mar-21	Jun-21	Jun-20	Dec-20
CET1 phased-in	12.11	12.26	12.11	11.84	12.34
Phased-in total capital ratio	15.82	16.12	15.82	15.48	16.18

CREDIT QUALITY (%)	Q2'21	Q1'21	H1'21	H1'20	2020
Cost of credit ⁽⁴⁾	0.94	1.08	0.94	1.26	1.28
NPL ratio	3.22	3.20	3.22	3.26	3.21
Total coverage ratio	73	74	73	72	76

MARKET CAPITALIZATION AND SHARES	Jun-21	Mar-21	%	Jun-21	Jun-20	%	Dec-20
Shares (millions)	17,341	17,341	0.0	17,341	16,618	4.3	17,341
Share price (euros) ⁽²⁾	3.220	2.897	11.1	3.220	2.084	54.5	2.538
Market capitalisation (EUR million)	55,828	50,236	11.1	55,828	36,136	54.5	44,011
Tangible book value per share (euros) ⁽²⁾	3.98	3.84		3.98	3.83		3.79
Price / Tangible book value per share (X) ⁽²⁾	0.81	0.75		0.81	0.54		0.67

CUSTOMERS (thousands)	Q2'21	Q1'21		H1'21	H1'20		2020
Total customers	150,447	148,641	1.2	150,447	146,010	3.0	148,256
Loyal customers	24,169	23,428	3.2	24,169	21,507	12.4	22,838
Loyal retail customers	22,100	21,441	3.1	22,100	19,703	12.2	20,901
Loyal SME & corporate customers	2,069	1,987	4.1	2,069	1,804	14.6	1,938
Digital customers	45,352	44,209	2.6	45,352	39,915	13.6	42,362
Digital sales / Total sales (%)	54	50		52	44		44

OTHER DATA	Jun-21	Mar-21	%	Jun-21	Jun-20	%	Dec-20
Number of shareholders	3,879,232	3,937,711	(1.5)	3,879,232	4,080,201	(4.9)	4,018,817
Number of employees	190,751	190,175	0.3	190,751	194,284	(1.8)	191,189
Number of branches	10,073	10,817	(6.9)	10,073	11,847	(15.0)	11,236

(1) In addition to financial information prepared in accordance with International Financial Reporting Standards (IFRS) and derived from our consolidated financial statements, this report contains certain financial measures that constitute alternative performance measures (APMs) as defined in the Guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority (ESMA) on 5 October 2015, and other non-IFRS measures, including the figures related to "underlying" results, which do not include the items recorded in the separate line of "net capital gains and provisions", above the line of attributable profit to the parent. Further details are provided in the "Alternative performance measures" section of the annex to this report.

For further details of the APMs and non-IFRS measures used, including its definition or a reconciliation between any applicable management indicators and the financial data presented in the annual consolidated financial statements prepared under IFRS, please see our 2020 Annual Financial Report, published in the CNMV on 23 February 2021, our 20-F report for the year ending 31 December 2020 filed with the SEC in the United States as well as the "Alternative performance measures" section of the annex to this report.

(2) Data adjusted for the capital increase in December 2020.

(3) The phased-in ratio includes the transitory treatment of IFRS 9, calculated in accordance with article 473 bis of the Regulation on Capital Requirements (CRR) and subsequent amendments introduced by Regulation 2020/873 of the European Union. Additionally, the total phased-in capital ratio includes the transitory treatment according to chapter 2, title 1, part 10 of the aforementioned CRR.

(4) Allowances for loan-loss provisions over the last 12 months / Average loans and advances to customers over the last 12 months

Our business model is based on three pillars

1. Our scale

Local scale and leadership.
Worldwide reach through our global businesses



total customers in Europe and the Americas

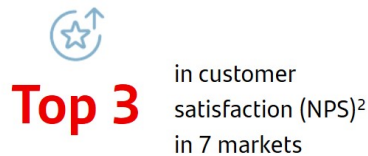
Top 3¹
in 10 of our markets



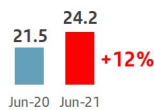
1. Market share in lending as of March 2021 including only privately-owned banks. UK benchmark refers to the mortgage market. DCB refers to auto in Europe.

2. Customer focus

Unique personal banking relationships strengthen customer loyalty



Loyal customers
(Millions)



Digital customers
(Millions)



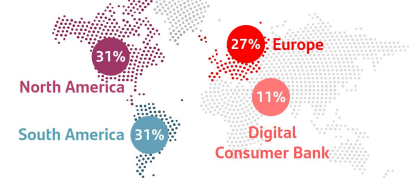
2. NPS – Customer Satisfaction internal benchmark of active customers' experience and satisfaction audited by Stiga / Deloitte.

3. Diversification

Our geographic and business diversification makes us more resilient under adverse circumstances

• Geographic diversification³

balanced between mature and emerging markets



• Business diversification

between customer segments (individuals, SMEs, mid-market companies and large corporates)

3. H1'21 underlying attributable profit by region. Operating areas excluding Corporate Centre.

Our corporate culture

The **Santander Way** remains unchanged to continue to deliver for all our stakeholders.

Our purpose

To help people and businesses **prosper**.

Our aim

To be the best open financial services **platform**, by acting **responsibly** and earning the lasting **loyalty** of our people, customers, shareholders and communities.

Our how

Everything we do should be **Simple, Personal and Fair**.





HIGHLIGHTS OF THE PERIOD

- ▶ In the second quarter of 2021, we once again demonstrated the strength of our model. We delivered strong results in an environment marked by the recovery of activity in all regions, following the progress in the vaccination process.
- ▶ In line with our strategy to deploy capital in the most profitable businesses:
 - The Group announced on 15 July 2021 that Santander Holdings USA, Inc. (SHUSA, the parent company that comprises Santander's businesses in the US) has reached an agreement to acquire Amherst Pierpont Securities, a market-leading independent fixed-income broker dealer based in the US.
 - SHUSA announced on 2 July 2021 a proposal to acquire all outstanding shares of common stock of Santander Consumer USA (SC USA) it does not already own. SHUSA currently owns approximately 80% of SC USA's outstanding shares, and, if the transaction is completed, SC USA would become a wholly owned subsidiary of SHUSA.
 - These transactions follow our strategy to reduce complexity, increase profitability with minimal additional operational risk, increase business diversification by expanding our exposure to corporates and increase the weighting of earnings obtained in hard currency. Both transactions follow our rigorous financial discipline and goals and strengthen our business model and profitable growth.
- ▶ The cash dividend of EUR 0.0275 per share against 2020 results was paid in May, the maximum allowed in accordance with the limits set by the European Central Bank recommendation of 15 December 2020. This dividend was paid under the resolution for the distribution of share premium approved at the Bank's general shareholders meeting on 27 October 2020.



GROWTH

- ▶ Digital adoption continued to accelerate: in H1'21, 52% of sales were made through digital channels (44% in H1'20) and the number of digital customers amounted to more than 45 million (+14% year-on-year).
- ▶ Loyal customers rose by over 2 million since June 2020, totalling 24 million, and represented 33% of total active customers.
- ▶ Business volumes increased in Q2'21 despite still being affected by the pandemic and high liquidity in the markets. In this environment, and excluding the exchange rate impact, loans and advances to customers rose close to EUR 11 billion (+1%) in the quarter and 2% year-on-year. Customer funds were up EUR 21.3 billion, +2% in the quarter and +7% year-on-year, due to the higher propensity to save of individuals and corporates.



PROFITABILITY

- ▶ Attributable profit amounted to EUR 2,067 million in Q2'21 with no material net results recorded in the net capital gains and provisions line. The quarter-on-quarter comparison was affected by the contribution to the SRF. Excluding this impact, profit rose 8% in constant euros compared to Q1'21 underlying attributable profit.
- ▶ H1'21 attributable profit was EUR 3,675 million. Excluding the EUR 530 million charge from expected restructuring costs for the year as a whole recorded in Q1'21, underlying attributable profit stood at EUR 4,205 million, 2.5 times higher than H1'20 (in constant euros), underpinned by the positive performance across regions, Digital Consumer Bank (DCB) and the global businesses. This figure was the highest first half underlying attributable profit recorded since 2010.
- ▶ These results were reflected in higher profitability: underlying RoTE of 12.6% (5.4% in H1'20), underlying RoRWA was 1.75% (0.80% in H1'20) and underlying earnings per share of EUR 0.227 (EUR 0.094 in H1'20).



STRENGTH

- ▶ Cost of credit improved to 0.94% in H1'21 (1.28% in FY20). Total loan-loss reserves in the first quarter exceeded EUR 24 bn and total coverage of credit impaired loans was 73%.
- ▶ The CET1 ratio was 12.11% in June 2021, with an organic generation of 7 bps (including a -18 bps accrual for potential shareholder remuneration equivalent to 50% of Q2'21 underlying profit¹). On the other hand, it was affected by regulatory impacts and models (-24 bps).
- ▶ TNAV per share was EUR 3.98 in June 2021, 4% higher quarter-on-quarter and up 6% compared to December (including the EUR 0.0275 dividend paid in May).

(1) This figure follows the indications of the consolidating supervisor to consider the maximum within the pay-out target range (40%-50%) of underlying profit.

GRUPO SANTANDER RESULTS

Grupo Santander. Summarized income statement

EUR million

	Q2'21	Q1'21	Change		H1'21	H1'20	Change	
			%	% excl. FX			%	% excl. FX
Net interest income	8,240	7,956	3.6	2.6	16,196	16,202	0.0	7.6
Net fee income (commission income minus commission expense)	2,621	2,548	2.9	2.0	5,169	5,136	0.6	8.3
Gains or losses on financial assets and liabilities and exchange differences (net)	243	651	(62.7)	(62.7)	894	1,073	(16.7)	(10.6)
Dividend income	244	65	275.4	274.9	309	265	16.6	17.6
Share of results of entities accounted for using the equity method	87	76	14.5	12.1	163	(135)	—	—
Other operating income / expenses	(130)	94	—	—	(36)	(273)	(86.8)	(85.9)
Total income	11,305	11,390	(0.7)	(1.6)	22,695	22,268	1.9	9.8
Operating expenses	(5,259)	(5,118)	2.8	2.2	(10,377)	(10,707)	(3.1)	2.5
Administrative expenses	(4,561)	(4,435)	2.8	2.3	(8,996)	(9,288)	(3.1)	2.5
Staff costs	(2,750)	(2,688)	2.3	1.8	(5,438)	(5,470)	(0.6)	4.6
Other general administrative expenses	(1,811)	(1,747)	3.7	3.0	(3,558)	(3,818)	(6.8)	(0.6)
Depreciation and amortization	(698)	(683)	2.2	1.6	(1,381)	(1,419)	(2.7)	2.7
Provisions or reversal of provisions	(531)	(959)	(44.6)	(45.0)	(1,490)	(614)	142.7	167.6
Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss (net)	(1,748)	(2,056)	(15.0)	(16.0)	(3,804)	(7,030)	(45.9)	(41.4)
Impairment on other assets (net)	8	(138)	—	—	(130)	(10,241)	(98.7)	(98.7)
Gains or losses on non financial assets and investments, net	51	1	—	—	52	27	92.6	96.4
Negative goodwill recognized in results	—	—	—	—	—	6	(100.0)	(100.0)
Gains or losses on non-current assets held for sale not classified as discontinued operations	(14)	(18)	(22.2)	(23.3)	(32)	(119)	(73.1)	(73.1)
Profit or loss before tax from continuing operations	3,812	3,102	22.9	21.4	6,914	(6,410)	—	—
Tax expense or income from continuing operations	(1,331)	(1,143)	16.4	14.5	(2,474)	(3,928)	(37.0)	(34.5)
Profit from the period from continuing operations	2,481	1,959	26.6	25.4	4,440	(10,338)	—	—
Profit or loss after tax from discontinued operations	—	—	—	—	—	—	—	—
Profit for the period	2,481	1,959	26.6	25.4	4,440	(10,338)	—	—
Attributable profit to non-controlling interests	(414)	(351)	17.9	17.3	(765)	(460)	66.3	75.2
Attributable profit to the parent	2,067	1,608	28.5	27.2	3,675	(10,798)	—	—
EPS (euros) ⁽¹⁾	0.112	0.085	31.4		0.197	(0.639)	—	
Diluted EPS (euros) ⁽¹⁾	0.111	0.085	31.4		0.196	(0.639)	—	
<i>Memorandum items:</i>								
Average total assets	1,557,364	1,526,899	2.0		1,539,167	1,548,851	(0.6)	
Average stockholders' equity	83,429	81,858	1.9		82,669	95,803	(13.7)	

(1) Data adjusted for the capital increase in December 2020.

Executive summary

Profit (H1'21 vs H1'20)

Strong profit growth across regions and businesses

Attributable profit	Underlying attrib. profit
EUR 3,675 mn	EUR 4,205 mn
-EUR 10,798 mn in H1'20	EUR 1,908 mn in H1'20

Efficiency

The Group's efficiency ratio improved strongly, mainly driven by Europe

Group	Europe
45.7%	51.2%
▼1.6 pp vs H1'20	▼8.0 pp vs H1'20

Performance (H1'21 vs H1'20). In constant euros

Higher underlying profit driven by total income, cost control and lower provisions

Total income	Costs	Provisions
+8.4%	+3.1%	-42.1%

Profitability

Strong profitability improvement compared to H1'20 and FY'20.

RoTE	Underlying RoTE	RoRWA	Underlying RoRWA
11.8%	12.6%	1.66%	1.75%
▲10.1 pp	▲7.2 pp	▲3,0 pp	▲1.0 pp

Changes vs H1'20

→ Results performance compared to H1'20

The Group presents, both at the total level and for each of the business units, the real changes in euros produced in the income statement, as well as variations excluding the exchange rate effect (FX), on the understanding that the latter provide a better analysis of the Group's management. For the Group as a whole, exchange rates had a significant impact on revenue (-8 percentage points) and costs (-6 percentage points).

► Total income

Total income totalled EUR 22,695 million in the first half of 2021, up 2% with respect to H1'20. If the FX impact is excluded, total income increased 10%, with growth in all regions and countries, except Mexico, showing the strength provided by our geographic and business diversification. Net interest income and net fee income accounted for 94% of total income. By line:

- **Net interest income** amounted to EUR 16,196 million, stable compared to H1'20. Stripping out the exchange rate impact, growth was 8%, mainly due to the net effect of the increase in revenue from higher average lending and deposit volumes and the lower cost of the latter, and the reduction in revenue from lower interest rates in many markets.

On the one hand, growth was recorded in the UK (+29%), through decisive management deposit repricing actions (mainly the 11213 current account), as well as higher customer balances; Spain (+10%), driven by margin management and TLTRO; Brazil (+10%), due to greater volumes that offset lower average interest rates; and Chile (+12%), due to margin management and inflation. Finally, the US (+1%), due to focused pricing actions and despite rate and volume pressures.

On the other hand, Mexico fell 4%, due to notably lower interest rates and reduced volumes in a market environment of falling lending.

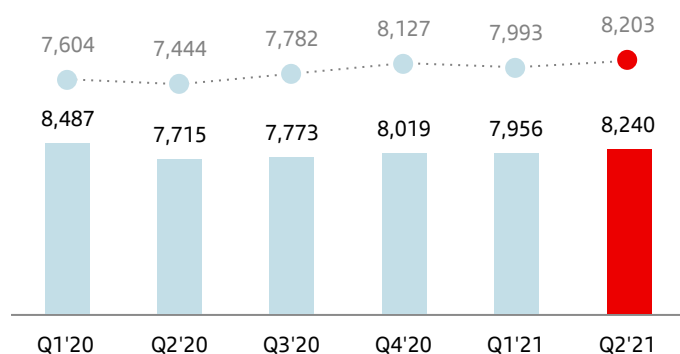
- **Net fee income** rose 1% year-on-year at EUR 5,169 million. Excluding the exchange rate impact, they were 8% higher, returning to pre-crisis levels in the second quarter after being one of the most affected line items by the health crisis.

In this way, some continue to be affected, mainly transactional fees. However, the year-on-year growth in the acquiring business, combined with the increases in card (+26%) and points of sale (+54%) turnover, support a sound recovery path, which was also reflected in mutual funds, insurance and wholesale businesses.

Net interest income

EUR million

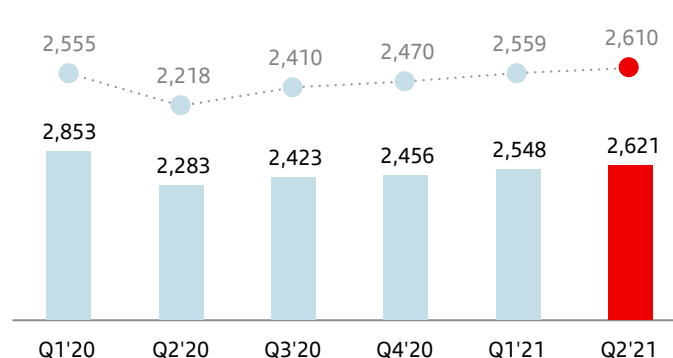
---●--- constant euros



Net fee income

EUR million

---●--- constant euros



Santander Corporate & Investment Banking surged 18% year-on-year driven by strong markets growth and the positive performance in Banking businesses (GDF and GTB). Wealth Management & Insurance rose 10% (including fees ceded to the branch network). Overall, both businesses together accounted for approximately 50% of the Group's total net fee income (SCIB: 17%; WM&I: 32%).

By region, growth was seen across the board in all areas; North America grew 5% with rises in the US and Mexico; overall growth in South America (+14%); and Europe was up 5%, with generalized increases in all markets except the UK, due to regulatory changes affecting overdrafts since April 2020.

- **Gains on financial transactions**, accounted for 4% of total income and stood at EUR 894 million (EUR 1,073 million in the first half of 2020), with falls in Spain (-37%), Mexico (-63%), Chile (-26%) and Brazil (-4%). On the other hand, growth was recorded in Portugal (ALCO portfolio sales).
- **Dividend income** was EUR 309 million in the first half of 2021, 17% higher than in the same period of 2020 (+18% excluding the exchange rate effect), after the completion of several dividend payments following last years' reduction, delay or cancellation amid the pandemic.
- **The results of entities accounted for using the equity method** amounted to EUR 163 million, reflecting the higher contribution from the entities associated to the Group.
- **Other operating income** recorded a loss of -EUR 36 million compared to -EUR 273 million in the first half of 2020, as the greater contribution to the SRF in 2021 was offset by higher results from insurance and leasing.

► Costs

Operating costs amounted to EUR 10,377 million, 3% lower year-on-year. Excluding the exchange rate impact, costs rose 3% given the general upturn in inflation in 2021 and the investments in technology and digital developments. Excluding inflation (i.e. in real terms) costs dropped 0.4%.

The efficiency ratio was 45.7%, improving 1.6 pp versus last year, mainly driven by Europe. This enabled Santander to remain one of the most efficient global banks in the world.

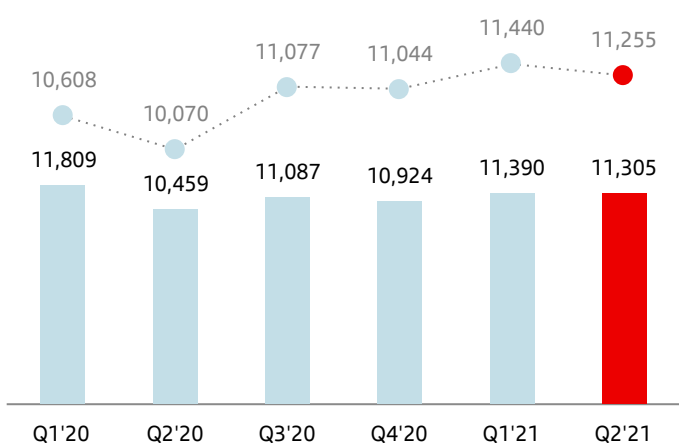
The trends by region and market in constant euros were as follows:

- In Europe, costs were 1% lower, -2% in real terms (excluding average inflation), making headway in our cost reduction plan. Falls were recorded in Spain (-7%), the UK and Portugal (-3%). Poland rose 2% due to higher personnel expenses. The efficiency ratio in the region improved notably to 51.2% (-8 pp year-on-year).
- In North America, costs increased 7%. In real terms, they were 4% higher, mainly driven by technology expenses and amortizations, with a 3% increase in the US and a 2% fall in Mexico. The efficiency ratio in the region stood at 42.7%.
- Finally, in South America, the increase in costs (+7%) was greatly distorted by the very high inflation in Argentina. In real terms, costs reduced 3% in the region: Brazil (-6%), Chile (-1%) and Argentina (+6%). The efficiency ratio in the region stood at 34.4%.

Total income

EUR million

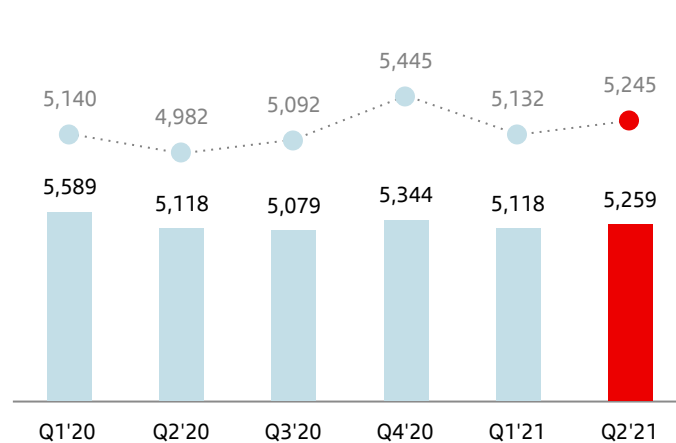
---●--- constant euros



Operating expenses

EUR million

---●--- constant euros



► Provisions or reversal of provisions

Provisions (net of provisions reversals) rose to EUR 1,490 million (EUR 614 million in H1'20). This line item includes the charges for restructuring costs, as well as charges related to CHF mortgages in Poland and Digital Consumer Bank (EUR 154 million in H1'21).

► Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss (net)

Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss (net) was EUR 3,804 million, down 46% year-on-year in euros and -41% in constant euros, mainly from additional provisions recorded in 2020 based on the IFRS 9 forward-looking view and the collective and individual assessments to reflect expected credit losses arising from covid-19.

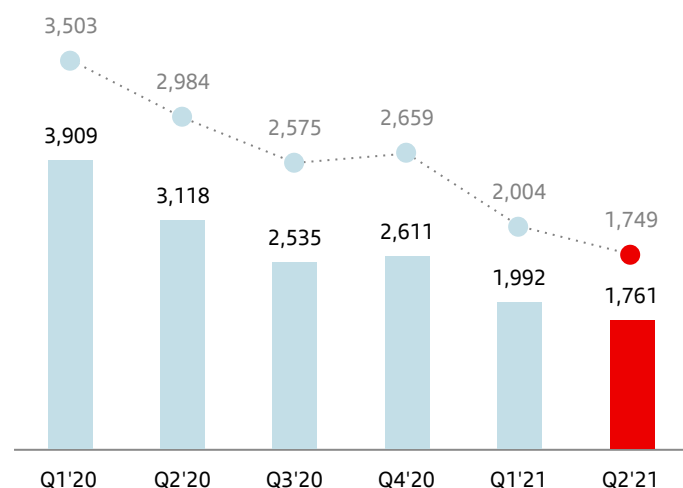
► Impairment on other assets (net)

Impairment on other assets (net) stood at EUR 130 million. In H1'20, this line item was EUR 10,241 million due to the valuation adjustment of goodwill of -EUR 10,100 million recorded in the second quarter.

Net loan-loss provisions

EUR million

---●--- constant euros



► Gains or losses on non-financial assets and investments (net)

This line item recorded EUR 52 million in the first half of 2021, compared to EUR 27 million in the same period of 2020.

► Negative goodwill recognized in results

This line item recorded EUR 0 million in H1'21 (EUR 6 million in H1'20).

► Gains or losses on non-current assets held for sale not classified as discontinued operations

This line item, which mainly includes impairment of foreclosed assets recorded and the sale of properties acquired upon foreclosure, totalled -EUR 32 million in the first half of 2021, compared to -EUR 119 million in the first half of 2020.

► Profit before tax

Profit before tax amounted to EUR 6,914 million in the first half of 2021, increasing from -EUR 6,410 million in the same period of 2020, spurred by growth in total income and lower provisions in 2021 and the valuation adjustment of goodwill accounted in H1'20.

► Income tax

Total corporate income tax was EUR 2,474 million (EUR 3,928 million in the first half of 2020, which recorded the EUR 2,500 million valuation adjustment to deferred tax assets).

► Attributable profit to non-controlling interests

Attributable profit to non-controlling interests amounted to EUR 765 million, up 66% year-on-year (+75% excluding the exchange rate impact).

► Attributable profit to the parent

Attributable profit to the parent amounted to EUR 3,675 million in H1'21, compared with EUR 10,798 million in H1'20.

RoTE stood at 11.8% (1.7% in H1'20), RoRWA of 1.66% (-1.34% in H1'20) and earnings per share stood at EUR 0.197 (-EUR 0.639 in H1'20).

► Underlying attributable profit to the parent

Attributable profit to the parent recorded in the first half of 2021 and 2020 was affected by results that are outside the ordinary course of our business and distort the year-on-year comparison, and are detailed below:

- In H1'21, these results totalled -EUR 530 million due to the recording in Q1'21 of restructuring costs as follows: -EUR 293 million in the UK, -EUR 165 million in Portugal, -EUR 16 million in Digital Consumer Bank and -EUR 56 million in the Corporate Centre.
- In the first half of 2020, these results amounted to -EUR 12,706 million from the valuation adjustment of goodwill ascribed to various Group units (-EUR 10,100 million) and the valuation adjustment to deferred tax assets of the Spanish consolidated fiscal group with an impact of -EUR 2,500 million. In addition, restructuring costs and other provisions had a net impact of -EUR 106 million.

For further information see the 'Alternative performance measures' section of this report.

Excluding these results from the various P&L lines where they are recorded, and incorporating them separately in the net capital gains and provisions line, the adjusted or underlying attributable profit to the parent was EUR 4,205 million in the first half of 2021 and EUR 1,908 million in the same period last year.

The Group's cost of credit (considering the last 12 months) stood at 0.94%, 0.79% considering the last 6 months, performing better than expected, due to lower provisions in most markets, mainly in Brazil, the US and the UK. The latter two recorded releases in the last quarter.

Before the recording of loan-loss provisions, the Group's underlying net operating income (total income less operating expenses) was EUR 12,318 million, a 4% increase year-on-year, which becomes a 13% rise excluding the FX impact, with the following performance of the latter by line and region:

By line:

- Total income up primarily driven by net interest income (+8%) and the rebound net fee income (+8%).
- Costs were higher on the back of the upturn in inflation. In real terms, broad-based declines across Europe, Brazil, Chile and Mexico.

By region:

- In Europe, net operating income increased 37% with rises in all markets.
- In North America, net operating income was 2% higher. By country, the US increased 13% and Mexico dropped 12%.
- In South America, growth was 11% with rises of 14% in Brazil, 10% in Chile and 6% in Argentina.
- In Digital Consumer Bank, net operating income increased 2%.

In the first half of 2021, the Group's underlying RoTE was 12.6% (5.4% in H1'20), underlying RoRWA was 1.75% (0.80% in H1'20) and underlying earnings per share EUR 0.227 (EUR 0.094 in H1'20).

Summarized underlying income statement

EUR million	Q2'21	Q1'21	Change		H1'21	H1'20	Change	
			%	% excl. FX			%	% excl. FX
Net interest income	8,240	7,956	3.6	2.6	16,196	16,202	0.0	7.6
Net fee income	2,621	2,548	2.9	2.0	5,169	5,136	0.6	8.3
Gains (losses) on financial transactions ⁽¹⁾	243	651	(62.7)	(62.7)	894	1,073	(16.7)	(10.6)
Other operating income	201	235	(14.5)	(16.1)	436	107	307.5	309.0
Total income	11,305	11,390	(0.7)	(1.6)	22,695	22,518	0.8	8.4
Administrative expenses and amortizations	(5,259)	(5,118)	2.8	2.2	(10,377)	(10,653)	(2.6)	3.1
Net operating income	6,046	6,272	(3.6)	(4.7)	12,318	11,865	3.8	13.4
Net loan-loss provisions	(1,761)	(1,992)	(11.6)	(12.7)	(3,753)	(7,027)	(46.6)	(42.1)
Other gains (losses) and provisions	(470)	(467)	0.6	1.2	(937)	(997)	(6.0)	(1.6)
Profit before tax	3,815	3,813	0.1	(1.3)	7,628	3,841	98.6	122.9
Tax on profit	(1,334)	(1,324)	0.8	(1.1)	(2,658)	(1,468)	81.1	101.8
Profit from continuing operations	2,481	2,489	(0.3)	(1.3)	4,970	2,373	109.4	136.1
Net profit from discontinued operations	—	—	—	—	—	—	—	—
Consolidated profit	2,481	2,489	(0.3)	(1.3)	4,970	2,373	109.4	136.1
Non-controlling interests	(414)	(351)	17.9	17.2	(765)	(465)	64.5	73.4
Net capital gains and provisions	—	(530)	(100.0)	—	(530)	(12,706)	(95.8)	(95.8)
Attributable profit to the parent	2,067	1,608	28.5	27.2	3,675	(10,798)	—	—
Underlying attributable profit to the parent ⁽²⁾	2,067	2,138	(3.3)	(4.4)	4,205	1,908	120.4	152.8

(1) Includes exchange differences.

(2) Excludes net capital gains and provisions.

→ Results performance compared to the previous quarter

In the second quarter, attributable profit to the parent amounted to EUR 2,067 million, with no material net results recorded in the net capital gains and provisions line.

Attributable profit to the parent recorded a significant jump (+29% in euros and +27% in constant euros) from EUR 1,068 million in Q1'21, which was affected by restructuring costs (-EUR 530 million).

Compared to Q1'21 underlying attributable profit (EUR 2,138 million, excluding restructuring costs), profit was 3% lower (-4% at constant exchange rates).

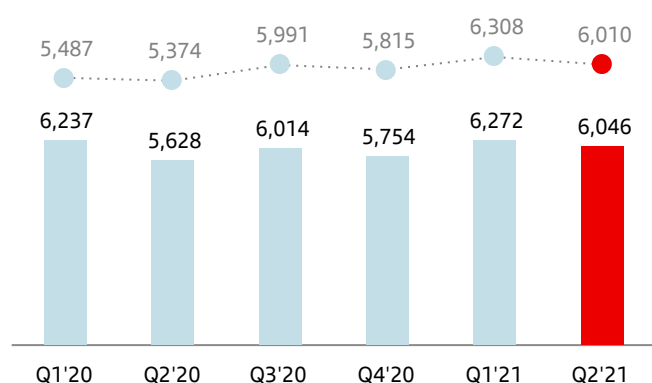
This decrease was mainly driven by the contribution to the SRF in Spain, Other Europe, Digital Consumer Bank and the Corporate Centre recorded in Q2'21. Excluding this impact, underlying attributable profit rose 8% (excluding the exchange rate impact), with the following performance by line in constant euros:

- Total income was 2% lower quarter-on-quarter, dampened by the aforementioned SRF contribution and reduced gains on financial transactions, which were exceptionally high in Q1'21. Net interest income and net fee income grew 3% and 2%, respectively, maintaining their recovery paths despite an environment where interest rates remained low and economic activity, although recovering, continued to be constrained by the pandemic.
- Continued rigorous expense management. However, the upturn in inflation (especially in North America and South America), led to a 2% rise in the Group. In Europe, decreases were recorded in Spain, Portugal and the UK, on the back of the ongoing efficiency programmes.
- Loan-loss provisions continued to fall (-13%). Of note were the releases in the UK and the US from the improved economic forecast.
- Other gains (losses) and provisions recorded an -EUR 110 million charge related to CHF mortgages in Poland and Digital Consumer Bank.

Net operating income

EUR million

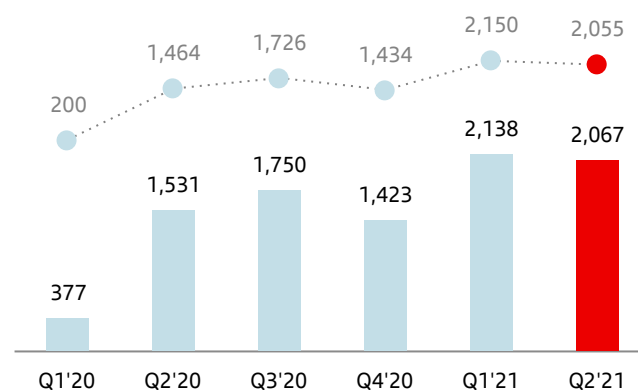
---●--- constant euros



Underlying attributable profit to the parent*

EUR million

---●--- constant euros



(*) Excluding net capital gains and provisions.

Grupo Santander. Condensed balance sheet

EUR million

Assets	Jun-21	Jun-20	Change		Dec-20
			Absolute	%	
Cash, cash balances at central banks and other demand deposits	183,091	138,266	44,825	32.4	153,839
Financial assets held for trading	102,792	124,145	(21,353)	(17.2)	114,945
Debt securities	34,114	32,062	2,052	6.4	37,894
Equity instruments	13,545	7,782	5,763	74.1	9,615
Loans and advances to customers	265	289	(24)	(8.3)	296
Loans and advances to central banks and credit institutions	—	6	(6)	(100.0)	3
Derivatives	54,868	84,006	(29,138)	(34.7)	67,137
Financial assets designated at fair value through profit or loss	61,324	97,270	(35,946)	(37.0)	53,203
Loans and advances to customers	25,353	35,421	(10,068)	(28.4)	24,673
Loans and advances to central banks and credit institutions	28,791	54,815	(26,024)	(47.5)	21,617
Other (debt securities an equity instruments)	7,180	7,034	146	2.1	6,913
Financial assets at fair value through other comprehensive income	114,505	122,560	(8,055)	(6.6)	120,953
Debt securities	103,549	112,041	(8,492)	(7.6)	108,903
Equity instruments	2,751	2,228	523	23.5	2,783
Loans and advances to customers	8,205	8,291	(86)	(1.0)	9,267
Loans and advances to central banks and credit institutions	—	—	—	—	—
Financial assets measured at amortised cost	1,003,417	976,298	27,119	2.8	958,378
Debt securities	29,038	27,167	1,871	6.9	26,078
Loans and advances to customers	920,695	890,795	29,900	3.4	881,963
Loans and advances to central banks and credit institutions	53,684	58,336	(4,652)	(8.0)	50,337
Investments in subsidiaries, joint ventures and associates	7,562	8,668	(1,106)	(12.8)	7,622
Tangible assets	32,678	33,271	(593)	(1.8)	32,735
Intangible assets	16,454	15,946	508	3.2	15,908
Goodwill	12,854	12,595	259	2.1	12,471
Other intangible assets	3,600	3,351	249	7.4	3,437
Other assets	46,813	56,457	(9,644)	(17.1)	50,667
Total assets	1,568,636	1,572,881	(4,245)	(0.3)	1,508,250
Liabilities and shareholders' equity					
Financial liabilities held for trading	68,982	97,700	(28,718)	(29.4)	81,167
Customer deposits	—	—	—	—	—
Debt securities issued	—	—	—	—	—
Deposits by central banks and credit institutions	—	—	—	—	—
Derivatives	52,440	84,202	(31,762)	(37.7)	64,469
Other	16,542	13,498	3,044	22.6	16,698
Financial liabilities designated at fair value through profit or loss	54,131	59,619	(5,488)	(9.2)	48,038
Customer deposits	38,005	36,346	1,659	4.6	34,343
Debt securities issued	5,491	4,386	1,105	25.2	4,440
Deposits by central banks and credit institutions	10,635	18,887	(8,252)	(43.7)	9,255
Other	—	—	—	—	—
Financial liabilities measured at amortized cost	1,310,433	1,283,581	26,852	2.1	1,248,188
Customer deposits	856,122	810,486	45,636	5.6	814,967
Debt securities issued	237,739	254,398	(16,659)	(6.5)	230,829
Deposits by central banks and credit institutions	182,770	189,214	(6,444)	(3.4)	175,424
Other	33,802	29,483	4,319	14.6	26,968
Liabilities under insurance contracts	1,014	2,246	(1,232)	(54.9)	910
Provisions	10,400	11,948	(1,548)	(13.0)	10,852
Other liabilities	27,931	25,928	2,003	7.7	27,773
Total liabilities	1,472,891	1,481,022	(8,131)	(0.5)	1,416,928
Shareholders' equity	117,552	112,899	4,653	4.1	114,620
Capital stock	8,670	8,309	361	4.3	8,670
Reserves	105,207	117,050	(11,843)	(10.1)	114,721
Attributable profit to the Group	3,675	(10,798)	14,473	—	(8,771)
Less: dividends	—	(1,662)	1,662	(100.0)	—
Other comprehensive income	(32,181)	(30,637)	(1,544)	5.0	(33,144)
Minority interests	10,374	9,597	777	8.1	9,846
Total equity	95,745	91,859	3,886	4.2	91,322
Total liabilities and equity	1,568,636	1,572,881	(4,245)	(0.3)	1,508,250

GRUPO SANTANDER BALANCE SHEET

Executive summary *

Loans and advances to customers (excl. reverse repos)

Credit normalization following the uptick at the beginning of the pandemic, due to high liquidity in the system

940
billion ▲ 1% QoQ ▲ 2% YoY

→ By segment (YoY change):

Growth backed by individuals and large corporates

Individuals	SMEs and corporates	CIB and institutions
+3%	-3%	+1%

(*) Changes in constant euros

Customer funds (deposits excl. repos + mutual funds)

Strong increase in customer funds benefiting from the higher propensity to save derived from the health crisis

1,037
billion ▲ 2% QoQ ▲ 7% YoY

→ By product (YoY change):

Of note were demand deposits (which account for 66% of customer funds) and mutual funds

Demand	Time	Mutual funds
+9%	-11%	+18%

→ Loans and advances to customers

Loans and advances to customers stood at EUR 954,518 million, rising 2% both quarter-on-quarter and year-on-year.

The Group uses gross loans and advances to customers excluding reverse repos (EUR 939,559 million) for the purpose of analyzing traditional commercial banking loans. In addition, in order to facilitate the analysis of the Group's management, the comments below do not include the exchange rate impact.

In the second quarter, gross loans and advances to customers excluding reverse repos and without the exchange rate impact, increased 1%, as follows:

- Balances in Europe rose 1%. By market, Portugal and Spain increased 1%, 'Other Europe' +6% and the rest had no material change.
- North America grew 3% driven by the US, as Mexico remained flat.
- In South America, 2% growth with all markets increasing, notably Brazil (+3%) and Argentina (+9%).
- Digital Consumer Bank (DCB) recorded no material change, with widespread falls across the main consumer finance units, except the Nordics and France.

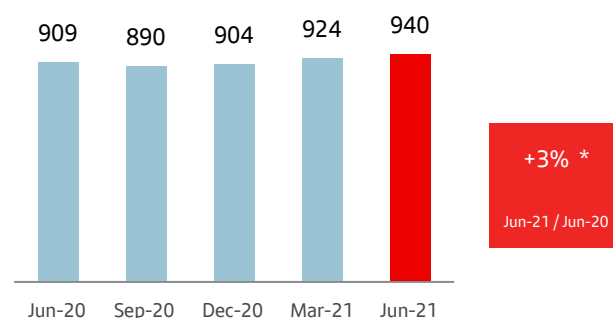
Compared to June 2020, gross loans and advances to customers (excluding reverse repos and the FX impact) grew 2%, as follows:

- In Europe, 1% growth with all markets increasing except Spain (-2%), dampened by SMEs and large corporates. Rises were recorded in Portugal (+5%), driven by SMEs and mortgages, the UK (+1%), driven by residential mortgage activity and the government programmes for corporate customers, and Poland, which increased slightly. "Other Europe" rose 16%, mainly SCIB.
- In North America, Mexico fell 4% as corporate loans began to normalize following the uptick at the beginning of the pandemic and the lower card activity during lockdown. The US fell 2% affected by Puerto Rico and Bluestem portfolio disposals (+1% excluding their impacts). The region as a whole recorded a 3% decrease (flat excluding the aforementioned disposals).
- Growth in South America was 10%, with broad-based increases across countries except Chile (-2% due to corporates and CIB). Argentina up 36% driven by SMEs and cards, Brazil +15% with positive performance in all segments and Uruguay rose 9%.
- Digital Consumer Bank remained broadly stable. Openbank surged 39%, albeit compared to more modest figures.

Gross loans and advances to customers excluding reverse repos maintained a balanced structure: individuals (62%), SMEs and corporates (23%) and CIB (15%).

Gross loans and advances to customers (excl. reverse repos)

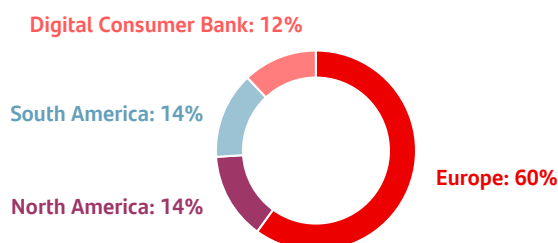
EUR billion



(*) In constant EUR: +2%

Gross loans and advances to customers (excl. reverse repos)

% operating areas. June 2021



→ Customer funds

Customer deposits amounted to EUR 894,127 million in June 2021, increasing 1% quarter-on-quarter and 6% year-on-year.

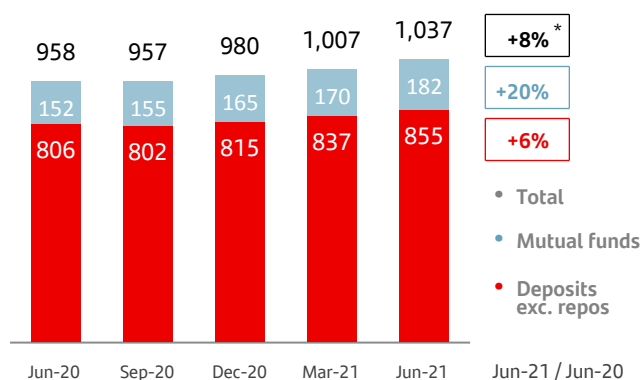
The Group uses **customer funds** (customer deposits excluding repos, plus mutual funds) for the purpose of analyzing traditional retail banking funds, which amounted to EUR 1,037,068 million.

- **In the quarter**, customer funds increased 2%, with the following performance, excluding exchange rate impacts:
 - By product, demand deposits rose 3% and mutual funds 5%, whilst time deposits decreased 3%.
 - By primary segment, customer funds increased 1% in Europe, driven by Spain, the UK and Portugal. North America rose 2% driven by the US, and South America increased 5% with widespread growth across markets. Digital Consumer Bank rose 4%.
- **Compared to June 2020**, customer funds were up 7%, excluding the exchange rate impact:
 - By product, deposits excluding repos rose 4%. Demand deposits (+9%) increased in all markets, and time deposits fell 11%, with broad-based declines except Brazil and Argentina. Mutual funds surged 18% underpinned by net inflows and markets recovery.
 - By country, customer funds rose in all regions and their respective units. Of note were the increases in Argentina (+47%), Uruguay (+14%), and Poland and Chile (both +10%), and more moderate growth in Brazil (+8%), the US, Spain and Portugal (+6% each), the UK (+5%) and Mexico (+2%).
 - Positive performance also in DCB, which rose 12%. Openbank increased 26%.

With this performance, the weight of demand deposits as a percentage of total customer funds rose 1 pp in the last 12 months to 66%, which resulted in a better cost of deposits.

Customer funds

EUR billion



(*) In constant EUR: +7%

In addition to capturing customer deposits, the Group, for strategic reasons, maintains a selective policy of issuing securities in the international fixed income markets and strives to adapt the frequency and volume of its market operations to the structural liquidity needs of each unit, as well as to the receptiveness of each market.

In the first half of 2021, the Group **issued**:

- Medium- and long-term senior debt amounting to EUR 7,771 million and EUR 74 million covered bonds placed in the market.
- There were EUR 10,110 million of securitizations placed in the market.
- In order to strengthen the Group's situation, issuances to meet the TLAC requirement amounting to EUR 9,160 million (EUR 7,581 million of senior non-preferred; EUR 1,579 million of senior preferred).
- Maturities of medium- and long-term debt of EUR 13,508 million.

The net loan-to-deposit ratio was 107% (110% in June 2020). The ratio of deposits plus medium- and long-term funding to the Group's loans was 116%, underscoring the comfortable funding structure.

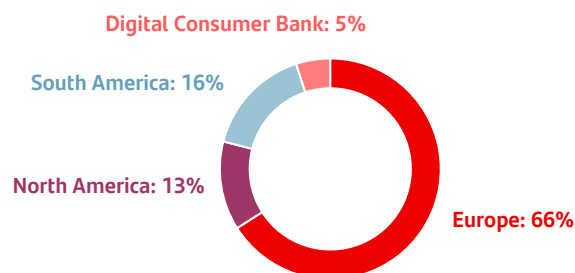
The Group's access to wholesale funding markets as well as the cost of issuances depends, in part, on the ratings of the **rating agencies**.

The ratings of Banco Santander, S.A. by the main rating agencies were: Fitch (long-term senior non-preferred debt at A- and short-term at F2), Moody's (A2 for long term debt and P-1 for short-term), Standard & Poor's (A for long term debt and A-1 for short term) and DBRS (A high for long term debt and R-1 middle for short term), in all cases with a stable outlook. During the first half of the year, Moody's confirmed its outlook, while Fitch and Standard & Poor's upgraded its outlook from negative to stable.

While sometimes the methodology applied by the agencies limits a bank's rating to the sovereign rating assigned to the country where it is headquartered, Banco Santander, S.A. is still rated above the sovereign debt rating of the Kingdom of Spain by Moody's and DBRS and at the same level by Fitch and S&P, which demonstrates our financial strength and diversification.

Customer funds

% operating areas. June 2021

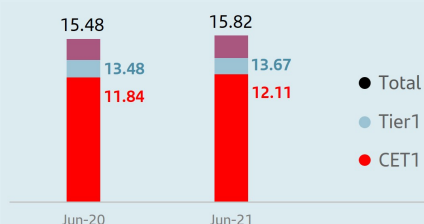


SOLVENCY RATIOS

Executive summary

Phased-in capital ratio*

The phased-in CET1 ratio exceeded our 11%-12% target range, resulting in a management buffer of 325 bps



Phased-in CET1 ratio*

In the quarter, strong organic generation after absorbing growth in RWAs and shareholder remuneration charges

Organic generation **+7 bps**
(after -18 bps accrual for potential shareholder remuneration and -5 bps from increased RWAs)

TNAV per share

TNAV per share was **EUR 3.98**, 4% higher quarter-on-quarter and +6% year-on-year

At the end of the quarter, the total phased-in capital ratio stood at 15.82% and the CET1 ratio (phased-in) at 12.11%. We have a strong capital base, comfortably meeting the minimum levels required by the European Central Bank on a consolidated basis (13.01% for the total capital ratio and 8.86% for the CET1 ratio). This results in a CET1 management buffer of 325 bps, compared to the pre-covid-19 buffer of 189 bps.

In the quarter, continued strong organic capital generation of 7 bps due to profit earned. This figure includes a negative impact of 5 bps for the increase in RWAs driven by higher volumes, and an impact of -18 bps for potential shareholder remuneration, equivalent to 50% of this quarter's underlying profit. This figure follows the indications of the consolidating supervisor to consider the maximum within the pay-out target range (40%-50%) of underlying profit**.

In addition, regulatory and model-related impacts were recorded in the quarter for -24 bps, of which -9 bps correspond to TRIM (targeted review of internal models) low defaults and -11 bps to SA-CCR (standardized approach counterparty credit risk).

Lastly, the performance of markets and others was virtually static in the quarter.

Had the IFRS 9 transitional arrangement not been applied, the total impact on the CET1 ratio was -41 bps, leading to a fully-loaded CET1 ratio of 11.70%.

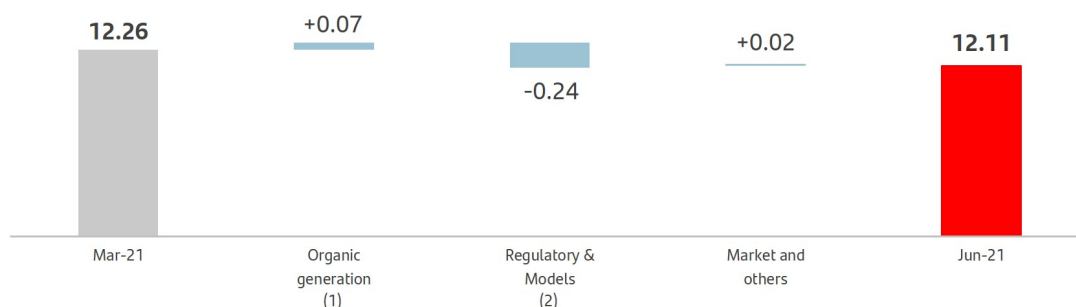
The phased-in leverage ratio stood at 5.2%, and the fully-loaded at 5.0%.

Eligible capital. June 2021

EUR million	Phased-in*	Fully-loaded
CET1	70,864	68,510
Basic capital	79,973	77,307
Eligible capital	92,539	90,260
Risk-weighted assets	584,999	585,379
CET1 capital ratio	12.11	11.70
T1 capital ratio	13.67	13.21
Total capital ratio	15.82	15.42

Phased-in CET1 ratio performance*

%



(1) Includes -18 bps for potential shareholder remuneration equivalent to up to 50% of Q2'21 underlying profit

(2) Includes TRIM low defaults (-9 bps), SA-CCR (-11 bps)

Note: as indicated by the consolidating supervisor, a 50% pay-out of underlying attributable profit, the maximum within the target range (40%-50%), has been assumed for the calculation of the capital ratios in 2021. Previously, 40% cash pay-out was considered.

(*) The phased-in ratio includes the transitory treatment of IFRS 9, calculated in accordance with article 473 bis of the Capital Requirements Regulation (CRR) and subsequent modifications introduced by Regulation 2020/873 of the European Union. Without it, the fully-loaded ratio was 11.70%. Additionally, the Tier 1 and total phased-in capital ratios include the transitory treatment according to chapter 2, title 1, part 10 of the CRR.

(**) Subject to the board and, if applicable, the general shareholders' meeting adopting the pertinent resolutions regarding shareholder remuneration and dividend payment policy.

RISK MANAGEMENT

Executive summary

Credit risk

Credit quality indicators continued the trend of the first quarter

Cost of credit ²	NPL ratio	Coverage ratio
0.94%	3.22%	73%
▼32 bps vs H1'20	▼4 bps vs H1'20	▲1 pp vs H1'20

Structural and liquidity risk

Robust and diversified liquidity buffer, with ratios well above regulatory limits

LCR **164%** ▼12 pp vs H1'20

Market risk

Our market risk profile remained low with stable VaR levels in a context of improved economic recovery expectations

Q2'21 Average VaR **EUR 9.1 million**

Operational risk

Level of losses in relative terms by Basel categories were lower than in the previous quarter

► Credit risk management

The Group's NPL ratio stood at 3.22% in the second quarter, showing an increase of 2 bps compared to the previous quarter and a 4 bps decrease year-on-year. This was mainly due to the positive performance of North America (-10 bps vs. Q1'21), somewhat mitigated by the increases in Europe and South America.

Credit impaired loans amounted to EUR 33,266 million, a 2% increase compared to the previous quarter, while our loan book grew by 1%.

Regarding loan-loss provisions, they amounted to EUR 1,761 million (13% less than the previous quarter in constant euros).

As of June 2021, loan-loss provisions amounted to EUR 3,753 million, 42% lower than H1'20 in constant euros, favoured by

additional reserves built in 2020 to cover the expected credit losses arising from the effects of the pandemic.

The Group's cost of credit stood at 0.94%, a 14 bps decrease compared to the previous quarter (supported by the good performance of the portfolio) and -32 bps year-on-year.

Total loan-loss reserves in the second quarter stood at EUR 24,239 million, in line with the previous quarter, with the total coverage of credit impaired loans at 73%.

A significant part of our portfolios in Spain and the UK have real estate collateral, which requires lower coverage levels.

Key metrics performance by geographic area

	Loan-loss provisions ¹		Cost of credit (%) ²		NPL ratio (%)		Total coverage ratio (%)	
	H1'21	Chg (%) / H1'20	H1'21	Chg (bps) / H1'20	H1'21	Chg (bps) / H1'20	H1'21	Chg (pp) / H1'20
	Europe	1,202	(28.4)	0.49	8	3.30	(10)	48.4
Spain	941	—	1.00	32	6.22	(33)	46.0	2.7
United Kingdom	(68)	—	0.09	(13)	1.30	20	37.4	(5.4)
Portugal	69	(33.5)	0.41	11	3.71	(72)	73.0	12.1
Poland	113	(36.6)	0.88	(9)	4.58	1	72.4	3.4
North America	588	(73.2)	1.67	(154)	2.28	56	152.3	(54.2)
USA	156	(90.5)	1.34	(196)	2.00	51	185.7	(67.4)
Mexico	432	(21.2)	2.74	(21)	3.10	60	90.6	(24.3)
South America	1,492	(27.8)	2.51	(98)	4.36	(37)	98.1	5.2
Brazil	1,222	(22.4)	3.51	(116)	4.55	(52)	112.3	2.1
Chile	182	(49.0)	1.07	(39)	4.57	(42)	63.9	9.1
Argentina	48	(47.4)	3.94	(173)	3.34	19	167.6	2.0
Digital Consumer Bank	308	(42.2)	0.64	(10)	2.18	(14)	111.9	3.9
TOTAL GROUP	3,753	(42.1)	0.94	(32)	3.22	(4)	72.9	0.8

(1) EUR million and % change in constant euros

(2) Allowances for loan-loss provisions over the last 12 months / Average loans and advances to customers over the last 12 months

Regarding moratoria programmes, as part of the customer support measures implemented by the Group to tackle the effects of covid-19, 92% of total moratoria have already expired by the second quarter, showing a payment performance aligned with expectations, with 5% in stage 3.

The current outstanding moratoria totalled EUR 8.7 billion, (mainly in Spain and Portugal), of which c. EUR 7.5 billion will expire by the end of the third quarter.

Regarding IFRS 9 stages evolution:

- Stage 1 exposures increased by 2.1% vs. the previous quarter, mainly due to new loan originations in SCIB and Brazil.
- Exposure in stage 2 remained stable in the quarter after the increase recorded last year, mostly driven by the macroeconomic deterioration caused by the pandemic.
- Stage 3 exposures slightly increased in the quarter.

Coverage ratio by stage

	Exposure ¹			Coverage		
	Jun-21	Mar-21	Jun-20	Jun-21	Mar-21	Jun-20
	EUR billion					
Stage 1	904	885	878	0.5%	0.5%	0.6%
Stage 2	70	70	61	8.2%	8.1%	7.7%
Stage 3	33	32	33	42.2%	42.5%	41.1%

(1) Exposure subject to impairment. Additionally, in June 2021 there are EUR 26 billion in loans and advances to customers not subject to impairment recorded at mark to market with changes through P&L (EUR 27 billion in March 2021 and EUR 36 in June 2020).

Stage 1: financial instruments for which no significant increase in credit risk is identified since its initial recognition.

Stage 2: if there has been a significant increase in credit risk since the date of initial recognition but the impairment event has not materialized, the financial instrument is classified in Stage 2.

Stage 3: a financial instrument is catalogued in this stage when it shows effective signs of impairment as a result of one or more events that have already occurred resulting in a loss.

Credit impaired loans and loan-loss allowances

	Change (%)		
	Q2'21	QoQ	YoY
	EUR million		
Balance at beginning of period	32,473	2.2	(0.8)
Net additions	2,561	2.6	(8.7)
Increase in scope of consolidation	—	—	—
Exchange rate differences and other	351	(20.9)	—
Write-offs	(2,119)	(5.1)	(12.2)
Balance at period-end	33,266	2.4	1.5
Loan-loss allowances	24,239	0.9	2.6
For impaired assets	14,030	1.64	4.25
For other assets	10,209	(0.21)	0.31

► Market risk

The global corporate banking trading activity risk is mainly interest rate driven, focused on servicing our customer's needs and measured in daily VaR terms at 99%.

In the second quarter, VaR fluctuated around an average value of EUR 9.1 million, very stable, with markets focused on the economic recovery despite some issues adding volatility such as latest inflation pressures or cryptos among others, closing Q2'21 at EUR 9.2 million. These figures remain low compared to the size of the Group's balance sheet and activity.

It should be also mentioned that there are other positions classified for accounting purposes as trading (total VaR of EUR 9.4 million at the end of June 2021).

Trading portfolios⁽¹⁾. VaR by geographic region

Second quarter	2021		2020
	Average	Latest	Average
	EUR million		
Total	9.1	9.2	15.4
Europe	7.9	9.6	14.9
North America	2.4	5.8	8.8
South America	6.0	6.1	5.8

(1) Activity performance in Santander Corporate & Investment Banking markets.

Trading portfolios⁽¹⁾. VaR by market factor

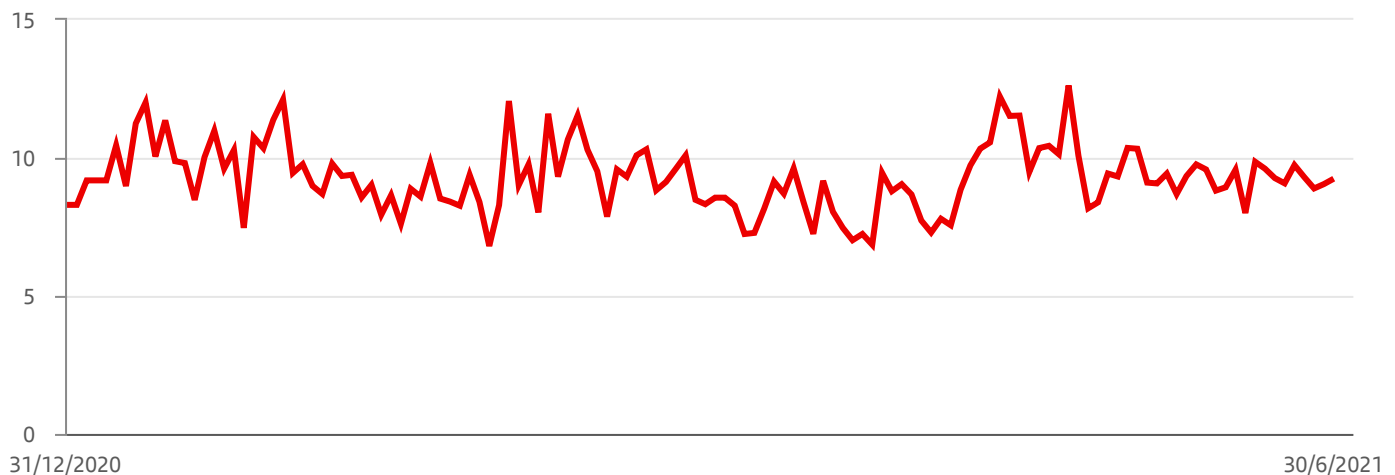
Second quarter	EUR million			
	Min.	Avg.	Max.	Last
VaR total	6.9	9.1	12.6	9.2
Diversification effect	(8.1)	(12.6)	(18.8)	(15.4)
Interest rate VaR	6.0	9.1	15.3	8.6
Equity VaR	2.3	3.1	4.6	3.7
FX VaR	2.0	4.1	7.3	5.5
Credit spreads VaR	3.0	3.8	5.3	5.0
Commodities VaR	0.9	1.6	2.6	2.0

(1) Activity performance in Santander Corporate & Investment Banking markets.

NOTE: In the North America, South America and Asia portfolios, VaR corresponding to the credit spreads factor other than sovereign risk is not relevant and is included in the interest rate factor

Trading portfolios¹. VaR performance

EUR million



(1) Corporate & Investment Banking performance in financial markets.

► Structural and liquidity risk

- Regarding the structural exchange rate risk, it is driven mainly by transactions in foreign currencies related to permanent financial investments, their results and related hedges. Our dynamic management of this risk seeks to limit the impact on the core capital ratio of foreign exchange rate movements. In the quarter, hedging of the core capital ratio for foreign exchange rate risk was kept close to 100%.
- In terms of structural interest rate risk, inflation rises continued leading to prospects of Central Banks slowing down stimulus measures earlier than expected, coupled with some political instability in Latin America, adding volatility to markets, although no material issues were detected and risk levels remained at comfortable levels.
- Regarding liquidity risk during the second quarter, the Group maintained a comfortable position, supported by a robust and diversified liquidity buffer, with ratios well above regulatory limits.

► Operational risk

- Overall, our operational risk profile continued to be stable during the second quarter of 2021, as the Group's headquarters and subsidiaries have fully adapted to the new environment. The following aspects were closely monitored during this period:
 - Fraud and cyber risk threats across the financial industry, and reinforcement of the control environment (i.e. patching, browsing control, data protection controls, etc.), as well as heightened monitoring as a preventive measure.
 - Third party risk exposure, maintaining a close oversight on critical providers, with focus on business continuity capabilities, compliance with service level agreements and operational resilience requirements.
 - People risk, due to our employees return to offices and/or work from home situations. Measures have been implemented to ensure a suitable and safe working environment across the Group's subsidiaries.
 - Evolution of operational risks linked to the existing portfolios resulting from government and internal aid programmes.
 - Regulatory compliance, due to the increasing regulatory requirements across the Group.
- As the situation continues to evolve, we are also monitoring the changes in the environment as well as the transition to digital banking in order to identify risk exposures and anticipate actions in order to reduce their impact.
- In terms of the second quarter performance, level of losses in relative terms by Basel categories were lower than in the previous quarter.

GENERAL BACKGROUND

Grupo Santander ran its business in the second quarter of 2021 in an environment marked by significant progress in vaccination and mobility, the continuation of economic policies to support recovery (although Brazil and Mexico raised interest rates), higher commodity prices and expansive financial conditions. This general tone had exceptions in some Latin American economies, where control of the pandemic is progressing slowly. Nevertheless, higher inflation in many economies and fears over some variants of the virus when herd immunity has not yet been achieved have caused some volatility in the markets.

Country	GDP Change ¹	Economic performance
 Eurozone	-1.3%	Growth is accelerating thanks to the reopening of economic activity following progress in vaccination and despite the fact that the irruption of the Delta variant of covid-19 is generating concern. The unemployment rate fell to 7.9% in May. Inflation has risen since the beginning of the year (1.9% in June from 0.9% in January) due to one-off factors, although the recovery in demand may exert some upward pressure in the coming months.
 Spain	-4.2%	Q2'21 data shows a remarkable recovery. Jobs are being created and business and consumer confidence are improving, which will boost domestic demand. Inflation (2.7% in June) picked up due to the impact of energy prices, but core inflation stood close to 0%, reflecting that the economy remained at low activity levels, which is expected to improve.
 United Kingdom	-6.1%	The resurgence of covid-19 cases arising from the Delta variant delayed the lift of most remaining restrictions until July. However, the latest indicators, including the lower unemployment rate (4.8% in April), point to an acceleration of recovery that we expect to bring the economy to pre-pandemic levels by year-end. Inflation in June (2.5%) reflected both the fast pace of recovery and the low level of comparison base effects. The Bank of England maintained the official rate at 0.1% and the Quantitative Easing target.
 Portugal	-5.3%	The downward trend in covid-19 cases allowed the economy to almost fully reopen in Q2'21 and led to a recovery in consumption and investment and an improvement in the labour market (the unemployment rate was 7.2% in May). Inflation stood at 0.5% in June. Portugal's public finances (deficit of 6.9% of GDP in April) reflected the extension of lockdown measures in Q1'21.
 Poland	-0.9%	After the third covid-19 wave in Q1'21, economic indicators turned more positive: industry, construction and trade continued to expand, with a solid labour market (unemployment rate at 4%), and prices also rose (inflation of 4.4% in June). In this environment, the central bank continued to prioritize recovery over controlling inflation (0.1% interest rate).
 United States	+0.4%	Improved health situation and fiscal impulses accelerated GDP growth to 6.4% quarter-on-quarter annualized in Q1'21. Inflation rose sharply to 5.3% in June, explained by supply chain problems, the jump in prices for services and comparison base effects. The Fed is holding monetary policy steady, but has started to review its outlook and to talk about 'when to start talking about tapering'.
 Mexico	-3.6%	Economic growth picked up in recent months after a weak start to the year due to the resurgence of covid-19 and global intermediate goods supply problems. This increase was driven by the reopening of activities in the tertiary sector and exports. Inflation rebounded (5.9% in June), prompting the central bank to raise Mexico's official rate to 4.25% (4.0% in Q1'21).
 Brazil	+1.0%	GDP growth surprised on the upside in Q1'21 (+2.3% quarter-on-quarter), which caused growth expectations to be revised upwards, reflecting a better response of companies to the pandemic and a faster recovery of the services sector after its reopening. Inflation continued to pick up (8.3% in June) and the central bank raised Brazil's official rate by 150 bps in Q2'21 to 4.25% and indicated it will continue to raise rates.
 Chile	+0.3%	GDP growth in Q1'21 combined with progress in vaccination, better adaption of companies to the pandemic and additional fiscal stimulus implemented this year led to an upward revision of growth expectations for the year. Inflation ticked up (3.8% in June) and the central bank raised Chile's official rate by 25 bps to 0.75% in July, after remaining unchanged in Q2'21.
 Argentina	+2.5%	After surprising on the upside in Q1'21, economic growth showed some contraction in Q2'21, due to the tighter restrictions to tackle the second covid-19 wave. However, prospects for economic recovery remain unchanged. Inflation remained high (monthly 3.2% in June). Authorities reached an agreement with the Paris Club on the payment of this year's debt maturity, while the renegotiation of the IMF programme continues.

(1) Year-on-year change Q1'21

DESCRIPTION OF SEGMENTS

We base segment reporting on financial information presented to the chief operating decision maker, which excludes certain statutory results items that distort year-on-year comparisons and are not considered for management reporting. This financial information (underlying basis) is computed by adjusting reported results for the effects of certain gains and losses (e.g. capital gains, write-downs, impairment of goodwill, etc.). These gains and losses are items that management and investors ordinarily identify and consider separately to better understand the underlying trends in the business.

Grupo Santander has aligned the information in this chapter with the underlying information used internally for management reporting and with that presented in Grupo Santander's other public documents.

Grupo Santander's executive committee has been selected to be its chief operating decision maker. Grupo Santander's operating segments reflect its organizational and managerial structures. The executive committee reviews internal reporting based on these segments to assess performance and allocate resources.

The segments are split by geographic area in which profits are earned and by type of business. We prepare the information by aggregating the figures for Grupo Santander's various geographic areas and business units, relating it to both the accounting data of the business units integrated in each segment and that provided by management information systems. The general principles applied are the same as those used in Grupo Santander.

On 9 April 2021, we announced that, starting and effective with the financial information for the first quarter of 2021, we would carry out a change in our reportable segments to reflect our new organizational and management structure.

These changes in the reportable segments aim to align the segment information with their management and have no impact on the group's accounting figures.

a. Main changes in the composition of Grupo Santander's segments

The main changes, which have been applied to management information for all periods included in the consolidated financial statements, are the following:

Primary segments

1. Creation of the new Digital Consumer Bank (DCB) segment, which includes:
 - Santander Consumer Finance (SCF), previously included in the Europe segment, and the consumer finance business in the United Kingdom, previously recorded in the country.
 - Our fully digital bank Openbank and the Open Digital Services (ODS) platform, which were previously included in the Santander Global Platform segment.

2. Santander Global Platform (SGP), which incorporated our global digital services under a single unit, is no longer a primary segment. Its activities have been distributed as follows:

- Openbank and Open Digital Services (ODS), which, as mentioned above, are now included under the new Digital Consumer Bank reporting segment.
- The business recorded in Global Payment Services (Merchant Solutions -GMS-, Trade Solutions -GTS- and Consumer Solutions -Superdigital and Pago FX-) has been allocated to the three main geographic segments, Europe, North America and South America, with no impact on the information reported for each country.

Secondary segments

1. Creation of the PagoNxt segment, which incorporates simple and accessible digital payment solutions to drive customer loyalty and allows us to combine our most disruptive payment businesses into a single autonomous company, providing global technology solutions for our banks and new customers in the open market, and which has been structured into three businesses, previously included in SGP:
 - Merchant Solutions: acquiring solutions for merchants.
 - Trade Solutions (GTS): solutions for SMEs and companies operating internationally.
 - Consumer Solutions: payment solutions for individuals, including the Superdigital platform, aimed at underbanked populations, and PagoFX, an international payment service in the open market.
2. Annual adjustment of the perimeter of the Global Customer Relationship Model between Retail Banking and Santander Corporate & Investment Banking and between Retail Banking and Wealth Management & Insurance.
3. Elimination of the Santander Global Platform reporting segment:
 - Openbank and ODS are now recorded in the Retail Banking segment.
 - Merchant Solutions, Trade Solutions, Superdigital and PagoFX form the new PagoNxt reporting segment.

The Group recasted the corresponding information of earlier periods considering the changes included in this section. As stated above, group consolidated figures remain unchanged.

b. Current composition of Grupo Santander segments

Primary segments

This primary level of segmentation, which is based on the Group's management structure, comprises five reportable segments: four operating areas plus the Corporate Centre. The operating areas are:

Europe: which comprises all business activity carried out in the region, except that included in Digital Consumer Bank. Detailed financial information is provided on Spain, the UK, Portugal and Poland.

North America: which comprises all the business activities carried out in Mexico and the US, which includes the holding company (SHUSA) and the businesses of Santander Bank, Santander Consumer USA, the specialized business unit Banco Santander International, Santander Investment Securities (SIS) and the New York branch.

South America: includes all the financial activities carried out by Grupo Santander through its banks and subsidiary banks in the region. Detailed information is provided on Brazil, Chile, Argentina, Uruguay, Peru and Colombia.

Digital Consumer Bank: includes Santander Consumer Finance, which incorporates the entire consumer finance business in Europe, Openbank and ODS.

Secondary segments

At this secondary level, Grupo Santander is structured into Retail Banking, Santander Corporate & Investment Banking (SCIB), Wealth Management & Insurance (WM&I) and PagoNxt.

Retail Banking: this covers all customer banking businesses, including consumer finance, except those of corporate banking which are managed through Santander Corporate & Investment Banking, asset management, private banking and insurance, which are managed by Wealth Management & Insurance. The results of the hedging positions in each country are also included, conducted within the sphere of their respective assets and liabilities committees.

Santander Corporate & Investment Banking (SCIB): this business reflects revenue from global corporate banking, investment banking and markets worldwide including treasuries managed globally (always after the appropriate distribution with Retail Banking customers), as well as equity business.

Wealth Management & Insurance: includes the asset management business (Santander Asset Management), the corporate unit of Private Banking and International Private Banking in Miami and Switzerland and the insurance business (Santander Insurance).

PagoNxt: this includes digital payment solutions, providing global technology solutions for our banks and new customers in the open market. It is structured in three businesses: Merchant Solutions, Trade Solutions and Consumer Solutions.

In addition to these operating units, both primary and secondary segments, the Group continues to maintain the area of **Corporate Centre**, that includes the centralized activities relating to equity stakes in financial companies, financial management of the structural exchange rate position, assumed within the sphere of the Group's assets and liabilities committee, as well as management of liquidity and of shareholders' equity via issuances.

As the Group's holding entity, this area manages all capital and reserves and allocations of capital and liquidity with the rest of businesses. It also incorporates amortization of goodwill but not the costs related to the Group's central services (charged to the areas), except for corporate and institutional expenses related to the Group's functioning.

The businesses included in each of the segments and business areas in this report and the accounting principles under which their results are presented here may differ from the businesses included and accounting principles applied in the financial information separately prepared and disclosed by our subsidiaries (some of which are publicly listed) which in name or geographical description may seem to correspond to the business areas covered in this report. Accordingly, the results of operations and trends shown for our business areas in this document may differ materially from those of such subsidiaries.

As described on the previous page, the results of our business areas presented below are provided on the basis of underlying results only and including the impact of foreign exchange rate fluctuations. However, for a better understanding of the actual changes in the performance of our business areas, we provide and discuss the year-on-year changes to our results excluding such impact.

On the other hand, certain figures contained in this report, including financial information, have been subject to rounding to enhance their presentation. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables contained in this report may not conform exactly to the total figure given for that column or row.

January-June 2021

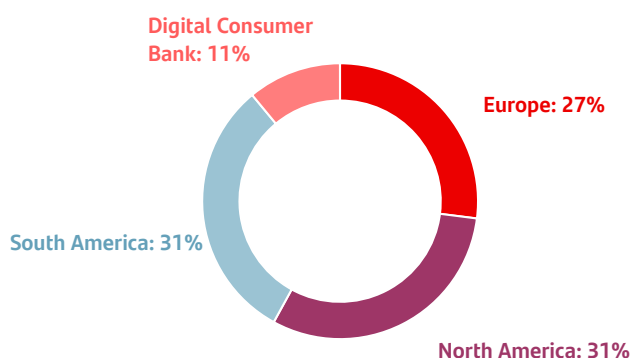
Main items of the underlying income statement

EUR million

Primary segments	Net interest income	Net fee income	Total income	Net operating income	Profit before tax	Underlying attributable profit to the parent
Europe	5,396	2,157	8,091	3,947	2,150	1,426
Spain	2,034	1,204	3,478	1,759	542	390
United Kingdom	2,100	238	2,322	1,023	997	693
Portugal	384	210	730	441	347	239
Poland	490	253	774	453	141	54
Other	387	253	787	272	122	49
North America	4,015	861	5,487	3,145	2,545	1,628
US	2,663	432	3,737	2,206	2,050	1,291
Mexico	1,352	414	1,743	991	548	387
Other	0	14	7	(52)	(53)	(50)
South America	5,334	1,770	7,311	4,793	3,113	1,645
Brazil	3,700	1,330	5,203	3,701	2,354	1,180
Chile	1,009	190	1,252	771	592	321
Argentina	440	161	563	214	100	108
Other	186	88	293	108	67	35
Digital Consumer Bank	2,130	395	2,606	1,392	1,008	569
Corporate Centre	(679)	(13)	(800)	(960)	(1,188)	(1,062)
TOTAL GROUP	16,196	5,169	22,695	12,318	7,628	4,205
Secondary segments						
Retail Banking	15,238	3,462	19,347	10,942	6,565	3,790
Corporate & Investment Banking	1,460	900	2,938	1,870	1,808	1,197
Wealth Management & Insurance	179	612	1,021	574	561	406
PagoNxt	(2)	209	189	(108)	(118)	(127)
Corporate Centre	(679)	(13)	(800)	(960)	(1,188)	(1,062)
TOTAL GROUP	16,196	5,169	22,695	12,318	7,628	4,205

Underlying attributable profit to the parent distribution*

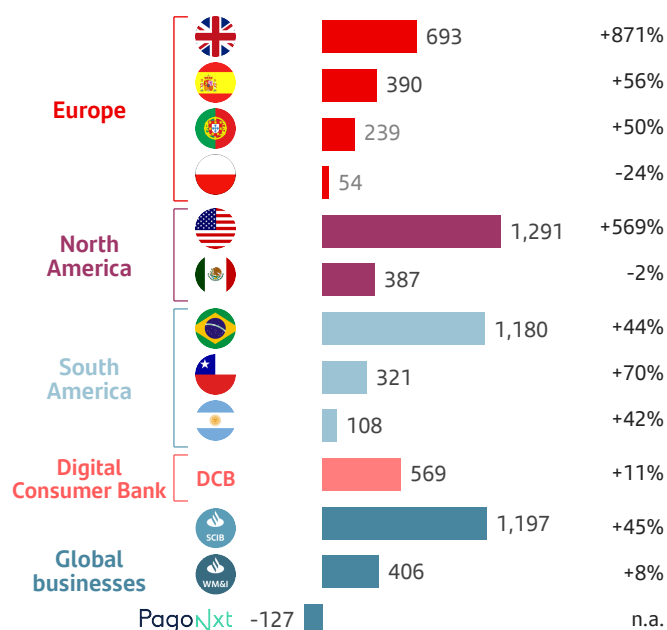
H1'21



(*) As a % of operating areas. Excluding the Corporate Centre.

Underlying attributable profit to the parent. H1'21

EUR million. % change YoY in constant euros



January-June 2020

Main items of the underlying income statement

EUR million

	Net interest income	Net fee income	Total income	Net operating income	Profit before tax	Underlying attributable profit to the parent
Primary segments						
Europe	4,708	2,071	7,115	2,902	799	529
Spain	1,856	1,178	3,350	1,509	350	251
United Kingdom	1,616	284	1,898	580	103	71
Portugal	399	191	668	372	230	160
Poland	547	220	742	428	167	73
Other	289	198	458	13	(52)	(26)
North America	4,339	869	5,651	3,299	878	616
US	2,891	465	3,730	2,144	305	211
Mexico	1,448	396	1,912	1,156	578	406
Other	0	9	10	(2)	(4)	(1)
South America	5,671	1,856	7,864	5,091	2,460	1,382
Brazil	4,083	1,483	5,788	3,949	1,881	995
Chile	873	166	1,137	678	331	183
Argentina	502	132	628	289	125	109
Other	213	74	311	175	123	95
Digital Consumer Bank	2,142	356	2,505	1,357	889	507
Corporate Centre	(658)	(15)	(617)	(784)	(1,186)	(1,125)
TOTAL GROUP	16,202	5,136	22,518	11,865	3,841	1,908
Secondary segments						
Retail Banking	15,276	3,595	19,242	10,418	3,105	1,733
Corporate & Investment Banking	1,382	807	2,706	1,679	1,392	928
Wealth Management & Insurance	202	578	1,012	563	548	400
PagoNxt	0	171	176	(12)	(18)	(28)
Corporate Centre	(658)	(15)	(617)	(784)	(1,186)	(1,125)
TOTAL GROUP	16,202	5,136	22,518	11,865	3,841	1,908

**EUROPE**Underlying attributable profit
EUR 1,426 mn**Executive summary** (changes in constant euros)

- We are accelerating our business transformation in One Santander in Europe to achieve superior growth and a more efficient operating model that should allow us to progress towards our medium-term underlying RoTE target of 10-12%¹.
- The increase in revenue (+14%), combined with the continued cost reduction (-1%) and lower provisions (-28%), led to an underlying attributable profit of EUR 1,426 million (+172% year-on-year).
- Volume growth in the last 12 months in almost all markets: loans grew 1% (notably the UK, Portugal and CIB) and customer funds rose 6%, with positive trends since the beginning of the year.

Strategy

Our goal with One Santander in Europe is to create a better bank where customers and our people feel a deep connection while delivering sustainable value for our shareholders. We aim to deliver a c.10-12% underlying RoTE for the medium-term¹ and make progress in the long-term transformation through our action plan, defined around three main blocks:

- **Grow our business by better serving our customers**, focusing on capital efficient opportunities, which includes SCIB and WM&I, simplifying our mass market value proposition, improving customer experience and engaging with PagoNxt.
- **Redefine how we interact with our customers**, accelerating our digital agenda with one common mobile experience, re-imagining our branch network and transforming our contact centres building a common solution for the region.
- Create a **common operating model**, to serve our businesses through a common technology platform and automated operations, leveraging shared services and with one aligned team across Europe.

The key areas of progress by country on the quarter were:

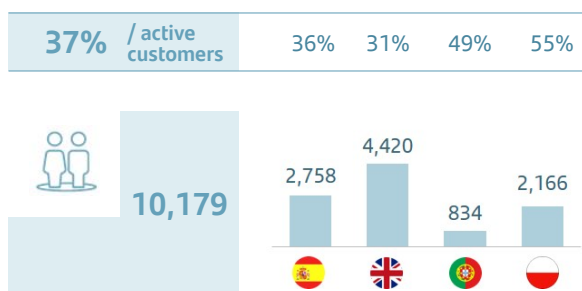
- **Spain:** we established a new management committee in April, with priorities on strengthening our customer base through customer satisfaction and the simplification of our offering to

achieve profitable growth, and managing credit risk in the current market environment. We continued to improve our digital services, for which we have been recognized as Best Bank in Digital Services and Most Innovative Retail Banking app in Spain in 2021 by Global Banking & Finance Review.

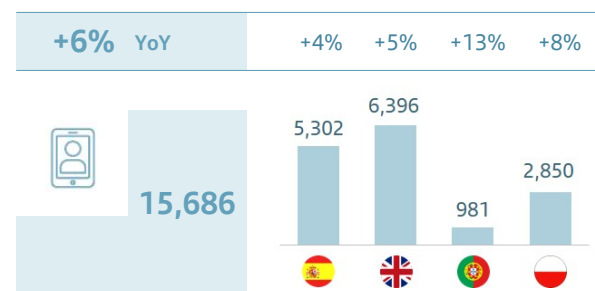
- **United Kingdom:** we continued to increase our digital customer base and foster mass market simplification through our customer journey. Customer margin management and better operational efficiency helped to deliver strong profit growth, backed by our transformation programme.
- **Portugal:** we progressed on our transformation programme to streamline the bank and accelerate our digital agenda, leveraging OneApp. Our aim is to be simpler, more nimble and closer to customers, in a challenging environment still marked by some lockdown measures. As a result, we were named Best Bank in Portugal in 2021 by Global Finance, which highlights our ability to meet our customers' needs in challenging environments. We also made a headway in streamlining our operating model.

Loyal customers. June 2021

Thousands. % loyal / active customers

**Digital customers.** June 2021

Thousands. YoY % change



1. Medium term goals for underlying RoTE do not represent guidance. The actual underlying RoTE may vary materially in the medium term.

- **Poland:** we successfully continued to progress in our business and strategic transformation to become a simpler, faster, more effective and more customer centric organization. Our recent achievements include: top 3 position in NPS among Polish banks, reaching two million active mobile customers, launching of several new fully digital processes (new account openings, life and health insurances and home insurances). We also made headways with our local restructuring plans.

Business performance

Loans and advances to customers rose 2%. In gross terms and excluding reverse repurchase agreements and the exchange rate impact, loans were 1% higher. Growth was recorded in the UK, mainly driven by the mortgage business. Corporate activity slowed down, as a result of government aid programmes and lower demand in the past months.

Customer deposits increased 5% year-on-year in euros. Excluding repurchase agreements and at constant exchange rates, deposits grew 3% and mutual funds +22%. As a result, customer funds were 6% higher, with rises in all countries.

Results

Underlying attributable profit in the first half was EUR 1,426 million, 2.7 times higher than the same period of 2020, which was affected by the covid-19 crisis. Growth was also recorded in constant euros, with the following detail:

- Higher total income (14%) spurred by a very positive start of the year in the SCIB business, strong margin management in the UK in a highly competitive environment, together with the positive impact of the TLTRO in Spain and Portugal.
- Costs were down 1% as a result of the ongoing optimization plans in all countries, aligned with our savings targets for the region.
- Loan-loss provisions dropped 28% compared to the first half of 2020, which was strongly affected by covid-19 related provisions.

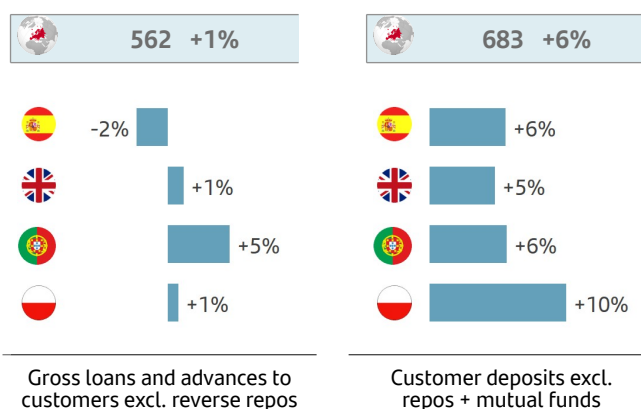
By country:

- **Spain:** underlying attributable profit in the first half surged 56% year-on-year, predominantly driven by the strong cost reduction. Total income rose 4% driven by the effective NII and net fee income management, and the positive impact of the TLTRO.
- **United Kingdom:** underlying attributable profit in the first half was virtually nine times higher year-on-year at EUR 693 million, reflecting the benefits from lower provisioning requirements and higher NII (lower cost of deposits and increased mortgage volumes).
- **Portugal:** first half underlying attributable profit was 50% higher than previous year, driven by ALCO portfolio sales and lower costs and provisions.
- **Poland:** interest rates cuts negatively impacted net interest income year-on-year, which were matched by the positive performance in net fee income and loan-loss provisions. However, underlying attributable profit fell 24% due to higher (non-deductible) provisions related to customer claims regarding CHF-indexed and based loans.
- **Other Europe:** SCIB had an excellent first half across the region. Revenue increased 77% versus the previous year, on the back of strong markets results. Costs rose 18% year-on-year driven by new projects and initiatives related to business development.

In the quarter, underlying attributable profit fell 28% in constant euros, primarily due to the contribution to the SRF recorded in the second quarter (approximately EUR 370 million), the aforementioned CHF mortgage loans related provisions and lower gains on financial transactions compared to an excellent first quarter. Conversely, net interest income and net fee income continued their upward trend, rising 3% and 1%, respectively.

Business performance. June 2021

EUR billion and YoY % change in constant euros



Europe. Underlying income statement

EUR million and % change

	Q2'21	/ Q1'21		H1'21	/ H1'20	
		%	excl. FX		%	excl. FX
Revenue	3,942	-5	-5	8,091	+14	+14
Expenses	-2,072	0	0	-4,144	-2	-1
Net operating income	1,870	-10	-10	3,947	+36	+37
LLPs	-606	+2	+2	-1,202	-29	-28
PBT	919	-25	-26	2,150	+169	+172
Underlying attrib. profit	599	-28	-28	1,426	+170	+172

[Detailed financial information on page 54](#)

	Spain	Underlying attributable profit EUR 390 mn
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Commercial activity and business performance

In **individuals**, positive commercial dynamism accelerated in the second quarter, notably residential mortgages, exceeding the highest level reached in the past 3 years, and consumer lending, recovering to pre-covid levels. There was also significant growth in protection insurance.

We continued to lead the Aqmetrix ranking as best online banking and best app for individuals and SMEs, and launched new products for young customers, financing up to 95% loan-to-value (LTV) ratio.

Regarding the **self-employed, SMEs and corporates**, of note was the quarterly increase in working capital (+9%) while the slowdown in the demand for loans continued, mainly due to the extension of grace periods in ICO funding and a latent environment of uncertainty regarding the post-covid-19 recovery.

We continued to grow in **transactional products**, with double-digit growth in credit and debit cards turnover (+18% year-on-year) and transfer volumes (+20%).

Loans and advances to customers dropped 2% year-on-year, as well as in gross terms and excluding reverse repos. In the quarter, 1% growth driven by individuals.

Customer deposits increased 2% compared to the same period of 2020 (similar performance excluding repos). Mutual funds were 20% higher, driven by sustained net positive inflows in the last 14 months.

Results

Underlying attributable profit in the **first half** amounted to EUR 390 million, 56% higher year-on-year. By line:

- Total income increased 4%, driven by 10% growth in net interest income (margin management and TLTRO), and a 2% increase in net fee income, positively affected by reduced economic activity in Q2'20.
- We continued our cost reduction efforts (-7% year-on-year), on the back of the transformation of our operating model, which enabled net operating income to grow 17%.
- In loan-loss provisions, we continued to strengthen our balance sheet due to uncertainty regarding post-covid-19 recovery and we remained focused on proactive risk management. The NPL ratio fell to 6.22% despite the challenging economic environment.

Compared to the **first quarter**, profit dropped 39% affected by the contribution to the SRF. Excluding this impact, total income increased 1% and net operating income +4%.

Spain. Underlying income statement

EUR million and % change

	Q2'21	/Q1'21	H1'21	/H1'20
Revenue	1,693	-5	3,478	4
Expenses	-852	-2	-1,719	-7
Net operating income	842	-8	1,759	17
LLPs	-492	+10	-941	0
PBT	202	-40	542	55
Underlying attrib. profit	147	-39	390	56

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	United Kingdom	Underlying attributable profit EUR 693 mn
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Commercial activity and business performance

We continue our focus on building deeper customer relationships and a seamless customer experience. Our priorities are aligned to the One Santander strategy, which include accelerated customer digital adoption, reshaping of our property footprint and faster digitalization and automation. Digital customers increased 5% and digital transactions increased 19% year-on-year.

Our strategic transformation programme continues. In Q1'21 we announced the proposed closure of 111 branches, reflecting the continued shift by customers towards online and mobile banking. We also confirmed 40% reduction in head office space.

Loans and advances to customers increased 5% compared to June 2020. Gross loans excluding reverse repos and exchange rate impact grew 1%, driven by residential mortgage activity and the government programmes for corporate customers, offset by reductions in our Corporate and CIB businesses.

Customer deposits increased 9% year-on-year. Customer funds excluding repos and exchange rate impact were 5% greater, continuing to reflect strong growth in Retail Banking and corporate deposits driven by customer spending patterns during the covid-19 pandemic.

Results

Underlying attributable profit in the **first six months of 2021** of EUR 693 million, up 878% year-on-year and +871% in constant euros as follows:

- Total income was up 21%, with increased net interest income driven by management actions to reprice deposits (11213 Current Account), as well as higher customer balances. This increase was partly offset by the impact of regulatory changes to overdrafts that took effect in April 2020.
- Costs reduced 2%, continuing to reflect efficiency savings from our transformation programme. As a result, efficiency ratio improved significantly (-13.5 pp) reaching 56.0%.
- Loan-loss provisions releases of EUR 68 million in H1'21 after the EUR 86 million release in Q2'21, reflecting the absence of significant underlying charges and an improved economic forecast. The cost of credit remained low at 9 bps and the NPL ratio was 1.30%.

Against Q1'21, underlying attributable profit increased 34% in constant euros. The increase was driven by higher net interest income (deposit repricing), lower costs and loan-loss provisions release.

United Kingdom. Underlying income statement

EUR million and % change

	Q2'21	/ Q1'21		H1'21	/ H1'20	
		%	excl. FX		%	excl. FX
Revenue	1,211	+9	+8	2,322	+22	+21
Expenses	-648	-1	-2	-1,299	-1	-2
Net operating income	563	+23	+21	1,023	+76	+75
LLPs	86	—	—	68	—	—
PBT	587	+43	+42	997	+865	+858
Underlying attrib. profit	399	+36	+34	693	+878	+871

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	Portugal	Underlying attributable profit EUR 239 mn
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Commercial activity and business performance

We continued with our transformation strategy, simplifying our processes and commercial proposition, in order to provide the best customer service:

- Business activity and volumes picked up, reflecting the lifting of lockdown measures and the rebound of the economy.
- Strong increase in digital adoption (web and mobile). The number of digital customers increased 13% year-on-year and digital sales were higher and now account for 59% of the total.
- New customer acquisition through the cuenta Santander, which combines a wide range of services provided under a single fee and also allows, through marginal cost, to include Mundo 123 benefits, which continued to be a key loyalty driver.
- The end of private moratoria (for individuals) in March had no impact on credit quality.

Loans and advances to customers increased 5% year-on-year, as well as in gross terms and excluding reverse repos, backed by the positive dynamics of new mortgage and SME loans.

Customer deposits rose 4% (as well as excluding repos). Overall, customer funds recorded sustained and balanced growth (+6%), with a continued focus on migrating to mutual funds (+37%), amid the low interest rate environment.

Results

Underlying attributable profit in the **first half** was 50% higher year-on-year at EUR 239 million, driven by:

- Customer revenue increased 1%: growth in net fee income mitigated low interest rates. Total income rose 9% driven by gains on financial transactions (higher ALCO portfolio sales).
- Costs dropped 2% driven by the ongoing transformation process. All these resulted in a significant efficiency improvement to 39.6% (-5 pp).
- Loan-loss provisions declined 34%. The cost of credit was 41 bps, the NPL ratio fell to 3.71% and coverage ratio was higher.

Compared to the previous quarter, underlying attributable profit decreased strongly, adversely impacted by lower gains on financial transactions, as customer revenue was 4% higher and costs and provisions maintained a favourable trend.

Portugal. Underlying income statement

EUR million and % change

	Q2'21	/ Q1'21	H1'21	/ H1'20
Revenue	303	-29	730	9
Expenses	-143	-2	-289	-2
Net operating income	160	-43	441	19
LLPs	-35	0	-69	-34
PBT	114	-51	347	51
Underlying attrib. profit	78	-51	239	50

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	Poland	Underlying attributable profit EUR 54 mn
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Commercial activity and business performance

Retail and SME banking activity improved, induced by the easing of lockdown measures. Positive performance was recorded in the main business lines: mortgages, leasing, mutual funds, cards and brokerage services.

Regarding BCB (Business Corporate Banking), business dynamics picked up year-on-year. In addition, we are strengthening our business position in the public sector. In CIB, we maintained our leading position in the local market, participating in relevant transactions such as the initial public offering of Pepco Group, the largest on the Warsaw Stock Exchange in H1'21.

We are also making headway with our Responsible Banking commitments by participating in green energy projects, such as the financing of a wind farm for PLN 550 million.

We introduced new products and services in the first half of the year to improve access to credit for customers with a good risk profile.

Loans and advances to customers decreased 1% year-on-year. Excluding reverse repurchase agreements and the exchange rate impact, gross loans and advances to customers were up 1%. By segment, individuals rose 1%, SMEs were 6% higher and CIB +1%. Corporates and institutions fell 2%.

Customer deposits grew 5% year-on-year. Excluding repurchase agreements and at constant exchange rates, growth was 7% boosted by SMEs and BCB. We continued to actively manage deposits to optimize the cost of funding.

Results

Underlying attributable profit in the **first half** amounted to EUR 54 million, down 26% year-on-year, -24% in constant euros, impacted by the charge regarding Swiss franc mortgages, as net operating income after loan-loss provisions rose 43%, as follows:

- Total income rose 7%: lower net interest income (-8%), impacted by interest rate cuts, was offset by net fee income (+18%, boosted by increased transactionality, cards and securities services), the lower contribution to the BFG and greater dividends.
- Costs rose 5% mainly due to higher personnel expenses.
- Loan-loss provisions plummeted 37% due to lower charges in the SME and individual segments.

In the quarter, profit increased 63% in constant euros, propelled by total income (dividends in Q2'21 and the contribution to the BFG in Q1'21), lower provisions and reduced tax burden, which more than offset the charges regarding CHF mortgage loans.

Poland. Underlying income statement

EUR million and % change

	Q2'21	/ Q1'21		H1'21	/ H1'20	
		%	excl. FX		%	excl. FX
Revenue	417	17	+17	774	+4	+7
Expenses	-163	+3	+3	-321	+2	+5
Net operating income	254	+28	+28	453	+6	+9
LLPs	-45	-33	-34	-113	-38	-37
PBT	83	+43	+42	141	-16	-13
Underlying attrib. profit	34	+64	+63	54	-26	-24

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NORTH AMERICA

Underlying attributable profit

EUR 1,628 mn

Executive summary (changes in constant euros)

- In North America, the Group's strategy is to accelerate growth in the US, while synergies between countries further increased, enhancing the regional approach and implementing local priorities, leveraging each country's best practices and global digital platforms
- Sharp increase in customer funds boosted by higher deposits in SBNA and mutual funds. Loans and advances to customers fell dampened by the negative economic impact from the pandemic and the Puerto Rico and Bluestem portfolio disposals.
- Underlying attributable profit surged 178% year-on-year, driven largely by lower provisions in the region, coupled with higher revenue in the US.

Strategy

In line with our strategy to deploy capital in the most profitable businesses:

- On 15 July 2021, Banco Santander announced that Santander Holdings USA, Inc. ('SHUSA') had reached an agreement to acquire Amherst Pierpont Securities, through the acquisition of its parent holding company, Pierpont Capital Holdings LLC, for a total consideration of c.USD 600 million (c.EUR 500 million). This acquisition is expected to be c.1% accretive to group EPS and generate a return on invested capital of c.11% by year 3 (post-synergies), with a -9 bp impact on Group capital at closing. The transaction is expected to close by the end of Q1'22, subject to regulatory approvals and customary closing conditions.
- On 2 July 2021, SHUSA announced a proposal to acquire all outstanding shares of common stock of Santander Consumer USA it does not already own. SHUSA currently owns approximately 80% of SC USA's outstanding shares, and, if the transaction is completed, SC USA would become a wholly owned subsidiary of SHUSA.
- On 26 March 2021, the Group announced its intention to repurchase the outstanding shares of Santander México that it does not own (8.3%). On 8 June, the Group announced a change in the expected structure so that it intends to formulate, instead of a mandatory delisting tender offer, a voluntary tender offer.

As for our regional strategy, synergies **across countries** increased further as we continued to **run joint initiatives** that included:

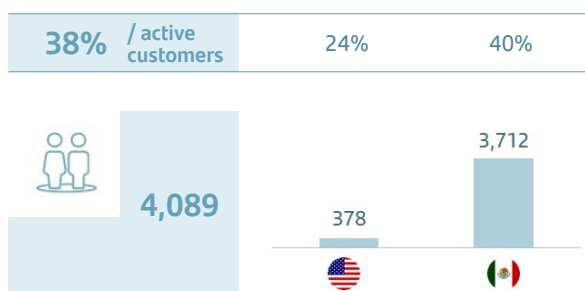
- Further development of the USMX trade corridor. SCIB and Commercial Banking continued to work to deepen relationships with existing customers, which was reflected in corridor revenue growth (SCIB: +21%; Commercial Banking: +8%).

- Boost **customer attraction and retention** through loyalty strategies (such as initiatives to attract payrolls) and broadening our tailored service and product proposition (such as the commission-free remittance service from Santander US branches to any bank in Mexico). At the same time, we are working on the development of payment alternatives for the USMX trade corridor, such as Pago FX, and we are leveraging our global digital platform PagoNxt.
- Improve customer interaction with new segmentation. In the US, we set up a value proposition for *affluent* customers: Select and Private, and, in Mexico, we designed a service model for high-income customers, with the aim of differentiating the value proposition to its three segments: Select Black, Select and Evolution for young customers.
- Drive cultural transformation and share best practices to improve customer and employee experience, such as the success in implementing loyalty programmes in Mexico and the Consumer Banking transformation plan at Santander Bank (SBNA), as well as SC USA's experience in the auto business.
- Continue to reduce duplications in the operating model, platform and architecture, leveraging our existing capabilities to optimize expenses and increase profitability in the region.

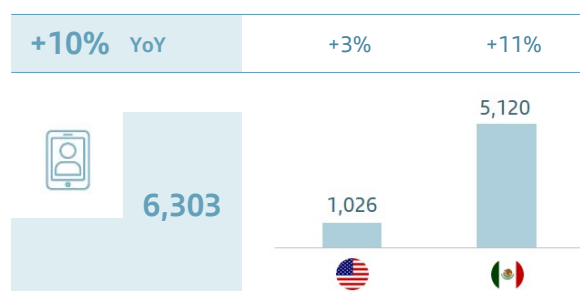
To this end, we are consolidating the intra-regional IT function: operations know-how, digitalization, hubs, front-office and back-office, and addressing common challenges, together with the integration of the regional IT platform (MEXUS).

Loyal customers. June 2021

Thousands. % loyal / active customers



Digital customers. June 2021

Thousands. YoY % change¹

(1) Excluding Puerto Rico disposal impact

In addition, in terms of their **local priorities**:

United States

After the covid-19 crisis, Santander US has continued to support its customers, employees and communities while pursuing its strategic priorities.

Santander US remains focused on customer experience and growing core customers and deposits through commercial, branch and digital transformation initiatives. It continues to leverage its deposit base to support its CRE and CIB businesses and strengthen its auto finance partnership.

The auto business is ideally positioned to benefit from the renewed demand for used vehicles through rigorous risk-adjusted originations via its dealer network.

Mexico

The multichannel innovation and boost to digital channels continued to strengthen our value proposition with new products and services, allowing us to make headway with our customer attraction and loyalty strategy.

In line with our goal to enhance customer experience and the distribution model, we continued to run projects such as the increase in the number of full function ATMs to 1,444 as well as the instalment of queue management systems and dividing screens that allow for organized mobility and distribution of customers in the branches, in addition to increasing the security and privacy of customers and employees. In addition, we reached a commercial alliance with *Farmacias del Ahorro*, adding more than 1,500 establishments to the more than 27,000 service points of our banking correspondents throughout the country.

We continued to promote the use of digital channels through campaigns and incentive programmes to boost the activation of the electronic signature and the use of digital cards. Moreover, we continued with the consolidation of the Hipoteca Online platform, with more than 96% of transactions processed through digital channels in the quarter.

Digital customer attraction leveraged our strategic alliances with Contpaqi and Getnet. Of note was the launch of Getnet's G Store, the first offer in Mexico and in the Group provided by an acquiring business.

This initiative is aimed at supporting the digitalization of SMEs by providing them with an online store, built by experts, that includes all e-commerce processes.

Lastly, in line with our goal of enhancing customer experience, we partnered with Samsung and MasterCard to launch Members Wallet, an app that provides a unique digital ecosystem integrating services such as financing, payments, and balance and transaction enquiries; and a debit card, Samsung Members, backed by MasterCard and Santander, which will offer exclusive benefits for Samsung customers in Mexico.

Business performance

Loans and advances to customers decreased 5% year-on-year. Gross loans and advances to customers excluding reverse repos and the exchange rate impact fell 3%, affected by the negative economic impact arising from covid-19 and Puerto Rico and Bluestem portfolio disposals. Loan demand in the US normalized following the uptick from the pandemic. Excluding disposals impact, loans remained flat.

Customer deposits were up 1%. Excluding repurchase agreements and the exchange rate impact, they were also 1% higher. Solid year-on-year growth in customer funds (+5% in constant euros) mainly driven by deposit growth in the US and the positive performance in mutual funds in both countries. Excluding disposals impact, deposits increased 5%.

Results

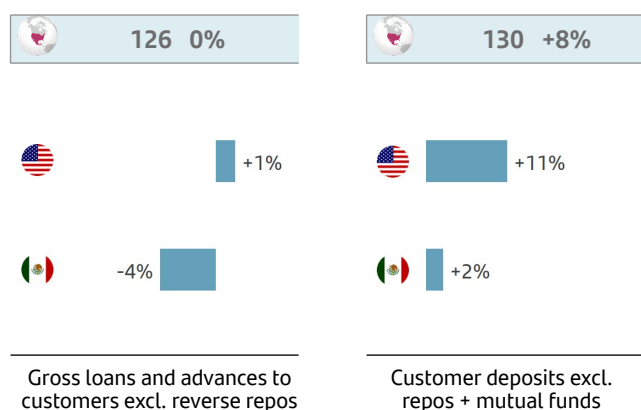
In the **first six months of 2021**, underlying attributable profit was 164% higher year-on-year at EUR 1,628 million (31% of the Group's total operating areas). Excluding the exchange rate impact, growth was 178%, as follows:

- Total income increased 4%. Net interest income dropped 1% dampened by lower interest rates, mainly in Mexico, together with the contraction in lending. These declines were matched by higher income from leasing and net fee income (+5%).
- Costs rose 7%, primarily due to inflation and investments in digitalization, and the efficiency ratio improved to 42.7%. Previously adopted reduction measures will have a positive impact in H2'21, which will make funds available for new digital and business initiatives.
- Loan-loss provisions plummeted by 73%. The cost of credit improved to 1.67% (2.34% in March 2021), the NPL ratio stood at 2.28% and coverage was 152%.

Compared to the previous quarter, underlying attributable profit increased 10% in constant euros, primarily due to lower provisions.

Business performance. June 2021

EUR billion and YoY % change in constant euros¹



(1) Excluding Puerto Rico and Bluestem portfolio disposal impact

North America. Underlying income statement

EUR million and % change

	/ Q1'21		/ H1'20	
	Q2'21	% excl. FX	H1'21	% excl. FX
Revenue	2,719	-2	5,487	-3
Expenses	-1,194	+4	-2,343	0
Net operating income	1,525	-6	3,145	-5
LLPs	-195	-50	-588	-75
PBT	1,338	+11	2,545	+190
Underlying attrib. profit	854	+10	1,628	+164

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	United States	Underlying attributable profit EUR 1,291 mn
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Commercial activity and business performance

Santander US remains focused on supporting its customers and advancing its strategic initiatives, increasingly centred on consumer and fee-based accretive businesses.

The work conducted over the last several years, the resilience of its core business lines, and the strength of its balance sheet has allowed Santander US to be uniquely positioned to benefit from current market conditions.

Auto originations increased 29% versus the H1'20 as Santander US continues to leverage its strong deposit base to support originations across the full credit spectrum.

Net loans and advances to customers dropped 9% year-on-year. Excluding reverse repos and the exchange rate impact, gross loans decreased 2% as lending growth in auto did not fully offset tepid corporate demand and Puerto Rico and Bluestem portfolio disposal impacts. Excluding the disposals impact, loans increased 1%.

Customer deposits were 2% higher year-on-year. Customer funds (excluding repos and the FX impact) continued to exhibit strong performance growing 6% boosted by retail and corporate deposits. Excluding disposals impact, customer funds increased 11%.

Results

Underlying attributable profit in the **first half of 2021** was EUR 1,291 million (6x H1'20 profit), supported by the strong year-on-year increase in net operating income in constant euros (+13%; +23% excluding the impact of the disposals) and another quarter of significantly improved cost of credit. By line:

- Total income up 10%. Despite rate and volume pressures, net interest margin grew 1% during the period driven by focused pricing actions. Despite the negative impact from the disposals, net fee income rose 2% benefiting from capital markets and wealth management activity. Other operating income improved 117%, primarily due to outstanding auto leasing results.
- Expenses increased 6% because of higher activity and investments to execute strategic initiatives. Despite higher expenses, strong revenue growth improved efficiency ratio to 41.0% (-153 bps).
- Loan-loss provisions decreased 91%, largely driven by a substantial decrease in net charge offs, coupled with lower reserve builds as the improved macroeconomic outlook, customer loan relief and strong used car prices led to strong credit performance.

Q2'21 underlying attributable profit was 9% higher in constant euros sequentially, due to better performance on leases and the release of provisions as the macro expectations and portfolio credit metrics continue to improve.

United States. Underlying income statement

EUR million and % change

	/ Q1'21			/ H1'20		
	Q2'21	%	excl. FX	H1'21	%	excl. FX
Revenue	1,835	-3	-3	3,737	0	+10
Expenses	-783	+5	+5	-1,531	-3	+6
Net operating income	1,052	-9	-9	2,206	+3	+13
LLPs	9	—	—	-156	-91	-91
PBT	1,076	+10	+11	2,050	+573	+636
Underlying attrib. profit	674	+9	+9	1,291	+512	+569

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	Mexico	Underlying attributable profit EUR 387 mn
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Commercial activity and business performance

Loans and advances to customers increased 7% compared to H1'20. Gross loans and advances to customers, excluding reverse repurchase agreements and the exchange rate impact, were down 4%, given the reduction in corporate loans (-13%), somewhat offset by the 10% increase in individual loans, where we are the bank gaining the most market share. Credit card use continued to be lower than 2020, although there seems to be a positive shift in trend. Mortgages increased strongly (+15%).

In this segment, we have innovative products and services such as Hipoteca Plus, which rewards customer relationships and reduces interest rates if they meet certain requirements, and Hipoteca Free, Mexico's first commission- and insurance-free mortgage. We are also the only bank in Mexico to offer a tailored interest rate based on the customer's profile, making us one of the top mortgage lenders in the market.

All these measures enabled us to be named Best Mortgage Banking Brand in 2021 by *Global Brands Magazine*.

Customer deposits rose 1%. Excluding repurchase agreements and the exchange rate impact, they were 1% lower, weighed down by corporates following the uptick at the beginning of the pandemic, offsetting the sharp growth recorded in demand deposits from individuals (+9%). Mutual funds were up 12%.

Results

Underlying attributable profit in the **first half of 2021** of EUR 387 million, 5% lower year-on-year. In constant euros, profit dropped 2%. By line:

- Total income was 6% lower impacted by the falls observed in gains on financial transactions (ALCO portfolio sales in 2020) and net interest income (-4%), the latter as a result of interest rate cuts and lower portfolio volumes. Net fee income was up 8% mainly from transactional fees.
- Operating expenses increased 2% in nominal terms, mainly driven by technology costs and the increase in amortizations. In real terms, costs fell 2%.
- Loan-loss provisions dropped 21% due to higher covid-19 related charges in H1'20.

Against the previous quarter, underlying attributable profit increased 11% in constant euros propelled by the upturn in net interest income, disciplined cost control and lower provisions.

Mexico. Underlying income statement

EUR million and % change

	/ Q1'21			/ H1'20		
	Q2'21	%	excl. FX	H1'21	%	excl. FX
Revenue	878	+2	0	1,743	-9	-6
Expenses	-379	+2	0	-752	-1	+2
Net operating income	499	+1	0	991	-14	-12
LLPs	-204	-10	-12	-432	-23	-21
PBT	289	+11	+10	548	-5	-2
Underlying attrib. profit	205	+13	+11	387	-5	-2

[Detailed financial information on page 62](#)



SOUTH AMERICA

Underlying attributable profit
EUR 1,645 mn

Executive summary (changes in constant euros)

- We continued with our strategy to strengthen connectivity across regions and enable the export of positive experiences across units, capturing new business opportunities.
- We remain focused on delivering profitable growth, improving customer experience and loyalty, together with cost and risk control.
- Double-digit growth year-on-year in both gross loans and advances to customers and customer deposits, underpinned by innovation in our product and service offering.
- Underlying attributable profit increased 41% year-on-year backed by positive customer revenue performance and lower provisions.

Strategy

South America is a region with great growth potential and opportunities for banking penetration and progress in financial inclusion. In this environment, we remained focused on growing, leveraging business opportunities, exchanging positive experiences across countries and enhancing digitalization and customer loyalty.

We maintained our strategy of capturing synergies across business units:

- In **consumer finance**, Brasil exported its new and used vehicle financing platform to other countries; Cockpit, a platform to streamline management of car dealerships, is being rolled out in Argentina and Peru; Santander Chile increased car insurance sales; in Colombia we made progress in strategic alliances; and, in Uruguay, we launched other vehicle financing channels through Creditel, one of our consumer finance entities.
- In **payment methods**, we are focused on e-commerce strategies and on providing immediate national and international transfers. We continued to consolidate Getnet in several countries, based on the successful model of Brazil, where regulatory approvals are already in place for the spin-off of Getnet. In Chile, we recorded positive results in the quarter, and we are expanding our proposition for individuals in Argentina.

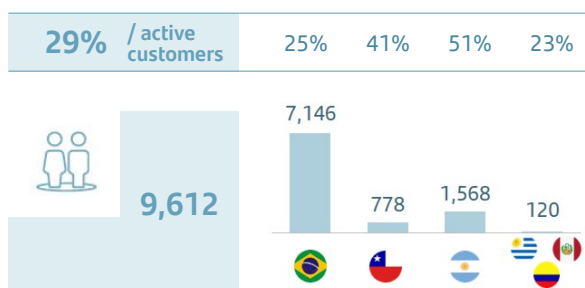
- We continued to make headway in the development of joint initiatives between **SCIB and corporates** to deepen relationships with multinational clients, with the aim of improving customer service, increasing loyalty and expanding customer attraction in all countries, with a particular focus on strengthening ties between Brazil, Colombia and Peru.
- We continue to boost our **digital transformation** to improve service quality, with the optimization of our channels and processes, and expanding our product and service offerings. As a result of the implemented measures, loyal and digital customers were 24% and 20% higher, respectively, compared to the previous year.
- We continued to promote **inclusive and sustainable businesses** in the region, such as Prospera, our micro-credit programme, which operates in Brazil and Uruguay and was launched in Colombia in the second quarter. We also issued green loans in Brazil and Chile.

The main initiatives by **country** were:

- **Brazil:** we once again recorded high profitability in the quarter as a result of strong commercial dynamics, with record growth in new customer attraction. We maintained the strong growth pace of new mortgage loans to individuals, we hit record card sales and recorded significant revenue growth in Getnet. In auto, we maintained our market share leadership in individuals (25% as of May 2021).

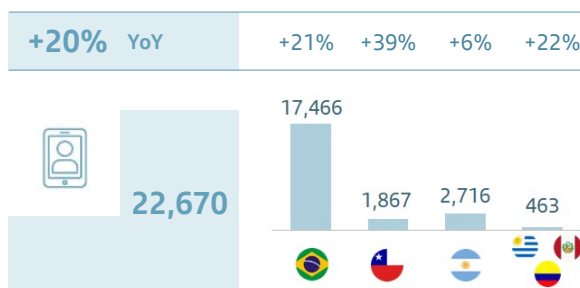
Loyal customers. June 2021

Thousands. % loyal / active customers



Digital customers. June 2021

Thousands. YoY % change

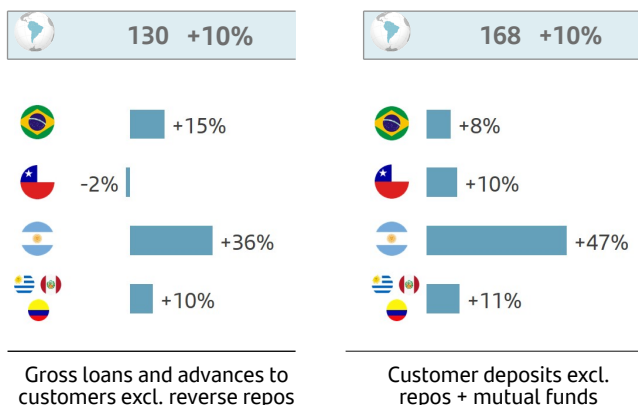


On the other hand, our leadership in the wholesale sector consolidates our position as one of the best corporate banks, thanks to our experience as a global bank (being the largest bank in FX transactions for the last eight years), in infrastructure, in agribusiness (the largest agricultural commodities desk in the country) and equities.

- **Chile:** we remained focused on digital banking and enhancing customer service. Santander Life and Superdigital recorded strong growth in customer acquisition, making progress in our objectives of promoting banking penetration, positive lending behaviour and improving transactionality. The introduction of Getnet delivered better than expected results.
- **Argentina:** we continued to improve our customer care model through digital transformation. We opened the first agribusiness branch in the country, progressed on building an open financial services platform and boosted Santander Consumer's business for vehicle and consumer goods financing. In addition, Getnet continued to progress and began to offer services to individuals.
- **Uruguay:** the consolidation of our business model enabled us to attract customers and gain market share in key businesses, while we made progress in our technological transformation and the update of our channels and processes. We set up Soy Santander, a new customer loyalty offering for individuals, and we ranked first in the GPTW ranking.
- **Peru:** we continued to progress on the digitalization of our services and internal processes. 70% of transactions are processed digitally through our office banking platform, along with initiatives such as the digital onboarding of customers and the purchase of a digital platform for consumer and used vehicle financing.
- **Colombia:** we conducted structuring transactions and placement of infrastructure-related securities and made progress in joint initiatives between SCIB and corporates. We continued to focus on gaining profitable market share in consumer finance and we rolled out Prospera in the country.

Business performance. June 2021

EUR billion and YoY % change in constant euros



Business performance

Loans and advances to customers were 12% higher year-on-year. Gross loans and advances to customers (excluding reverse repos and the exchange rate impact) increased 10% year-on-year, with rises in all country units except Chile.

Customer deposits grew 11% year-on-year. Excluding repurchase agreements and the FX impact, they rose 12% boosted by the strong performance of demand deposits (+26%). Mutual funds rose 7%.

Results

Underlying attributable profit in the **first half of the year** amounted to EUR 1,645 million, up 19% year-on-year. Excluding the exchange rate impact, it was 41% higher, as follows:

- Total income increased 10% underpinned by net interest income (+11%) and net fee income (+14%).
- Costs rose below total income growth, largely due to Argentina (affected by inflation). Of note was cost management in Brazil and Chile (-1% and +2%, respectively in nominal terms; -6% and -1% in real terms). The efficiency ratio improved 82 bps year-on-year to 34.4% enabling net operating income to increase 11%.
- Loan-loss provisions dropped by 28% driven by covid-19 related provisions recorded in 2020. In credit quality, the NPL ratio fell to 4.36%, coverage increased to 98% and the cost of credit improved to 2.51%.

By **country**, overall double-digit growth (except Uruguay) in underlying attributable profit in constant euros, due to the positive performance in total income and lower provisions (except Peru and Colombia, which recorded increases). In Uruguay, the fall in profit was primarily due to lower net interest income (interest rate cuts).

Compared to the first quarter, underlying attributable profit rose 10% in constant euros, benefiting from positive customer revenue performance in the main country units which broadly offset greater costs and the increase in provisions in Brazil.

South America. Underlying income statement

EUR million and % change

	/ Q1'21			/ H1'20		
	Q2'21	%	excl. FX	H1'21	%	excl. FX
Revenue	3,772	+7	+5	7,311	-7	+10
Expenses	-1,299	+7	+6	-2,518	-9	+7
Net operating income	2,473	+7	+4	4,793	-6	+11
LLPs	-809	+18	+15	-1,492	-39	-28
PBT	1,609	+7	+4	3,113	+27	+49
Underlying attrib. profit	871	+13	+10	1,645	+19	+41

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**Brazil**Underlying attributable profit
EUR 1,180 mn**Commercial activity and business performance**

We continued to make headway with our commercial strategy:

- In auto, where we are leaders in the individual segment, we launched Auto Negócio, a 100% online platform for buying and selling vehicles without business intermediaries.
- In cards, customer acquisition soared 93% year-on-year to a new record high, with significant growth in income from both credit and debit cards.
- In mortgages, new lending to individuals surged 174% year-on-year, and home equity rose 24%, through Usecasa.
- Within the ESG sphere, we were named best bank in this area and we are the leader in solar energy finance. In microcredit, we reached 600,000 active customers.

These initiatives led to a 26% increase in loyal customers and an 21% increase in digital ones.

Regarding our digital transformation, GENTE, our artificial intelligence platform, has assisted more than 9.8 million customers.

As for volumes, loans and advances to customers grew 20% year-on-year. In gross terms, excluding reverse repos and the exchange rate impact, they rose 15%. We saw positive performances across segments, particularly in individuals and SMEs.

Customer deposits increased 11% with respect June 2020. Excluding repos and the exchange rate impact, growth was also 11%, driven by the increase in demand and time deposits (+12% and +11%, respectively). Mutual funds were 3% higher.

Results

First six months underlying attributable profit amounted to EUR 1,180 million (+19% year-on-year). Excluding the exchange rate impact, profit was 44% higher. Of note:

- Total income rose 9% benefiting from the positive performance of net interest income (+10%, supported by larger volumes) and net fee income (insurance and capital markets).
- Costs fell 1%, which enabled net operating income to rise 14% and the efficiency ratio to improve by 2.9 pp year-on-year to 28.9%.
- Net loan-loss provisions dropped 22%, due to higher provisions recorded in 2020 related to the pandemic. Cost of credit improved to 3.51%, the NPL ratio to 4.55% and coverage remained high at 112%.

In the quarter, underlying attributable profit was 6% higher in constant euros, backed by customer revenue, which offset the fall in gains on financial transactions (markets), higher costs affected by inflation and the increase in activity and higher provisions.

Brazil. Underlying income statement

EUR million and % change

	/ Q1'21			/ H1'20		
	Q2'21	%	excl. FX	H1'21	%	excl. FX
Revenue	2,682	6	+3	5,203	-10	+9
Expenses	-779	+8	+4	-1,502	-18	-1
Net operating income	1,902	+6	+2	3,701	-6	+14
LLPs	-674	+23	+19	-1,222	-36	-22
PBT	1,200	+4	0	2,354	+25	+52
Underlying attrib. profit	619	+10	+6	1,180	+19	+44

[Detailed financial information on page 65](#)

**Chile**Underlying attributable profit
EUR 321 mn**Commercial activity and business performance**

We remained focused on increasing new customer attraction and loyalty, and offering attractive returns:

- Getnet's success enabled us to finish installing the 20,000 PoS planned for the whole year in May, and other 8,000 in June. More than half were purchased by businesses that did not use this payment method before, and 65% of the total were sold digitally.
- Santander Life continues to revolutionize the market with its proposition and digital onboarding, reaching more than 729,000 customers.
- Superdigital reached a record high in account openings and has more than 182,000 customers.
- All these measures led to a year-on-year increase in loyal (+13%) and digital customers (+39%), and we ended the quarter with the best NPS in the country.

In volumes, loans and advances to customers grew 5% year-on-year. Excluding reverse repurchase agreements and the exchange rate impact, gross loans and advances to customers decreased 2%, as growth in SMEs and mortgages did not offset the fall in corporates and CIB.

Customer deposits rose 17% year-on-year, up 10% excluding repurchase agreements and the exchange rate impact. We continued to improve the funding mix, as demand deposits rose 42% while time deposits were 19% lower. Mutual funds increased 12%.

Results

Underlying attributable profit in the first half of 2021 amounted to EUR 321 million, 75% higher year-on-year. Excluding the exchange rate impact, growth was 70%, as follows:

- Total income increased 7% driven by the 12% jump in net interest income (margin management and inflation) and the 11% increase in net fee income, propelled by transactional and insurance fees.
- Costs rose less than 2% through efficient cost management. The efficiency ratio improved to 38.4% (-1.9 pp year-on-year).
- Loan-loss provisions were 49% lower due to covid-19 related charges in 2020. Cost of credit improved to 1.07% and the NPL ratio to 4.57%.

In the quarter, profit grew 9% in constant euros mainly from the increase in net interest income and gains on financial transactions, and lower provisions.

Chile. Underlying income statement

EUR million and % change

	/ Q1'21			/ H1'20		
	Q2'21	%	excl. FX	H1'21	%	excl. FX
Revenue	637	4	+3	1,252	+10	+7
Expenses	-245	+4	+3	-481	+5	+2
Net operating income	392	+4	+3	771	+14	+10
LLPs	-82	-19	-20	-182	-47	-49
PBT	315	+14	+13	592	+79	+74
Underlying attrib. profit	169	+11	+9	321	+75	+70

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	Argentina	Underlying attributable profit EUR 108 mn
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Commercial activity and business performance

We remained focused on the transactional business and customer service through initiatives in innovation, an enhanced customer care model, and the digital transformation of processes and products. This was reflected in the increase in customers and digital sales.

In the quarter, we opened the first agribusiness branch in the country, with a new customer care model for customers in agricultural areas.

In addition, we continued to progress on the development of our open financial services platform:

- We enhanced Getnet's value proposition, reaching 35,000 active merchants since its launch in October 2020.
- Santander Consumer focused primarily on used vehicles while seeking to expand our ecosystem with new alliances for the consumer segment.
- MODO, the payment solution that promotes digital payments and financial inclusion, reached more than one million customers.

In volumes, loans and advances to customers fell 6% year-on-year. Excluding reverse repurchase agreements and the exchange rate impact, gross loans and advances to customers rose 36% year-on-year, driven by SME loans and cards. Dollar balances declined in the currency of origin.

Customer deposits decreased 4% compared to June 2020. Excluding repurchase agreements and the exchange rate impact, deposits rose 37% spurred on by both demand and time deposits. Mutual funds were 97% higher. The excess liquidity is placed in central bank notes.

Results

Underlying attributable profit in the first six months was EUR 108 million, 1% lower year-on-year. At constant exchange rates, profit was 42% higher. By line:

- Total income grew 28%, underpinned by net interest income, net fee income and higher gains on financial transactions, which allowed us to absorb the negative impact from the inflation adjustment.
- Costs increased 48%, affected by inflation and the salary agreement. Net operating income rose 6%.
- Loan-loss provisions fell 47% following additional covid-19 related provisions build in 2020. The cost of credit improved to 3.94%, the NPL ratio was 3.34% and coverage rose to 168%.

In the quarter, profit was 50% higher in constant euros, underscored by the increase in customer revenue, which offset higher costs and provisions.

Argentina. Underlying income statement

EUR million and % change

	/ Q1'21			/ H1'20		
	Q2'21	%	excl. FX	H1'21	%	excl. FX
Revenue	301	15	+26	563	-10	+28
Expenses	-179	+5	+15	-349	+3	+48
Net operating income	122	+33	+45	214	-26	+6
LLPs	-35	+148	+166	-48	-63	-47
PBT	57	+30	+42	100	-20	+14
Underlying attrib. profit	62	+38	+50	108	-1	+42

[Detailed financial information on page 67](#)

Other South America			
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Uruguay

Gross loans and advances to customers, excluding reverse repurchase agreements and the exchange rate impact, were up 9%. Customer deposits rose 14% at constant exchange rates.

Underlying attributable profit in the first half of EUR 51 million, down 26% year-on-year. Excluding the exchange rate impact, it was 14% lower, as follows:

- Total income dropped 9% mainly driven by the fall in net interest income (significant drop in interest rates) and lower gains on financial transactions. Positive net fee income performance (+15%).
- Costs grew 7%, at a slower pace than inflation.
- Loan-loss provisions decreased 45%, the cost of credit improved to 1.66% and coverage was 110%.

Compared to the previous quarter, underlying attributable profit declined 4% in constant euros dampened by lower total income.

Peru

Gross loans and advances to customers excluding reverse repos and the exchange rate impact rose 16% year-on-year and customer deposits, at constant exchange rates, were 2% higher.

In the first half of 2021 underlying attributable profit amounted to EUR 26 million, 8% higher year-on-year. Excluding the exchange rate impact, growth was 29%, as follows:

- Total income rose 43%, mainly led by customer revenue. Costs rose at a slower pace than income, improving the efficiency ratio to 28.2%.
- Loan-loss provisions rose due to preventive impairments. The NPL ratio was 0.80% and coverage stood at 193%.

Colombia

Gross loans and advances to customers excluding reverse repos were 2% higher year-on-year in constant euros. Customer deposits rose 11% at constant exchange rates.

In the first half of 2021, underlying attributable profit of EUR 12 million, 24% higher than the first half of 2020. Excluding the exchange rate impact, profit increased 34% due to:

- Total income grew 29% (driven by net interest income and net fee income), outpacing the rise in costs.
- Loan-loss provisions were higher but good credit quality was maintained: the NPL ratio was 0.43%, cost of credit of 0.71% and coverage remained high (261%).

Other South America. Underlying income statement

EUR million and % change

	Net operating income			Underlying attrib. profit		
	/ H1'20			/ H1'20		
	H1'21	%	excl. FX	H1'21	%	excl. FX
Uruguay	84	-31	-20	51	-26	-14
Peru	52	+25	+49	26	+8	+29
Colombia	24	+31	+42	12	+24	+34

DCB DIGITAL CONSUMER BANKUnderlying attributable profit
EUR 569 mn**Executive summary** (changes in constant euros)

- New lending in H1'21 well above H1'20 (+20% year-on-year), despite the strong impact of covid-19 lockdowns arising from the health crisis in early 2021. We expect a strong H2'21 as soon as restrictions are lifted.
- Ongoing execution of the strategic operations defined in 2020, aimed at generating efficiencies in terms of cost reduction and conversion of single product creditors into full customer to enhance profitability.
- Underlying attributable profit was EUR 569 million, improving 11% year-on-year, favoured by revenue growth (+4% YoY), which led to a 2% increase in net operating income. Underlying RoTE rose to 12%, and RoRWA was 2.0% in SCF.

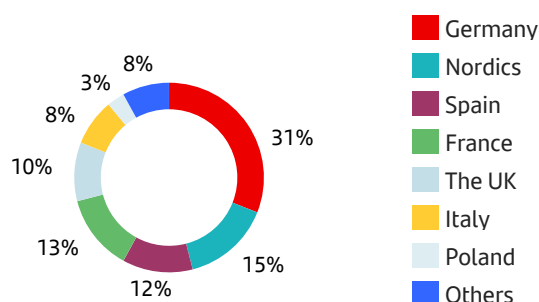
Strategy

Digital Consumer Bank is the leading consumer finance bank in Europe, created through the combination of Santander Consumer Finance (SCF) and Openbank's strengths: combining the scale and leadership of SCF in Europe, and Openbank's digital capabilities. The aim is to generate synergies for both businesses:

- **SCF** will leverage Openbank's IT capabilities to further improve its digital operating system and provide a better service to its customers and partners (OEMs, car dealers, retailers and individuals) at a lower cost.
- **Openbank** will be able to offer retail banking products to SCF's large customer base to expand retail capabilities across Europe with lower acquisition costs.
- **SCF** is Europe's consumer finance leader, present in 18 countries (16 in Europe including the recent launch in Greece, China and Canada). SCF works through more than 130,000 associated points of sale (mainly auto dealers and retail merchants) through its growing number of agreements with OEMs and retail distribution groups.

Digital Consumer Bank. Loan distribution

June 2021



- **Openbank** is the largest full-service digital bank in Europe. It offers current accounts, cards, loans, mortgages, an state-of-the-art robo-advisor service and open platform brokerage services. Openbank is currently active in Spain, the Netherlands, Germany and Portugal, and we are working on its expansion across Europe and the Americas.

Our **main priorities for 2021** are to:

- **Auto:** strengthen our auto financing leadership position, reinforce the leasing business and develop subscription services across our footprint. We also generated almost 1 million new contracts to customers in H1'21 and had an EUR 89 billion loan book at the end of June.
- **Consumer Non-Auto:** gain market share in consumer financing solutions, leveraging our position to grow in e-commerce, checkout lending and Buy Now Pay Later (BNPL), serving customers through 55,000 physical and digital points of sale. We generated more than 2 million new contracts in H1'21 and had a loan book of EUR 19 billion in June.
- **Retail:** improve digital capabilities to increase customer loyalty among our 1.6 million customer base, boosting digital banking activity, which currently has EUR 33.2 billion in customer funds.
- **Cost reduction and simplification:** accelerate digitalization to transform the business and improve efficiency. The main drivers are:
 - Organizational simplification: transition from banking licenses to branches in the Western hub.
 - Streamlining IT: leveraging the technology and data capabilities of Openbank's Digital ODS platform, with a Digital Banking apps (APIs) and a SaaS (Software as a Service) model.
 - Redefinition of our distribution model and increased process automatization.

Thanks to all these initiatives, we have great potential for the enhancement of the Digital Consumer Bank business through our 19 million active customers, by creating stronger customer relationships while integrating Santander ESG criteria. We want to serve our current and future customers with a positive environmental impact by developing business solutions, such as: financing electric vehicles, carbon compensation services already available in all countries; financing of electric chargers, solar panels, green heating systems, etc.

Business performance

In H1'21, new lending increased 20% year-on-year, absorbing the impacts of heavy lockdowns in some countries where Digital Consumer Bank operates at the beginning of the year.

In Q1'21, restrictions affected the activity in Central Europe, especially in Germany, the Netherlands and Austria. In Q2'21, demand showed strong signs of recovery with a positive performance notably in Germany and the Nordics, where new lending grew 25% and 18%, respectively, compared with Q1'21. We expect a strong second half of the year as soon as restrictions are lifted, as a result of vaccination processes in our footprint.

Of note in H1'21 was the progress made on the following initiatives: the enhancement of our pan-European leasing proposition through several projects: the deployment of the new consumer finance solution (for mobile and modem devices) via the more than 2,500 retail points of sale in Italy, thanks to the creation of TIMFIN joint venture; and the ongoing set-up of the new Western Hub operating structure as we transition from banking licenses to branches in order to improve efficiency.

In addition, in order to compensate lost revenue during covid-19 lockdowns in early 2021, several measures were carried out, including expense reductions and income initiatives in pricing and cost of funding.

The stock of loans and advances to customers was EUR 113 billion (+1% year-on-year). Excluding reverse repos, gross loans and advances to customers remained flat vs. H1'20 excluding the exchange rate effect, despite the strong impact from covid-19 isolation measures in the majority of markets where Digital Consumer Bank operates.

Results

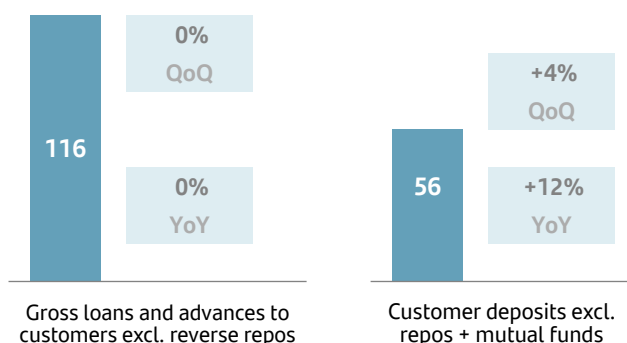
Underlying attributable profit in the first half was EUR 569 million, 12% higher year-on-year in euros. Excluding the exchange rate impact, +11%. By line:

- Total income increased 4% compared to H1'20. Net interest income was 1% lower than last year and net fee income increased 11% boosted by new lending.
- Costs increased 5% due to increase in perimeter (Sixt, TIMFIN) and new digital investments. Excluding both impacts, costs down -0,4% year-on-year. The efficiency ratio stood at 46.6%, leading to a net operating income improvement of 2% year-on-year.
- Strong reduction in loan-loss provisions (-42%) driven by the impact of covid-19 provisioning in H1'20. Positive credit quality performance, with a cost of credit of 0.64% and an NPL ratio of 2.18%.
- By country, the largest contribution to underlying attributable profit came from Germany (EUR 180 million), the Nordic countries (EUR 108 million), the UK (130 million), France (EUR 70 million) and Italy (EUR 65 million).

Compared to the previous quarter, underlying attributable profit decreased 5% in constant euros mainly due to the contribution to the SRF and the charge related to CHF mortgages, since customer revenue increased (net interest income: +1%; and fee income: +9%) and loan-loss provisions reduced by 15%. Excluding both impacts, underlying profit rose at double-digit rates.

Activity

June 2021. EUR billion and % change in constant euros



Digital Consumer Bank. Underlying income statement

EUR million and % change

	Q2'21	/ Q1'21		H1'21	/ H1'20	
		%	excl. FX		%	excl. FX
Revenue	1,302	0	0	2,606	+4	+4
Expenses	-613	+2	+2	-1,214	+6	+5
Net operating income	689	-2	-2	1,392	+3	+2
LLPs	-142	-14	-15	-308	-42	-42
PBT	502	-1	-1	1,008	+13	+13
Underlying attrib. profit	278	-5	-5	569	+12	+11

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Corporate Centre

Underlying attributable profit
EUR -1,062 mn

Executive summary

- In the health crisis, the Corporate Centre continued to play its role supporting the Group and has gradually returned employees to the workplace, with a mixture of on-site and remote working, always following health authorities' recommendations, maintaining a high level of flexibility to meet individual needs.
- The Corporate Centre's objective is to aid the operating units by contributing value and carrying out the corporate function of oversight and control. It also carries out functions related to financial and capital management.
- Underlying attributable loss decreased 6% compared to the first half of 2020, mainly due to lower costs and the decrease in other results and provisions.

Strategy and functions

The Corporate Centre contributes value to the Group in various ways:

- Making the Group's governance more solid, through global control frameworks and supervision.
- Fostering the exchange of best practices in management of costs and generating economies of scale. This enables us to be one of the most efficient banks.
- Contributing to the launch of projects that will be developed by our global businesses aimed at leveraging our worldwide presence to generate economies of scale.

It also coordinates the relationship with European regulators and supervisors and develops functions related to financial and capital management, as follows:

- **Financial Management functions:**
 - Structural management of liquidity risk associated with funding the Group's recurring activity and stakes of a financial nature.
 - This activity is carried out by the different funding sources (issuances and other), always maintaining an adequate profile in volumes, maturities and costs. The price of these operations with other Group units is the market rate plus the premium which, in liquidity terms, the Group supports by immobilizing funds during the term of the operation.
 - Interest rate risk is also actively managed in order to soften the impact of interest rate changes on net interest income, conducted via high credit quality, very liquid and low capital consumption derivatives.
 - Strategic management of the exposure to exchange rates in equity and dynamic in the countervalue of the units' annual results in euros. Net investments in equity are currently covered by EUR 21,408 million (mainly Brazil, the UK, Mexico, Chile, the US, Poland and Norway) with different instruments (spot, fx, forwards).
- **Management of total capital and reserves: efficient capital allocation to each of the units in order to maximize shareholder return.**

Results

First half underlying attributable loss of EUR 1,062 million, 6% lower than in H1'20 (-EUR 1,125 million):

- Net interest income was negatively impacted by the increase in the liquidity buffer and lower gains on financial transactions, dampened by positive foreign currency hedging results in 2020.
- On the other hand, the favourable trend in operating expenses continued, improving 4% compared to H1'20, driven by ongoing streamlining and simplification measures.
- The net loan-loss provisions line increased due to a charge of EUR 150 million in Q1'21 (EUR 105 million net of tax) given the lack of visibility as to the timing and pace of the economic recovery.
- Lastly, other income and provisions improved due to one-off provisions recorded in H1'20 for certain stakes whose value was affected by the crisis.

Corporate centre. Underlying income statement

EUR million						
	Q2'21	Q1'21	Chg.	H1'21	H1'20	Chg.
Total income	-430	-370	+16%	-800	-617	+30%
Net operating income	-511	-449	+14%	-960	-784	+22%
PBT	-553	-635	-13%	-1,188	-1,186	0%
Underlying attrib. profit	-535	-527	+2%	-1,062	-1,125	-6%

[Detailed financial information on page 70](#)



Retail Banking

Underlying attributable profit
EUR 3,790 mn

Executive summary

Results. (H1'21 vs. H1'20). % change in constant euros

Profit growth driven by higher volumes and total income, improving the efficiency ratio and cost of credit

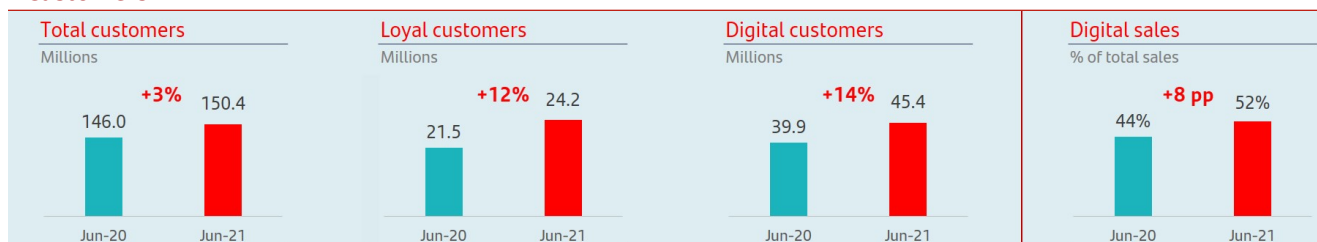
Total income	Costs	Provisions
+8%	+1%	-44%

Business performance. EUR bn. % change in constant euros

Loans and advances to customers rose 1% and customer funds increased 7% year-on-year

Loans and advances to customers	Customer funds
794 ▲ 1% YoY	768 ▲ 7% YoY

Customers



Commercial activity

The economic and social impacts arising from the global health crisis led us to further strengthen our commitment to our customers and society.

This situation has accelerated the implementation and development of our digital transformation strategy, focusing on our multi-channel strategy and the digitalization of processes and businesses. We are adapting channels to new business trends under a hybrid model that prioritizes digital customer service, and combines it with the activity carried out by physical branches, which are well equipped to handle the more complex operations and those that require greater service from our professionals.

This personalized support, tailored to the needs of each customer, also responds to one of our main goals, which is the continuous improvement of customer care and service. This orientation enabled us to rank top 3 in customer satisfaction, measured by NPS, in seven of our markets.

Our efforts to improve customer care and services, being one of the leaders of the digitalization process in the banking sector, and meet our customers' needs, allowed us to exceed 150 million customers.

The number of loyal customers increased 12% year-on-year, with growth in both individuals (+12%) and corporates (+15%). Digital customers rose 14% year-on-year, a 5 million increase compared to the previous year, while transactions through digital channels grew 38% year-on-year and digital sales accounted for 52% of total transactions.

Results

Underlying attributable profit in the first half of 2021 was EUR 3,790 million, 119% higher than in the first half of 2020. In constant euros, profit increased 135%. By line:

- Total income grew 8% driven by positive net interest income and net fee income performance.
- Costs rose at a slower pace than total income, which enabled the efficiency ratio to improve 2.4 pp to 43.4%.
- Loan-loss provisions plummeted by 44%, as the previous year was strongly affected by covid-19 related provisions.

Retail banking. Underlying income statement

EUR million and % change

	/ Q1'21			/ H1'20		
	Q2'21	%	excl. FX	H1'21	%	excl. FX
Revenue	9,811	+3	+2	19,347	+1	+8
Expenses	-4,247	+2	+2	-8,404	-5	+1
Net operating income	5,564	+3	+2	10,942	+5	+14
LLPs	-1,726	-3	-5	-3,509	-48	-44
PBT	3,375	+6	+4	6,565	+111	+128
Underlying attrib. profit	1,954	+6	+5	3,790	+119	+135

[Detailed financial information on page 71](#)



Santander Corporate & Investment Banking

Underlying attributable profit
EUR 1,197 mn

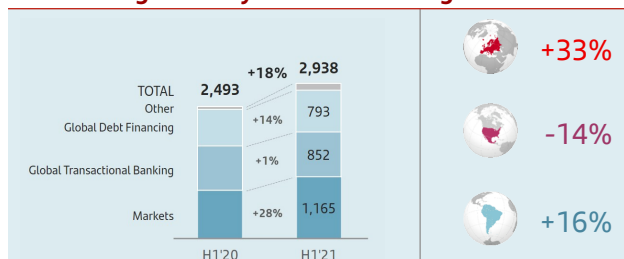
Executive summary

Results (H1'21 vs H1'20). % change in constant euros

Strong profit and profitability improvement backed by total income growth across businesses and countries

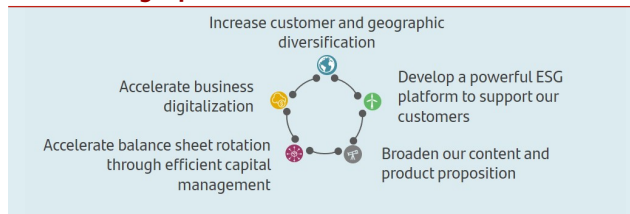
Total income	Underlying profit	RoRWA
+18%	+45%	2.51%

Revenue growth by business and region*



(*) EUR million and % change in constant euros

Our strategic pillars



Other highlights in the quarter

Creation of the **Digital Solutions Group (DSG)** team

Leading positions in the rankings of different products **Top 3**

Structured finance	Debt capital markets (DCM)	Equity capital markets (ECM)
Green Global	Spain, Mexico, Chile	Spain, Poland, Mexico

Strategy

SCIB continued to make headway in the execution of its strategy to strengthen its position as our clients' strategic advisor of choice, boosting specialized high value-added products and services, which enabled us to optimize the return on capital.

In line with this strategy, SCIB is focused on high growth potential sectors that require a high degree of specialization.

In 2020, SCIB created the global Environmental, Social and Governance (ESG) solutions team to support our clients in their business transformation towards more sustainable alternatives, such as renewable energies, zero carbon transition, etc.

Since its creation, the ESG team has been involved in numerous transactions in different sectors and markets. Of note in the second quarter of 2021 was the announced collaboration between SCIB and Tesco to create a sustainable Supply Chain Finance programme. This programme will be directly linked to sustainability commitments, and will involve more than 175 Tesco suppliers, who will receive a discount if they meet the set targets.

The DSG (Digital Solutions Group) team, which was created in Q1'21 to support the development and digital transformation of our current and potential customer base, participated in several operations, such as the launch of the European Investment Bank's (EIB) first ever digital bond on the Public Ethereum Network using blockchain technology. This project was selected by Banque de France as part of its Central Bank Digital Currency sphere.

Another key transaction in the quarter was advising Verkor, a French startup that manufactures batteries for electric vehicles, on the setup of a strategic alliance with Renault Group. Through this partnership, Renault Group and Verkor will develop and manufacture new high-performance battery cells, with the aim of building the most digital, sustainable and efficient Gigafactory in Europe, in order to address the challenges of digitalization, decarbonization and reindustrialization of Europe's automotive sector.



Regarding product positioning, SCIB held leading positions in different rankings:

- In Structured Finance, SCIB ranked first in Latin America and Europe by number of transactions, promoting renewable energies, the cornerstone of the ESG strategy.
- In DCM (Debt Capital Markets) we are the market leaders in Spain and ranked fourth by volume of corporate debt placed in Europe and in Latin America.
- In ECM (Equity Capital Markets) we ranked top 3 in Spain, Mexico and Poland.

In the first half, SCIB received numerous awards in several categories, including the Global Trade Review (GTR), Risk.net, Global Finance and PFI awards.



Results

Underlying attributable profit in **S1'21** amounted to EUR 1,197 million, 29% more than in the same period of 2020.

Excluding the exchange rate impact, profit was 45% higher and total income rose 18% to EUR 2,938 million, backed by higher gains on financial transactions and net fee income, driven by strong growth in markets and the positive performance of the Banking businesses (GDF and GTB).

Revenue performance by business was as follows (in constant euros):

- **Markets:** significant revenue growth (+28% vs H1'20) underscored by market volatility and the higher volume of client business, which we continued to support with the structuring of hedging products.

Of note was the sales activity in Spain, the rest of Continental Europe, the UK, Asia, Brazil and Argentina, as well as trading in Brazil, Spain, the UK and Chile.

- **GDF (Global Debt Financing):** Santander continued to support its clients in accessing liquidity sources, which was reflected in a substantial increase in funding volumes in the first half, particularly indirect financing (distribution to other banks and institutional investors). As a result, total income was 14% higher year-on-year.

We expanded our sustainable financing proposition through green and sustainability-linked loans and bonds, becoming a global leader both in financing and advising on renewable energy operations. Of note was the sharp rise recorded in debt capital markets (DCM), leveraging the positive performance of the Latin American and US markets. Santander continued to be a global benchmark in structured finance, ranking first in Latin America and top 3 in Europe.

- **GTB (Global Transactional banking):** income from customer balance management continued its negative trend, hampered by low interest rates in our core geographic areas. However, trade finance volumes increased 16% year-on-year spurred on by Trade and Working Capital Solutions and Export & Agency Finance.

Transactional volumes in collections and payments (Cash Management) continued to bounce back benefiting from the gradual recovery of corporate activity, but still remain below pre-covid-19 levels.

- **CF (Corporate Finance):** total income was up 26% versus H1'20 driven by positive ECM (Equity Capital Markets) performance in Europe and Brazil.

In Brazil, Santander acted as global coordinator in the follow-ons of Lojas Renner (BRL 4 billion), BTG Pactual (BRL 3 billion) and Sequoia Logistica (BRL 894 million), as well as joint bookrunner for DASA's initial public offering (BRL 3.3 billion). In Spain, we continued to consolidate our leadership position in the IPO and capital increase market, acting as global coordinator in the IPO of Artech, as financial advisor in the listing of Línea Directa and as bookrunner in the capital increase of Cellnex. Finally, we were also involved in the most relevant IPO of 2021 in Poland, Pepco (EUR 1 billion).

In M&A (Mergers & Acquisitions), Santander acted as sole financial advisor to Telefónica on the sale of 60% of FiberCo in Chile to KKR, and Vivo in the sale of 50% of FiberCo in Brazil to CDPQ. In addition, we advised the Canadian company Northland Power on its first investment in Spain, for the purchase of a renewable assets portfolio for EUR 1,061 million.

Santander also acted as advisor to Platinum Equity in the acquisition of the Spanish environmental services group Urbaser by China Tianying Inc.

Operating expenses increased 9% compared to the first half of 2020 due to investments in products and franchises under development. However, efficiency improved year-on-year and remained a benchmark in the sector (36.4%).

Sharp slump in **loan-loss provisions** compared to H1'20, due to the significant increases recorded in 2020 related to the widespread macroeconomic deterioration caused by the pandemic.

Compared to the previous quarter, underlying attributable profit dropped 30% in constant euros, affected by reduced income from the SRF contribution and lower market volatility, together with the normalization of business dynamics after an exceptionally high Q1'21.

SCIB. Underlying income statement

EUR million and % change

	/ Q1'21			/ H1'20		
	Q2'21	%	excl. FX	H1'21	%	excl. FX
Revenue	1,283	-22	-23	2,938	+9	+18
Expenses	-543	+3	+3	-1,069	+4	+9
Net operating income	740	-34	-35	1,870	+11	+23
LLPs	-21	-55	-54	-68	-72	-72
PBT	750	-29	-30	1,808	+30	+47
Underlying attrib. profit	494	-30	-30	1,197	+29	+45

[Detailed financial information on page 71](#)



Wealth Management & Insurance

Underlying attributable profit
EUR 406 mn

Executive summary

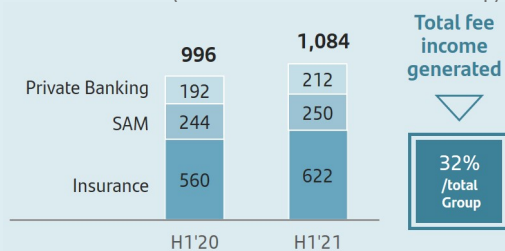
Results (H1'21 vs. H1'20). % change in constant euros

Solid performance across our three businesses

Total fee income generated	Total contribution to profit	Assets under management	RoRWA
+10%	+9%	+12%	6.96%

Total contribution to profit by business

Constant EUR million (incl. fee income ceded to the Group)



Growth drivers H1'21

Private Banking	Asset Management	Insurance
Net new money	Net sales	Gross written premiums
EUR 5.1 bn	EUR 4.1 bn	+12% vs H1'20

Other highlights in the quarter

- Close of Indosuez Wealth Management acquisition
- ESG AuM > EUR 8 bn
- New agreement with Allianz in Poland in our insurance business

Commercial activity

Within our journey to become the best responsible wealth manager in Europe and Latin America, in H1'21 we made progress in the following areas:

- In **Private Banking**, we continued to enhance our value proposition in all geographic areas, especially in advisory services, and to boost investment services through platforms, particularly in our international private banking business.

The integration of Indosuez Wealth Management in Miami was successfully completed, adding USD 4.3 billion under management to our platform.

One of our main priorities is to offer clients value-added solutions that meet their specific investment needs. In this regard, of note was Future Wealth, a joint initiative with SAM consisting of a range of thematic products regarding innovation and disruptive technologies, that since its launch in November, reached more than EUR 4 billion. On the other hand, the range of alternative open-architecture products reached EUR 1.4 billion in sales. As regards the ESG investment range, through both SAM and third-party products, assets under management amounted to close to EUR 1.8 billion.

The total volume of shared business across our markets stood at EUR 8.3 billion, 27% more than in the same period of 2020, mainly driven by operations in Mexico, Brazil, the UK, Portugal and Switzerland, reflecting the success of our global platform, which was joined by Uruguay this year.

Collaboration volumes

Constant EUR million



- In **Santander Asset Management** we continued to improve and complete our local and global product offering. Of note was the launch of Santander ON, a range of solutions aimed at covering the different investment needs of our clients. This range follows a systematic and quantitative management methodology, including different investment themes and our ESG integration model.

We continued to strengthen our alternative product offering with several launches aimed at our institutional clients, such as: the Trade Finance Real Economy Fund, in collaboration with SCIB, and the Signal Santander European Hospitality Opportunities fund, together with Signal Capital partners, which helps to raise funds for hotel chains to mitigate the impacts from covid-19.

Also of note was the positive performance of our multi-asset and quantitative solutions (GMAS) investment strategy, which continued to grow strongly in the Santander GO range (reaching nearly EUR 3.5 billion) and the performance of our platform in Luxembourg, which stood at EUR 10.5 billion.

The Future Wealth fund amounted to EUR 950 million since its launch, attracting customers mainly in Spain, International Private Banking, Chile and Portugal. We made further headway in our ESG strategy, offering over 20 ESG products globally, and assets under management exceeded EUR 7.5 billion.

As for operational and technological transformation, this year we fully implemented the Aladdin platform in all our countries.

- In **Insurance**, we maintained a positive growth pace with premiums increasing 12% year-on-year and our main growth driver continued to be the non-credit related business. Of note were the increases in net fee income recorded in Brazil (+30%), Spain (+22%) and Argentina (+63%).

Also noteworthy was the new agreement with Allianz for our insurance business in Poland (subject to regulatory approval and other customary conditions for this type of operation), through

which we expect to strengthen our position in this market. It is also worth highlighting the relevance of the agreement between Santander Spain and Aegon to create Santander Assurance Solutions, a specialized unit to support our commercial teams in coaching, value proposition and assisted selling, among others. In Spain we also launched a joint cyber risk coverage with Mapfre aimed at SMEs.

Regarding our digital strategy, we increased strongly the number of insurance policies distributed through our digital channels (+64%), which now account for 14% of the total sales volume.

Business performance

Total assets under management amounted to EUR 395 billion, 12% higher year-on-year, driven by the gradual recovery of activity since the most affected months by the health crisis in the first half of 2020.

Business performance: SAM and Private Banking

Constant EUR million

		/ Mar-21	/ Jun-20
Total Assets Under Management	395	+5%	+12%
Funds and investment *	243	+5%	+12%
SAM	193	+3%	+9%
Private Banking	76	+9%	+20%
Custody of customer funds	97	+5%	+20%
Customer deposits	54	+2%	+1%
Customer loans	19	+10%	+19%

Note: Total assets marketed and/or managed in 2021 and 2020.

(*) Total adjusted customer funds of private banking managed by SAM.

- In **Private Banking**, the volume of customer assets and liabilities grew 15% year-on-year to EUR 247 billion, induced by market improvement and the continued strong commercial activity. Net new money amounted to EUR 5.1 billion (2.1% of total volume), and of note were the EUR 3.1 billion reached in funds.

Net profit in the first half was EUR 212 million, up 10% compared to the same period of 2020, primarily backed by growth in net fee income (15%).

- In **SAM**, total assets under management increased 9% compared to June 2020 to EUR 193 billion. Cumulative net sales YTD remained in record figures at EUR 4.1 billion as of June (2.1% of the total), mainly in Spain, Mexico, Luxembourg and Poland.

Total contribution to the Group's profit (including ceded fee income) was EUR 250 million, 2% higher year-on-year, mainly due to greater volumes and recovery of margins, which remained under some pressure.

- In **Insurance**, the volume of gross written premiums in the first half amounted to EUR 4.3 billion (+12% year-on-year), despite lower loan activity derived from the crisis. Net fee income grew 12% with 17% growth in non-credit related protection business.

Total contribution to profit (including ceded fee income) increased 11% year-on-year to EUR 622 million.

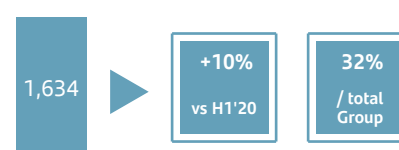
Results

Underlying attributable profit was EUR 406 million **in the first half of 2021**, up 2% year-on-year. Excluding the exchange rate impact, profit was 8% higher:

- Total income increased 6% mainly driven by the higher volume of assets under management, net fee income, and greater insurance protection activity, notably non-credit related business.
- Total fee income generated, including fees ceded to the branch network amounted to EUR 1,634 million (+10% year-on-year) and represented 32% of the Group's total.

Total fee income generated

EUR million



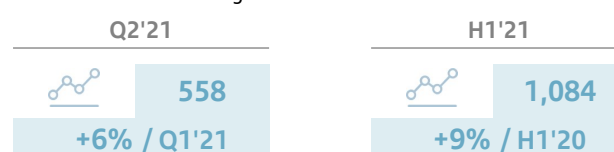
- Operating expenses were 4% higher than in H1'20, due to the investments carried out together with higher costs related to increased commercial activity.

The total contribution to the Group (including net profit and total fees generated net of tax) was **EUR 1,084 million in the first half**, 9% higher than in H1'20.

Compared to the previous quarter, underlying attributable profit rose 6% in constant euros, primarily driven by the positive performance in total income.

Total contribution to profit

EUR million and % change in constant euros



WM&I. Underlying income statement

EUR million and % change

	Q2'21	/ Q1'21		H1'21	/ H1'20	
		%	excl. FX		%	excl. FX
Revenue	519	+3	+3	1,021	+1	+6
Expenses	-227	+3	+2	-447	0	+4
Net operating income	293	+4	+4	574	+2	+8
LLPs	-3	-50	-50	-8	-31	-29
PBT	288	+6	+5	561	+2	+8
Underlying attrib. profit	210	+7	+6	406	+2	+8

[Detailed financial information on page 72](#)

PagoNxt

Underlying attributable profit
EUR -127 mn

Executive summary

PagoNxt

Combining our most innovative payments businesses into a single, autonomous company:



Trade Solutions

For SMEs & Corporates who operate internationally and want state-of-the-art digital solutions

SME customers
who operate internationally

220,000

Merchant Solutions

Through the expansion of our Getnet platform to become a leading global acquirer

SME customers in
LatAm and Europe

> 4 million

Active
merchants

1,160 k
+24% YoY

Total Payments
Volume

EUR 49.4 bn
+53% YoY*

Consumer Solutions

Delivering engaging payment solutions for individuals in emerging and developed markets

Active customers
Superdigital in Brazil

+18% YoY

Transaction volumes

+18% YoY*

(*) % change in constant EUR

Strategy

PagoNxt comprises three businesses which provide simple and accessible digital payments solutions to drive loyalty across consumers and corporate customers. The company continued to invest significantly in the development of its global technology platforms which will be shared across multiple markets, bringing new business opportunities as well as generating efficiencies to development costs, reducing time to market, and giving customers seamless access to integrated financial services.

Digitalization of customers' payments and accessibility to our services are at the core of PagoNxt strategy, embracing Santander's goals as a responsible bank. Our wide range of merchant and trade solutions will contribute to the development of all type of businesses, helping them digitalize their operations and payments, and our consumer solutions will benefit the lives of our customers through financial inclusion.

PagoNxt leverages Santander's deep local knowledge in Europe, North America and South America, customizing its global offerings to fulfil local needs. Merchant, trade and consumer solutions are provided in partnership with Santander local banks, leveraging our customer base of 150 million individual and corporate customers. Additionally, PagoNxt will directly pursue open market opportunities and revenue pools with new customer segments and in new geographic areas.

The roll-out of PagoNxt platforms by country continues to progress, as the three businesses expand their footprint.

Merchant solutions

PagoNxt Merchant solutions, through its global franchise Getnet, is already one of the top 3 acquirers in Latin America. Our global strategy leverages Getnet capabilities to enable very efficient processing of in-store and e-commerce payments and provides best-in-class value added services, not only for Santander customers but also in the open market.

Additionally, we continue to develop our capabilities across our technological hubs in Porto Alegre, Munich, Chennai and Dubai.

This quarter Getnet delivered a solid performance across all business units. Despite pandemic challenges and pressure on margins, we grew the number of active merchants and total payment volumes over pre-pandemic levels.

Getnet

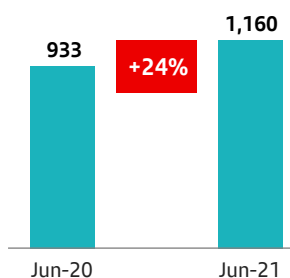
The expansion of our global franchise and product offerings continued during the quarter: Getnet Chile launched its commercial activity, and Mexico progressed in its merchant migration plan to the global platform.

In Europe, our former domestic acquiring business in Spain has evolved to Getnet Europe and will be providing European customers with integrated offerings before year-end. Getnet Europe will open an initial branch in Munich.

Merchant solutions

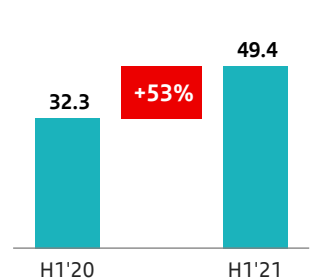
Active merchants

Thousands



Total Payments Volume

EUR billion



Trade solutions

PagoNxt Trade delivers digital, simple and integrated trade, international payments and FX solutions for companies and businesses of all sizes, supporting them in their international expansion.

Santander is an experienced player in trade services, with a strong customer base of 220,000 companies trading internationally, and 3.4 million international payments processed in 2020.

We are leveraging our experience to develop a new global technology platform that incorporates innovative new services, bringing Santander international flows into a single platform operating under the global brand of One Trade. This platform is being connected to all our banks, and existing clients are accessing seamlessly to the new services, which will also be available for new, open market customers.

The global roll-out of our One Trade platform is well underway. As of June 2021, platform adoption grew steadily in eight countries including Brazil, Mexico, Spain, the UK, Chile, Portugal, Colombia and Poland, through, for example One Trade View, our international treasury solution to manage multi-country cash positions.



Consumer solutions

PagoNxt Consumer is focused on creating compelling payment experiences, which ensure we become embedded in consumers' financial lives.

Superdigital's purpose is to provide economic inclusion and serve underbanked customers in Latin America. In Q2 we continued to develop our new cloud native, multi-country, multi-currency and multi-language global platform, and to evolve our strategy and product portfolio, testing new products.

In addition, we strengthened our leadership team in the quarter. We expect to roll-out the new global platform in Argentina, Peru and Colombia in a following phase. Also, active customers in Brazil increased 18% year-on-year, in line with transaction volumes (18% year-on-year).



PagoNxt evolution in 2021

In 2021, PagoNxt continues to expand its product offering and global platforms, leveraging the Group's scale and reaching out to new customers. The main priorities by business are:

- In Merchant solutions, Getnet will focus on enhancing our global acquiring platform, leveraging the Wirecard assets acquisition, and also on expanding the platform to additional countries in LatAm and Europe.
- In Trade solutions, the priorities are connecting the OneTrade platform to additional Santander customers covering our entire footprint, deploying new core functionalities in all transactional services (payments, FX and trade finance), and reaching customers beyond Santander's customer base.
- In Consumer solutions, Superdigital will continue to promote financial inclusion, focusing on rolling out the global multi-country platform in all Santander countries in LatAm, and will also launch additional banking services in the platform. We will continue to test new alternative payment models that enable us to offer unique solutions to our clients.

Results

In the first half of 2021, underlying attributable profit decreased year-on-year to -EUR 127 million (-EUR 28 million in H1'20).

This fall was driven by higher costs from investments in project developments and platforms, mainly in Trade, together with the integration of Wirecard's assets into Merchant solutions in January 2021.

On the other hand, total income increased 23% year-on-year, boosted by the strong jump in net fee income (+39% at constant exchange rates). This performance was backed by the recovery of activity in Q2'21, with volumes exceeding pre-pandemic levels, mainly in Merchant Solutions (increase in the number of transactions, merchants and turnover).

PagoNxt. Underlying income statement

EUR million and % change

	Q2'21	/ Q1'21		H1'21	/ H1'20	
		%	excl. FX		%	excl. FX
Revenue	123	+84	+80	189	+8	+23
Expenses	-162	+20	+19	-298	+59	+73
Net operating income	-40	-42	-42	-108	+797	+471
LLPs	-2	-2	-5	-5	-33	-19
PBT	-45	-37	-37	-118	+557	+375
Underlying attrib. profit	-56	-23	-22	-127	+358	+303

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RESPONSIBLE BANKING

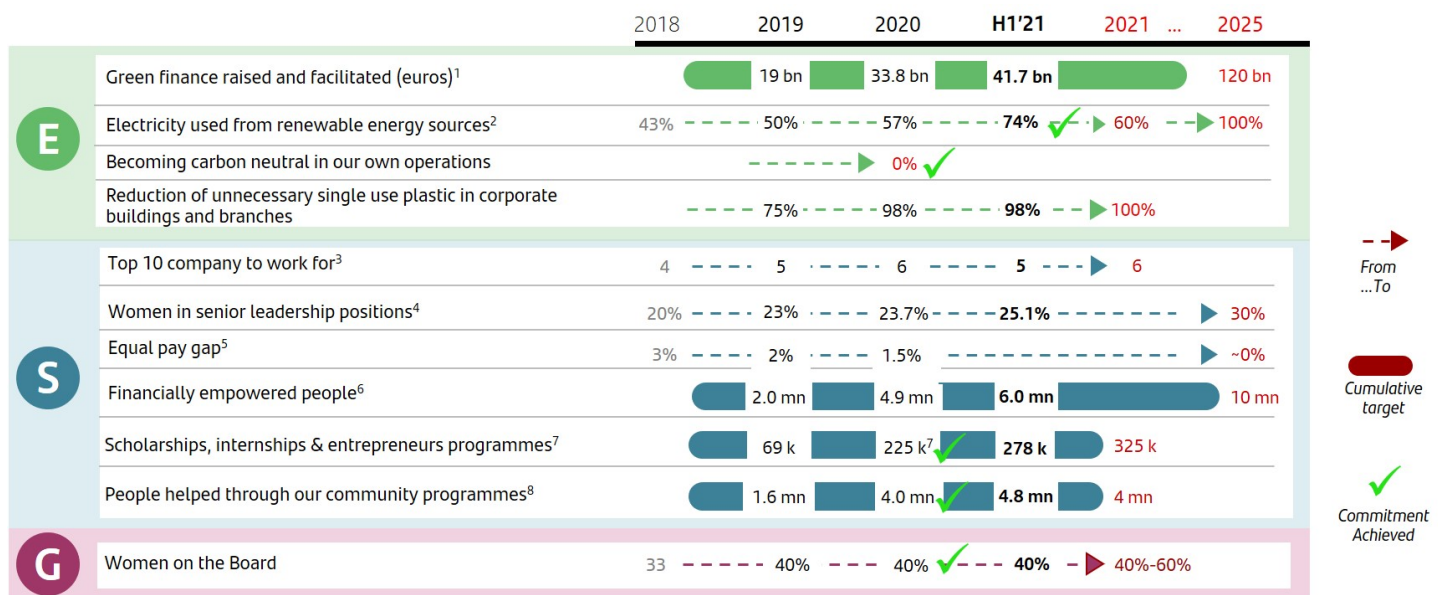
Santander strives every day to contribute to the progress of people and companies in a Simple, Personal and Fair way in all that we do, to earn the confidence of our employees, customers, shareholders and society.

In order to meet our commitment to be a more responsible bank and help society address the main global challenges, we are incorporating social, environmental and good governance surrounding business decision making criteria to respond to two challenges: adapt to the new business environment and contribute to more inclusive and sustainable growth. In 2019 we set clear and ambitious goals on which we have made progress in 2020 and continue to do so during 2021. We achieved carbon neutrality in our own operations in 2020 and, in addition, met four of our 2021 commitments a year ahead of schedule.

In the first half of 2021, we also reached the target of 60% of electricity used from renewable energy sources 6 months ahead of schedule.

Santander Responsible Banking targets

More information on our goals in responsible banking can be found on our website.



Note: H1'21 data not audited

- Includes Santander overall contribution to green finance: project finance, syndicated loans, green bonds, capital finance, export finance, advisory, structuring and other products to help our clients in the transition to a low carbon economy. Commitment from 2019 to 2030 is EUR 220 bn.
- In those countries where it is possible to certify renewable sourced electricity for the properties occupied by the Group.
- According to relevant external indexes in each country (Great Place to Work, Top Employer, Merco, etc.).
- Senior positions represent 1% of total workforce.
- Calculation of equal pay gap compares employees of the same job, level and function. Data reported annually.
- People (unbanked, underbanked or financially vulnerable), who are given access to the financial system, receive tailored finance and increase their knowledge and resilience through financial education.
- People supported through Santander Universities initiative (students who will receive a Santander scholarship, will achieve an internship in an SME or participate in entrepreneurship programmes supported by the bank). Commitment refreshed after early completion in 2020 (200k).
- People helped through our community investment programmes (excluded Santander Universities and financial education initiatives).

First half highlights

- ✔ **Santander became a founding member of the Net Zero Banking Alliance and Santander Asset Management was the first asset manager in Spain to join the Net Zero Asset Managers initiative.**
- ✔ **Santander issued its third green bond** and brought in EUR 1,000 million to finance wind power and solar power projects.
- ✔ We were named by **Great Place to Work** as one of the four best places to work for women in **Argentina** and **Uruguay**, and as one of **Brazil's 10 best companies to work for** LGBTQI+ employees. In addition, **Santander Bank Polska** joined **Diversity IN Check**, prepared by **Responsible Business Forum**, which recognizes the bank for managing diversity and creating an inclusive work environment.
- ✔ **Tuiio** was recognized by **Pacto Mundial de México** as an initiative to end poverty in the country.
- ✔ **Santander Universidades** will award **125,000 scholarships** on top of its initial pledge for 2019-2021. As a result, it will have granted 325,000 endowments in the last three years.



Environmental

- ♣ As part of its commitment to the **transition to a green economy**, Santander continued to finance green alternatives and renewable energy. We reached EUR 41.7 billion in green finance¹ (of which EUR 8 billion in H1'21), making progress towards our **commitment to reach EUR 120 billion by 2025**.
- ♣ Santander participated in a **new mandate for the Principality of Andorra in its first sustainable bond**. In **Mexico**, we advised Coppel, one of the country's largest retail companies, on the **issuance of its first sustainable loan**, and was the **sole ESG advisor** on the first green bond issue by a beverage company in the Mexican market.
- ♣ **SCIB** acted in **Portugal** as **joint financial advisor in the first green bond issue of Redes Energéticas Nacionais**; in **Spain**, SCIB led the **long-term refinancing of Torresol Energy**, including the formalization of the first derivative with ESG impact in the country, and participated in the **execution of sustainable operations** with different local autonomous communities for a total of **EUR 1 billion**.



Social

- **Santander and the European Investment Bank** signed two agreements under the Pan-European Guarantee Fund (EGF) to provide an additional **EUR 2 billion to support Spanish and European companies affected by the pandemic**.
- Thanks to **Santander Finance for All**, Santander's response to support **financial inclusion and empowerment**, we have **empowered 6 million people**¹, of which 1.2 million through our microfinance initiatives: Prospera in Brazil, Prosperá in Uruguay and TUIIO in Mexico. In addition, **Santander in Colombia** launched **Prospera**, our microfinance programme aimed at small entrepreneurs without access to formal banking and help develop their businesses in these countries.
- We continued to **invest in the communities** where we operate. Santander Universidades launched the **Santander X Global Challenge | Helping People Prosper** to identify startups and scaleups with innovative solutions to support SMEs in their digital transition, as well as **Santander Skills | Innovation in Teaching** scholarships together with **Laspau** (affiliated with Harvard University) aimed at university teachers. We also awarded the six best sustainable startups in the Santander X Environmental Challenge with EUR 20,000, mentoring and advisory services. These awards consist of two categories: a) **Be Sustainable**: for solutions that encourage green finance and investment; b) **Be Mindful**: for projects that help raise awareness of the importance of reducing the environmental footprint.

We also continue to be part of several **sustainability indices**, providing non-financial information to markets, investors and ESG analysts.

Member of
**Dow Jones
Sustainability Indices**
Powered by the S&P Global CSA



¹) Aggregated data 2019-H1'21. Unaudited H1'21 monitoring data.

CORPORATE GOVERNANCE

A responsible bank has a solid governance model with well-defined functions, it manages risks and opportunities prudently and defines its long-term strategy looking out for the interests of all its stakeholders and society in general



→ Changes in the board

On 27 April, the board of directors appointed Mr Javier Illescas (head of corporate legal), Ms Julia Bayón (head of business legal) and Mr Adolfo Díaz-Ambrona (general secretary of Santander España) as vice secretaries of the board and its committees to assist the secretary in the performance of his duties, replacing Mr Óscar García Maceiras, who had stepped down in his position in March 2021.

→ Changes in the composition of the board committees

As of 1 April, Ms Belén Romana García was appointed as chairman of the risk supervision, regulation and compliance committee, replacing Mr Álvaro Cardoso de Souza, who left the committee.

As of 1 May, Mrs Pamela Walkden was appointed as member of the risk supervision, regulation and compliance committee.

→ Changes in the organizational structure of the Group's Senior Management

On 28 April, to further advance in the development of One Santander in the Europe region, the appointment of Mr António Simões as CEO of Santander Spain was announced, while retaining his responsibilities as regional head of Europe, and succeeding Mr Rami Aboukhair, who was appointed as Global Head of Cards and Digital Solutions, a new function to develop cards business.

As of 7 May, Ms Lindsey Argalas ceased as Head of Santander Digital and left the Group.

→ Amendments to the Bylaws

On 15 June, once they were authorized by the ECB, the amendments to the Bylaws approved by the ordinary general shareholders' meeting on 26 March 2021 (articles 18, 20, 27, 34 and a new article 34 *bis*) were registered in the Mercantile Registry of Cantabria, with the following purposes:

- i. to give the board of directors the power to issue non-convertible debentures;
- ii. to give the board of directors the power to decide on the application of compensation systems consisting of delivery of shares or rights thereto, as well as any other compensation system referenced to the value of the shares when the beneficiaries of such compensation systems are not directors of Banco Santander;
- iii. to give greater flexibility to process the proxies granted and votes cast from a distance by the shareholders at the general meeting, without prejudice to the board of directors being able to reduce the advance period required for receipt thereof by the Bank prior to the date on which the general meeting is scheduled to be held, giving it the same publicity as is given to the announcement of the call to meeting; and
- iv. to authorize the board of directors, when so provided by applicable legal provisions, to call shareholders' meetings to be held by remote means only, without the physical attendance of the shareholders or their representatives.

→ Amendments of the Rules and regulations of general shareholders' meeting

Likewise, on 15 June the amendments of the Rules and regulations of the general shareholders' meeting approved by the general meeting on 26 March 2021 (articles 2, 8, 20 and 26) were registered in the Mercantile Registry of Cantabria and submitted to the National Securities Market Commission, in order to coordinate the text of the Rules and Regulations with the amendments to the Bylaws approved by the general shareholders' meeting, as well as to introduce technical precision in the regulation of mechanisms for granting representation and issuing remote voting and some additional technical improvements.

→ Amendments of the Rules and regulations of the board

On 27 April, the board of directors approved the amendment of articles 13 and 15 of the Rules and regulations of the board to provide for the existence of more than one vice secretary. The public deed was registered in the Mercantile Registry of Cantabria on 23 June 2021 and submitted to the National Securities Market Commission.

SANTANDER SHARE

The cash dividend of EUR 0.0275 per share against 2020 results was paid in May, the maximum allowed in accordance with the limits set by the European Central Bank recommendation of 15 December 2020.

This dividend was paid under the resolution for the distribution of share premium approved at the Bank's general shareholders meeting on 27 October 2020.

→ Share price performance

The Santander share is listed in five markets, in Spain, Mexico and Poland as an ordinary share, in the US as an ADR and in the UK as a CDI.

The global economy is experiencing a strong recovery as progress with vaccinations led to the reopening of economic activities as well as mobility.

The second quarter was marked by upward revisions to economic forecasts, as well as increasing inflation, which raised expectations of interest rate hikes and concerns about an earlier than expected reduction in Federal Reserve (Fed) stimulus. However, the Fed reaffirmed its determination to give time for the labour market to recover and not rush to raise interest rates too quickly due to inflation fears, despite the fact that some members are already starting to talk about tapering. The European Central Bank, for its part, stated that it will maintain its current pace of purchases until it considers the health crisis to be over.

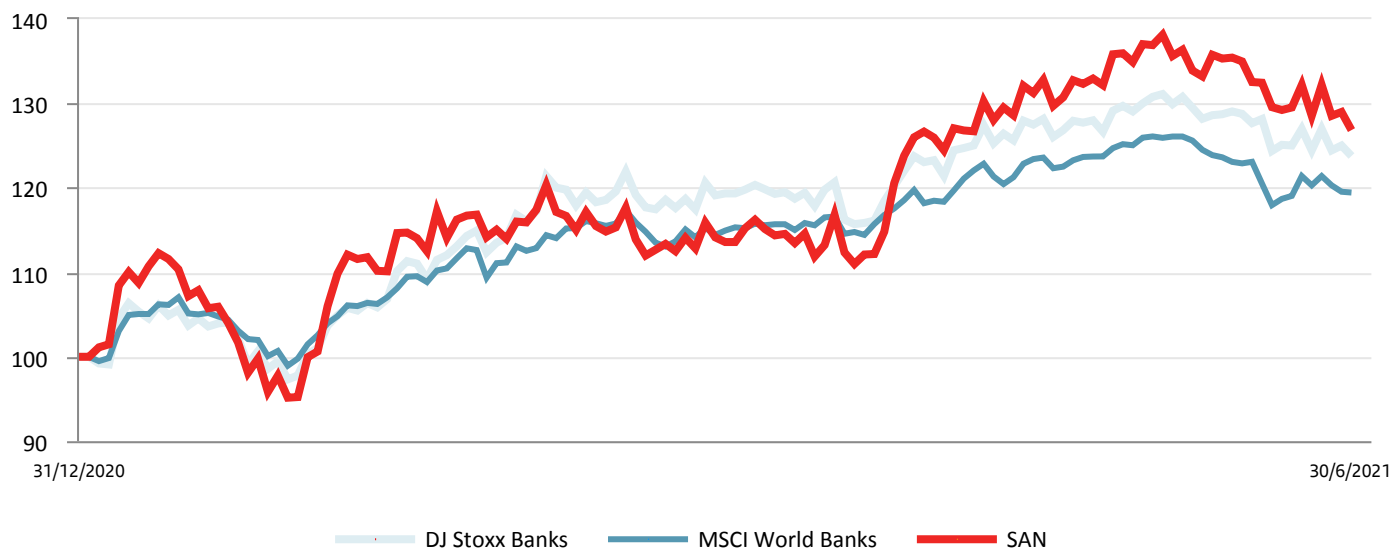
European and US banks benefited from the possibility that the ECB would lift the dividend payout restriction soon, thanks to the solid recovery of the eurozone, the good results of the US banks stress tests, with capital levels "well above" the regulatory minimum, and S&P's upward revision of a significant part of European banks' outlooks.

The main global equity markets ended the first half of the year with significant gains despite the cuts in recent days due to uncertainty over the increase in covid-19 cases. Thus, the banking sector recorded an overall better performance, the DJ Stoxx Banks rose 23.8% while the MSCI World Banks rose 19.5%, compared to the Ibex 35 9.3% increase and the DJ Stoxx 50 13.0% growth. Santander also recorded a better performance and a rise of 26.9%.

Share price

 START 31/12/2020 €2.538	 END 30/06/2021 €3.220
 Maximum 03/06/2021 €3.509	 Minimum 28/01/2021 €2.375

Comparative share performance



→ Market capitalization and trading

As at 30 June 2021, Santander was the second largest bank in the Eurozone by market capitalization and the 30th in the world among financial entities (EUR 55,828 million).

The share's weighting in the DJ Stoxx Banks index was 7.7% and 14.0% in the DJ Euro Stoxx Banks. In the domestic market, its weight in the Ibex 35 as at end-June was 11.5%.

A total of 6,861 million shares were traded in the first half for an effective value of EUR 20,529 million and a liquidity ratio of 40%.

The daily trading volume was 54.4 million shares with an effective value of EUR 163 million.

→ Shareholder base

The total number of Santander shareholders at 30 June 2021 was 3,879,232, of which 3,590,629 were European (75.18% of the capital stock) and 277,192 from the Americas (23.17% of the capital stock).

Excluding the board, which holds 1.05% of the Bank's capital stock, retail shareholders account for 39.60% and institutional shareholders account for 59.35%.



2nd Bank in the Eurozone by
market capitalization

EUR 55,828 million

The Santander share

June 2021

Shares and trading data

Shares (number)	17,340,641,302
Average daily turnover (number of shares)	54,449,270
Share liquidity (%)	40
(Number of shares traded during the year / number of shares)	

Stock market indicators

Price / Tangible book value (X)	0.81
Free float (%)	99.80

Share capital distribution by geographic area

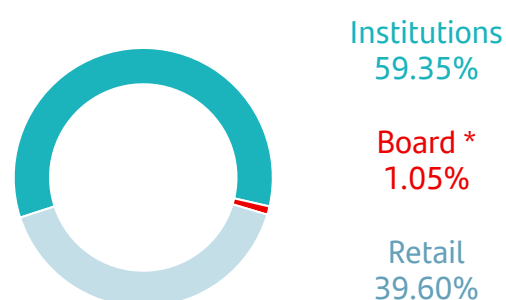
June 2021

The Americas 23.17% | Europe 75.18% | Other 1.65%



Share capital distribution by type of shareholder

June 2021



(*) Shares owned or represented by directors.

2021

APPENDIX

- 
- ▶ Financial information
 - Group
 - Segments
 - ▶ Alternative Performance Measures
 - ▶ Interim condensed consolidated financial statements
 - ▶ Glossary
 - ▶ Important information
 - ▶ Other disclosures required by Bank of Spain

Net fee income. Consolidated

EUR million

	Q2'21	Q1'21	Change (%)	H1'21	H1'20	Change (%)
Fees from services	1,429	1,414	1.1	2,843	2,921	(2.7)
Wealth management and marketing of customer funds	931	852	9.3	1,783	1,708	4.4
Securities and custody	261	282	(7.4)	543	507	7.1
Net fee income	2,621	2,548	2.9	5,169	5,136	0.6

Underlying operating expenses. Consolidated

EUR million

	Q2'21	Q1'21	Change (%)	H1'21	H1'20	Change (%)
Staff costs	2,750	2,688	2.3	5,438	5,467	(0.5)
Other general administrative expenses	1,811	1,747	3.7	3,558	3,767	(5.5)
Information technology	553	495	11.7	1,048	1,021	2.6
Communications	102	97	5.2	199	246	(19.1)
Advertising	115	118	(2.5)	233	259	(10.0)
Buildings and premises	168	164	2.4	332	384	(13.5)
Printed and office material	23	19	21.1	42	54	(22.2)
Taxes (other than tax on profits)	124	140	(11.4)	264	252	4.8
Other expenses	726	714	1.7	1,440	1,551	(7.2)
Administrative expenses	4,561	4,435	2.8	8,996	9,234	(2.6)
Depreciation and amortization	698	683	2.2	1,381	1,419	(2.7)
Operating expenses	5,259	5,118	2.8	10,377	10,653	(2.6)

Operating means. Consolidated

	Employees			Branches		
	Jun-21	Jun-20	Change	Jun-21	Jun-20	Change
Europe	64,306	70,848	(6,542)	3,401	4,902	(1,501)
Spain	23,689	27,261	(3,572)	1,947	3,222	(1,275)
United Kingdom	20,870	23,249	(2,379)	553	615	(62)
Portugal	6,049	6,506	(457)	418	525	(107)
Poland	9,932	10,968	(1,036)	471	529	(58)
Other	3,766	2,864	902	12	11	1
North America	41,670	38,377	3,293	1,920	2,043	(123)
US	15,610	17,299	(1,689)	544	614	(70)
Mexico	25,543	20,817	4,726	1,376	1,429	(53)
Other	517	261	256	—	—	—
South America	67,198	67,913	(715)	4,438	4,494	(56)
Brazil	45,115	44,951	164	3,590	3,585	5
Chile	10,628	11,405	(777)	332	367	(35)
Argentina	8,814	9,244	(430)	408	438	(30)
Other	2,641	2,313	328	108	104	4
Digital Consumer Bank	15,834	15,373	461	314	408	(94)
Corporate Centre	1,743	1,773	(30)			
Total Group	190,751	194,284	(3,533)	10,073	11,847	(1,774)

Underlying net loan-loss provisions. Consolidated

EUR million

	Q2'21	Q1'21	Change (%)	H1'21	H1'20	Change (%)
Non-performing loans	2,054	2,299	(10.7)	4,353	7,577	(42.5)
Country-risk	—	(1)	(100.0)	(1)	(7)	(85.7)
Recovery of written-off assets	(293)	(306)	(4.2)	(599)	(543)	10.3
Net loan-loss provisions	1,761	1,992	(11.6)	3,753	7,027	(46.6)

Loans and advances to customers. Consolidated

EUR million

	Jun-21	Jun-20	Change		Dec-20
			Absolute	%	
Commercial bills	42,529	30,354	12,175	40.1	37,459
Secured loans	522,412	508,292	14,120	2.8	503,014
Other term loans	275,974	275,779	195	0.1	269,143
Finance leases	38,054	35,401	2,653	7.5	36,251
Receivable on demand	9,995	10,194	(199)	(2.0)	7,903
Credit cards receivable	18,459	17,341	1,118	6.4	19,507
Impaired assets	32,136	31,737	399	1.3	30,815
Gross loans and advances to customers (excl. reverse repos)	939,559	909,098	30,461	3.4	904,092
Reverse repos	38,536	48,681	(10,145)	(20.8)	35,702
Gross loans and advances to customers	978,095	957,779	20,316	2.1	939,794
Loan-loss allowances	23,577	22,983	594	2.6	23,595
Loans and advances to customers	954,518	934,796	19,722	2.1	916,199

Total funds. Consolidated

EUR million

	Jun-21	Jun-20	Change		Dec-20
			Absolute	%	
Demand deposits	685,086	618,832	66,254	10.7	642,897
Time deposits	169,491	187,518	(18,027)	(9.6)	171,939
Mutual funds	182,491	152,040	30,451	20.0	164,802
Customer funds	1,037,068	958,390	78,678	8.2	979,638
Pension funds	15,858	15,086	772	5.1	15,577
Managed portfolios	29,493	26,038	3,455	13.3	26,438
Repos	39,550	40,482	(932)	(2.3)	34,474
Total funds	1,121,969	1,039,996	81,973	7.9	1,056,127

Eligible capital (phased in) ¹. Consolidated

EUR million

	Jun-21	Jun-20	Change		Dec-20
			Absolute	%	
Capital stock and reserves	115,678	125,322	(9,644)	(7.7)	125,449
Attributable profit	3,675	(10,798)	14,474	—	(8,771)
Dividends	(2,102)	—	(2,102)	—	(478)
Other retained earnings	(34,048)	(33,167)	(881)	2.7	(35,345)
Minority interests	6,347	6,639	(292)	(4.4)	6,669
Goodwill and intangible assets	(15,823)	(16,952)	1,128	(6.7)	(15,711)
Other deductions	(2,862)	(3,851)	989	(25.7)	(2,415)
Core CET1	70,864	67,192	3,672	5.5	69,399
Preferred shares and other eligible T1	9,109	9,284	(175)	(1.9)	9,102
Tier 1	79,973	76,476	3,497	4.6	78,501
Generic funds and eligible T2 instruments	12,567	11,361	1,206	10.6	12,514
Eligible capital	92,539	87,837	4,703	5.4	91,015
Risk-weighted assets	584,999	567,446	17,553	3.1	562,580
CET1 capital ratio	12.11	11.84	0.27		12.34
T1 capital ratio	13.67	13.48	0.19		13.95
Total capital ratio	15.82	15.48	0.34		16.18

(1) The phased-in ratio includes the transitory treatment of IFRS 9, calculated in accordance with article 473 bis of the Regulation on Capital Requirements (CRR) and subsequent amendments introduced by Regulation 2020/873 of the European Union. Additionally, the Tier 1 and total phased-in capital ratios include the transitory treatment according to chapter 2, title 1, part 10 of the aforementioned CRR.

EUROPE



EUR million

Underlying income statement	Q2'21	/ Q1'21		H1'21	/ H1'20	
		%	% excl. FX		%	% excl. FX
Net interest income	2,751	4.0	3.5	5,396	14.6	14.8
Net fee income	1,086	1.3	1.1	2,157	4.2	4.6
Gains (losses) on financial transactions ⁽¹⁾	84	(78.0)	(77.7)	468	27.3	29.0
Other operating income	21	(56.5)	(57.6)	71	—	—
Total income	3,942	(5.0)	(5.3)	8,091	13.7	14.0
Administrative expenses and amortizations	(2,072)	—	(0.5)	(4,144)	(1.7)	(1.5)
Net operating income	1,870	(10.0)	(10.2)	3,947	36.0	36.6
Net loan-loss provisions	(606)	1.8	1.7	(1,202)	(28.5)	(28.4)
Other gains (losses) and provisions	(344)	37.2	38.7	(595)	41.3	42.3
Profit before tax	919	(25.3)	(25.8)	2,150	169.1	171.6
Tax on profit	(303)	(24.7)	(25.6)	(705)	198.2	200.6
Profit from continuing operations	616	(25.6)	(25.9)	1,445	156.9	159.4
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	616	(25.6)	(25.9)	1,445	156.9	159.4
Non-controlling interests	(17)	586.1	720.1	(20)	(41.1)	(39.5)
Underlying attributable profit to the parent	599	(27.5)	(27.8)	1,426	169.6	171.9

Balance sheet

Loans and advances to customers	584,804	0.5	0.7	584,804	1.9	(0.5)
Cash, central banks and credit institutions	243,814	0.1	0.3	243,814	(1.8)	(2.8)
Debt instruments	77,472	1.3	1.0	77,472	(10.4)	(11.2)
Other financial assets	49,395	3.4	3.4	49,395	(8.9)	(9.0)
Other asset accounts	32,651	(3.7)	(3.6)	32,651	(19.0)	(20.0)
Total assets	988,136	0.5	0.6	988,136	(1.5)	(3.2)
Customer deposits	599,463	0.4	0.6	599,463	5.0	2.7
Central banks and credit institutions	197,256	3.5	3.7	197,256	(7.7)	(7.9)
Marketable debt securities	79,019	(10.3)	(9.9)	79,019	(14.4)	(17.5)
Other financial liabilities	54,859	8.5	8.6	54,859	(21.6)	(21.8)
Other liabilities accounts	11,966	(8.0)	(8.1)	11,966	(9.9)	(11.6)
Total liabilities	942,563	0.4	0.5	942,563	(1.8)	(3.5)
Total equity	45,573	2.3	2.3	45,573	5.5	3.8

Memorandum items:

Gross loans and advances to customers ⁽²⁾	562,209	0.7	0.9	562,209	3.6	1.3
Customer funds	681,433	1.0	1.1	681,433	7.6	5.7
Customer deposits ⁽³⁾	578,759	0.5	0.7	578,759	5.3	3.1
Mutual funds	102,675	3.8	3.7	102,675	23.0	22.5

Ratios (%), operating means and customers

Underlying RoTE	5.96	(2.56)		7.24	4.53
Efficiency ratio	52.6	2.6		51.2	(8.0)
NPL ratio	3.30	0.04		3.30	(0.10)
Total coverage ratio	48.36	(1.6)		48.4	1.8
Number of employees	64,306	(4.3)		64,306	(9.2)
Number of branches	3,401	(17.2)		3,401	(30.6)
Number of loyal customers (thousands)	10,179	1.1		10,179	3.5
Number of digital customers (thousands)	15,686	0.4		15,686	6.3

(1) Includes exchange differences.

(2) Excluding reverse repos.

(3) Excluding repos.

Spain



EUR million

Underlying income statement	/ Q1'21		/ H1'20	
	Q2'21	%	H1'21	%
Net interest income	1,015	(0.5)	2,034	9.6
Net fee income	617	5.0	1,204	2.2
Gains (losses) on financial transactions ⁽¹⁾	123	(6.9)	256	(37.1)
Other operating income	(62)	—	(16)	(82.0)
Total income	1,693	(5.1)	3,478	3.8
Administrative expenses and amortizations	(852)	(1.8)	(1,719)	(6.6)
Net operating income	842	(8.3)	1,759	16.6
Net loan-loss provisions	(492)	9.6	(941)	—
Other gains (losses) and provisions	(147)	14.0	(276)	26.3
Profit before tax	202	(40.4)	542	55.1
Tax on profit	(55)	(43.3)	(152)	53.3
Profit from continuing operations	147	(39.3)	390	55.8
Net profit from discontinued operations	—	—	—	—
Consolidated profit	147	(39.3)	390	55.8
Non-controlling interests	—	36.2	—	34.2
Underlying attributable profit to the parent	147	(39.2)	390	55.8

Balance sheet

Loans and advances to customers	192,716	0.9	192,716	(2.4)
Cash, central banks and credit institutions	128,622	4.2	128,622	18.7
Debt instruments	18,864	1.7	18,864	(24.8)
Other financial assets	2,496	2.8	2,496	50.3
Other asset accounts	17,595	(12.0)	17,595	(24.2)
Total assets	360,293	1.4	360,293	1.3
Customer deposits	253,301	1.6	253,301	2.1
Central banks and credit institutions	50,243	(2.5)	50,243	7.0
Marketable debt securities	26,660	(2.0)	26,660	(2.6)
Other financial liabilities	10,793	47.3	10,793	(12.7)
Other liabilities accounts	3,848	(18.0)	3,848	(25.4)
Total liabilities	344,845	1.4	344,845	1.5
Total equity	15,448	0.1	15,448	(2.6)

Memorandum items:

Gross loans and advances to customers ⁽²⁾	199,041	0.8	199,041	(2.3)
Customer funds	329,525	2.2	329,525	5.7
<i>Customer deposits</i> ⁽³⁾	253,301	1.6	253,301	2.1
<i>Mutual funds</i>	76,224	4.3	76,224	19.5

Ratios (%), operating means and customers

Underlying RoTE	3.93	(2.57)	5.21	1.97
Efficiency ratio	50.3	1.7	49.4	(5.5)
NPL ratio	6.22	0.04	6.22	(0.33)
Total coverage ratio	46.0	(1.2)	46.0	2.7
Number of employees	23,689	(7.0)	23,689	(13.1)
Number of branches	1,947	(25.2)	1,947	(39.6)
Number of loyal customers (thousands)	2,758	2.3	2,758	8.5
Number of digital customers (thousands)	5,302	0.2	5,302	4.1

(1) Includes exchange differences.

(2) Excluding reverse repos.

(3) Excluding repos.

United Kingdom



EUR million

Underlying income statement	Q2'21	/ Q1'21		H1'21	/ H1'20	
		%	% excl. FX		%	% excl. FX
Net interest income	1,100	9.9	8.5	2,100	30.0	29.0
Net fee income	117	(2.4)	(3.7)	238	(16.3)	(16.9)
Gains (losses) on financial transactions ⁽¹⁾	(4)	(67.8)	(68.7)	(16)	668.6	663.0
Other operating income	(2)	—	—	1	220.3	217.9
Total income	1,211	9.0	7.6	2,322	22.4	21.5
Administrative expenses and amortizations	(648)	(0.7)	(2.0)	(1,299)	(1.4)	(2.1)
Net operating income	563	22.6	21.2	1,023	76.3	75.0
Net loan-loss provisions	86	—	—	68	—	—
Other gains (losses) and provisions	(63)	101.9	99.9	(94)	22.8	21.9
Profit before tax	587	43.1	41.5	997	865.0	858.0
Tax on profit	(188)	61.4	59.7	(304)	837.3	830.5
Profit from continuing operations	399	35.9	34.3	693	877.7	870.5
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	399	35.9	34.3	693	877.7	870.5
Non-controlling interests	—	—	—	—	(100.0)	(100.0)
Underlying attributable profit to the parent	399	35.9	34.3	693	877.7	870.5

Balance sheet

Loans and advances to customers	261,139	(0.3)	0.5	261,139	4.9	(1.0)
Cash, central banks and credit institutions	62,751	(5.1)	(4.3)	62,751	31.1	23.7
Debt instruments	8,292	(10.2)	(9.5)	8,292	(51.2)	(54.0)
Other financial assets	913	14.7	15.6	913	(37.9)	(41.4)
Other asset accounts	7,517	10.8	11.6	7,517	(21.4)	(25.8)
Total assets	340,612	(1.2)	(0.5)	340,612	4.8	(1.1)
Customer deposits	243,617	0.9	1.7	243,617	8.6	2.5
Central banks and credit institutions	30,603	5.6	6.4	30,603	48.0	39.6
Marketable debt securities	44,507	(15.4)	(14.8)	44,507	(23.7)	(28.0)
Other financial liabilities	2,691	(14.7)	(14.1)	2,691	(5.8)	(11.1)
Other liabilities accounts	3,696	(1.0)	(0.2)	3,696	(17.7)	(22.4)
Total liabilities	325,114	(1.5)	(0.7)	325,114	4.7	(1.2)
Total equity	15,498	4.3	5.1	15,498	8.3	2.2

Memorandum items:

Gross loans and advances to customers ⁽²⁾	242,616	(0.7)	0.1	242,616	7.2	1.2
Customer funds	235,803	0.1	0.9	235,803	11.1	4.9
Customer deposits ⁽³⁾	227,212	—	0.8	227,212	11.0	4.7
Mutual funds	8,591	2.9	3.7	8,591	16.2	9.6

Ratios (%), operating means and customers

Underlying RoTE	12.09	2.87		10.65	9.59
Efficiency ratio	53.5	(5.2)		56.0	(13.5)
NPL ratio	1.30	(0.05)		1.30	0.20
Total coverage ratio	37.4	(3.1)		37.4	(5.4)
Number of employees	20,870	(3.3)		20,870	(10.2)
Number of branches	553	(2.0)		553	(10.1)
Number of loyal customers (thousands)	4,420	0.2		4,420	(1.4)
Number of digital customers (thousands)	6,396	0.1		6,396	5.3

(1) Includes exchange differences.

(2) Excluding reverse repos.

(3) Excluding repos.

Portugal



EUR million

Underlying income statement	/ Q1'21		/ H1'20	
	Q2'21	%	H1'21	%
Net interest income	192	(0.5)	384	(3.8)
Net fee income	110	11.5	210	9.7
Gains (losses) on financial transactions ⁽¹⁾	6	(96.2)	153	68.5
Other operating income	(5)	(58.1)	(17)	24.2
Total income	303	(29.1)	730	9.3
Administrative expenses and amortizations	(143)	(2.0)	(289)	(2.4)
Net operating income	160	(43.2)	441	18.6
Net loan-loss provisions	(35)	0.4	(69)	(33.5)
Other gains (losses) and provisions	(11)	(13.4)	(24)	(34.5)
Profit before tax	114	(51.3)	347	50.8
Tax on profit	(35)	(51.2)	(108)	53.4
Profit from continuing operations	78	(51.4)	239	49.6
Net profit from discontinued operations	—	—	—	—
Consolidated profit	78	(51.4)	239	49.6
Non-controlling interests	—	29.0	—	29.2
Underlying attributable profit to the parent	78	(51.4)	239	49.7

Balance sheet

Loans and advances to customers	38,785	1.4	38,785	4.6
Cash, central banks and credit institutions	8,725	14.4	8,725	(0.5)
Debt instruments	9,026	(3.2)	9,026	(23.4)
Other financial assets	1,453	(0.8)	1,453	(5.0)
Other asset accounts	1,382	(7.1)	1,382	(16.7)
Total assets	59,371	2.1	59,371	(2.4)
Customer deposits	41,452	3.4	41,452	3.5
Central banks and credit institutions	9,490	(1.1)	9,490	(18.1)
Marketable debt securities	2,483	(0.7)	2,483	(24.0)
Other financial liabilities	219	3.4	219	(14.6)
Other liabilities accounts	1,693	(4.3)	1,693	(5.1)
Total liabilities	55,336	2.2	55,336	(2.8)
Total equity	4,035	0.8	4,035	3.7

Memorandum items:

Gross loans and advances to customers ⁽²⁾	39,850	1.5	39,850	4.6
Customer funds	45,392	3.9	45,392	5.8
<i>Customer deposits</i> ⁽³⁾	41,452	3.4	41,452	3.5
<i>Mutual funds</i>	3,940	9.3	3,940	36.6

Ratios (%), operating means and customers

Underlying RoTE	7.87	(8.07)	11.92	3.40
Efficiency ratio	47.2	13.1	39.6	(4.7)
NPL ratio	3.71	(0.13)	3.71	(0.72)
Total coverage ratio	73.0	3.8	73.0	12.1
Number of employees	6,049	(3.1)	6,049	(7.0)
Number of branches	418	(4.6)	418	(20.4)
Number of loyal customers (thousands)	834	2.2	834	6.5
Number of digital customers (thousands)	981	1.1	981	13.3

(1) Includes exchange differences.

(2) Excluding reverse repos.

(3) Excluding repos.

Poland

EUR million

Underlying income statement	Q2'21	/ Q1'21		H1'21	/ H1'20	
		%	% excl. FX		%	% excl. FX
Net interest income	250	4.1	3.7	490	(10.5)	(7.9)
Net fee income	126	(0.2)	(0.6)	253	15.1	18.4
Gains (losses) on financial transactions ⁽¹⁾	21	5.1	4.8	41	39.2	43.2
Other operating income	20	—	—	(10)	(81.6)	(81.0)
Total income	417	17.0	16.7	774	4.3	7.3
Administrative expenses and amortizations	(163)	3.3	2.9	(321)	2.1	5.1
Net operating income	254	28.0	27.6	453	5.9	8.9
Net loan-loss provisions	(45)	(33.3)	(33.6)	(113)	(38.3)	(36.6)
Other gains (losses) and provisions	(126)	73.8	73.3	(198)	159.6	167.1
Profit before tax	83	42.7	42.2	141	(15.7)	(13.2)
Tax on profit	(34)	4.1	3.7	(67)	8.8	11.9
Profit from continuing operations	49	91.8	91.3	75	(29.7)	(27.7)
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	49	91.8	91.3	75	(29.7)	(27.7)
Non-controlling interests	(15)	206.5	205.7	(20)	(38.0)	(36.2)
Underlying attributable profit to the parent	34	63.8	63.3	54	(26.0)	(23.9)

Balance sheet

Loans and advances to customers	28,891	2.5	(0.1)	28,891	(1.0)	0.7
Cash, central banks and credit institutions	1,889	(49.1)	(50.4)	1,889	(37.1)	(36.1)
Debt instruments	15,171	7.4	4.7	15,171	25.1	27.2
Other financial assets	778	(21.7)	(23.7)	778	52.1	54.7
Other asset accounts	1,287	(2.5)	(4.9)	1,287	(5.8)	(4.2)
Total assets	48,016	(0.7)	(3.2)	48,016	3.9	5.7
Customer deposits	36,015	(0.7)	(3.2)	36,015	4.9	6.7
Central banks and credit institutions	2,276	(12.3)	(14.5)	2,276	(21.4)	(20.1)
Marketable debt securities	2,464	6.4	3.8	2,464	19.8	21.8
Other financial liabilities	844	(8.9)	(11.2)	844	24.2	26.3
Other liabilities accounts	1,240	5.1	2.5	1,240	4.9	6.7
Total liabilities	42,839	(1.0)	(3.5)	42,839	4.2	5.9
Total equity	5,177	2.2	(0.3)	5,177	2.2	3.9

Memorandum items:

Gross loans and advances to customers ⁽²⁾	29,884	2.2	(0.3)	29,884	(0.9)	0.8
Customer funds	40,764	0.3	(2.2)	40,764	8.3	10.2
<i>Customer deposits</i> ⁽³⁾	36,015	(0.7)	(3.2)	36,015	5.0	6.8
<i>Mutual funds</i>	4,749	8.2	5.6	4,749	43.0	45.5

Ratios (%), operating means and customers

Underlying RoTE	4.10	1.56		3.33	(1.30)
Efficiency ratio	39.1	(5.2)		41.5	(0.9)
NPL ratio	4.58	(0.24)		4.58	0.01
Total coverage ratio	72.4	2.2		72.4	3.4
Number of employees	9,932	(3.6)		9,932	(9.4)
Number of branches	471	(3.9)		471	(11.0)
Number of loyal customers (thousands)	2,166	0.8		2,166	6.9
Number of digital customers (thousands)	2,850	1.3		2,850	8.1

(1) Includes exchange differences.

(2) Excluding reverse repos.

(3) Excluding repos.

Other Europe

EUR million

Underlying income statement	Q2'21	/ Q1'21		H1'21	/ H1'20	
		%	% excl. FX		%	% excl. FX
Net interest income	195	1.4	1.7	387	33.9	36.4
Net fee income	115	(17.0)	(17.3)	253	27.9	30.9
Gains (losses) on financial transactions ⁽¹⁾	(62)	—	—	34	—	—
Other operating income	70	62.3	59.7	113	(11.8)	(12.7)
Total income	318	(32.3)	(32.1)	787	71.9	76.7
Administrative expenses and amortizations	(267)	7.2	6.5	(515)	15.8	17.9
Net operating income	51	(76.8)	(76.0)	272	—	—
Net loan-loss provisions	(121)	367.6	361.4	(146)	184.5	182.9
Other gains (losses) and provisions	2	—	—	(3)	(76.2)	(73.0)
Profit before tax	(67)	—	—	122	—	—
Tax on profit	9	—	—	(74)	—	—
Profit from continuing operations	(58)	—	—	48	—	—
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	(58)	—	—	48	—	—
Non-controlling interests	(2)	—	—	1	—	—
Underlying attributable profit to the parent	(60)	—	—	49	—	—

Balance sheet

Loans and advances to customers	63,273	1.1	1.3	63,273	3.1	4.1
Cash, central banks and credit institutions	41,828	(2.1)	(1.9)	41,828	(47.8)	(47.7)
Debt instruments	26,119	3.5	3.6	26,119	27.6	27.8
Other financial assets	43,755	4.0	4.0	43,755	(10.8)	(10.7)
Other asset accounts	4,870	13.4	13.7	4,870	7.5	9.2
Total assets	179,845	1.7	1.8	179,845	(16.6)	(16.2)
Customer deposits	25,078	(15.8)	(15.7)	25,078	4.1	4.6
Central banks and credit institutions	104,644	6.9	7.0	104,644	(20.5)	(20.1)
Marketable debt securities	2,905	(15.3)	(15.3)	2,905	132.4	132.4
Other financial liabilities	40,313	3.6	3.6	40,313	(25.1)	(25.1)
Other liabilities accounts	1,489	(9.3)	(9.3)	1,489	123.5	123.9
Total liabilities	174,429	1.6	1.7	174,429	(17.5)	(17.2)
Total equity	5,416	4.2	4.5	5,416	33.7	35.8

Memorandum items:

Gross loans and advances to customers ⁽²⁾	50,818	5.5	5.7	50,818	14.4	15.8
Customer funds	29,949	(7.7)	(7.7)	29,949	5.0	5.5
Customer deposits ⁽³⁾	20,779	(9.4)	(9.3)	20,779	(7.4)	(6.9)
Mutual funds	9,170	(3.7)	(3.7)	9,170	50.7	50.7

Resources

Number of employees	3,766	5.0		3,766	31.5	
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(1) Includes exchange differences.

(2) Excluding reverse repos.

(3) Excluding repos.

NORTH AMERICA

EUR million

Underlying income statement	Q2'21	/ Q1'21		H1'21	/ H1'20	
		%	% excl. FX		%	% excl. FX
Net interest income	2,010	0.3	(0.2)	4,015	(7.5)	(0.8)
Net fee income	410	(9.2)	(9.8)	861	(1.0)	5.3
Gains (losses) on financial transactions ⁽¹⁾	32	(67.5)	(67.8)	130	(36.9)	(33.2)
Other operating income	267	24.4	24.8	482	103.4	124.8
Total income	2,719	(1.8)	(2.2)	5,487	(2.9)	4.0
Administrative expenses and amortizations	(1,194)	3.9	3.5	(2,343)	(0.4)	6.7
Net operating income	1,525	(5.8)	(6.3)	3,145	(4.7)	2.1
Net loan-loss provisions	(195)	(50.4)	(51.1)	(588)	(75.2)	(73.2)
Other gains (losses) and provisions	8	—	—	(12)	(76.8)	(75.1)
Profit before tax	1,338	10.9	10.6	2,545	189.7	204.6
Tax on profit	(324)	9.3	9.0	(621)	260.3	275.9
Profit from continuing operations	1,014	11.4	11.1	1,924	172.4	187.0
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	1,014	11.4	11.1	1,924	172.4	187.0
Non-controlling interests	(159)	16.6	16.5	(296)	227.1	250.1
Underlying attributable profit to the parent	854	10.5	10.2	1,628	164.4	177.9

Balance sheet

Loans and advances to customers	126,360	3.0	3.3	126,360	(5.2)	(3.7)
Cash, central banks and credit institutions	37,075	18.0	18.2	37,075	19.6	18.8
Debt instruments	35,512	(8.2)	(8.8)	35,512	(5.0)	(8.2)
Other financial assets	10,863	(10.0)	(10.8)	10,863	(46.4)	(49.1)
Other asset accounts	20,952	(3.6)	(3.1)	20,952	(5.0)	(2.1)
Total assets	230,762	1.8	1.9	230,762	(5.4)	(5.3)
Customer deposits	115,106	(4.1)	(4.0)	115,106	1.4	1.8
Central banks and credit institutions	30,638	33.5	32.7	30,638	(13.7)	(14.6)
Marketable debt securities	38,288	0.3	0.8	38,288	(11.4)	(9.1)
Other financial liabilities	14,205	3.2	2.2	14,205	(33.7)	(37.1)
Other liabilities accounts	6,014	2.3	2.2	6,014	(8.8)	(9.7)
Total liabilities	204,250	1.7	1.8	204,250	(7.2)	(7.3)
Total equity	26,512	2.9	3.3	26,512	11.3	12.9

Memorandum items:

Gross loans and advances to customers ⁽²⁾	125,635	2.3	2.6	125,635	(4.2)	(2.7)
Customer funds	130,087	2.2	2.4	130,087	4.2	4.7
<i>Customer deposits</i> ⁽³⁾	105,171	0.6	0.8	105,171	0.4	1.4
<i>Mutual funds</i>	24,916	9.8	9.5	24,916	24.1	21.5

Ratios (%), operating means and customers

Underlying RoTE	14.83	0.52		14.64	8.81
Efficiency ratio	43.9	2.4		42.7	1.1
NPL ratio	2.28	(0.10)		2.28	0.56
Total coverage ratio	152.3	(1.1)		152.3	(54.2)
Number of employees	41,670	4.9		41,670	8.6
Number of branches	1,920	(1.4)		1,920	(6.0)
Number of loyal customers (thousands)	4,089	1.4		4,089	11.1
Number of digital customers (thousands)	6,303	(0.1)		6,303	9.6

(1) Includes exchange differences.

(2) Excluding reverse repos.

(3) Excluding repos.

United States



EUR million

Underlying income statement	Q2'21	/ Q1'21		H1'21	/ H1'20	
		%	% excl. FX		%	% excl. FX
Net interest income	1,326	(0.8)	(0.7)	2,663	(7.9)	0.8
Net fee income	191	(20.5)	(20.4)	432	(7.0)	1.7
Gains (losses) on financial transactions ⁽¹⁾	20	(71.2)	(71.2)	90	(6.4)	2.4
Other operating income	298	17.3	17.4	551	98.4	117.0
Total income	1,835	(3.5)	(3.4)	3,737	0.2	9.6
Administrative expenses and amortizations	(783)	4.8	4.9	(1,531)	(3.4)	5.7
Net operating income	1,052	(8.8)	(8.7)	2,206	2.9	12.5
Net loan-loss provisions	9	—	—	(156)	(91.3)	(90.5)
Other gains (losses) and provisions	15	—	—	—	—	—
Profit before tax	1,076	10.5	10.6	2,050	572.8	635.9
Tax on profit	(259)	10.2	10.3	(493)	—	—
Profit from continuing operations	817	10.6	10.7	1,556	478.3	532.5
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	817	10.6	10.7	1,556	478.3	532.5
Non-controlling interests	(143)	16.9	17.0	(266)	356.4	399.2
Underlying attributable profit to the parent	674	9.4	9.5	1,291	511.9	569.3

Balance sheet

Loans and advances to customers	93,724	2.1	3.2	93,724	(8.8)	(3.9)
Cash, central banks and credit institutions	25,444	19.9	21.2	25,444	32.4	39.5
Debt instruments	15,922	5.1	6.1	15,922	(0.5)	4.8
Other financial assets	3,576	(0.2)	0.8	3,576	(44.8)	(41.8)
Other asset accounts	17,257	(3.4)	(2.4)	17,257	(8.0)	(3.0)
Total assets	155,923	4.2	5.3	155,923	(4.5)	0.7
Customer deposits	79,384	(5.1)	(4.1)	79,384	1.9	7.3
Central banks and credit institutions	17,363	102.3	104.3	17,363	(17.3)	(12.8)
Marketable debt securities	32,123	1.8	2.9	32,123	(10.6)	(5.8)
Other financial liabilities	3,898	5.9	7.0	3,898	(40.8)	(37.6)
Other liabilities accounts	3,880	11.7	12.8	3,880	(1.3)	4.0
Total liabilities	136,648	4.4	5.4	136,648	(6.0)	(0.9)
Total equity	19,275	3.2	4.3	19,275	8.2	14.0

Memorandum items:

Gross loans and advances to customers ⁽²⁾	93,519	2.3	3.3	93,519	(7.2)	(2.3)
Customer funds	87,206	2.0	3.0	87,206	0.6	6.0
<i>Customer deposits</i> ⁽³⁾	74,058	(0.1)	1.0	74,058	(2.8)	2.4
<i>Mutual funds</i>	13,148	15.3	16.5	13,148	25.2	31.9

Ratios (%), operating means and customers

Underlying RoTE	16.18	0.62		15.89	13.22
Efficiency ratio	42.7	3.4		41.0	(1.5)
NPL ratio	2.00	(0.11)		2.00	0.51
Total coverage ratio	185.7	2.5		185.7	(67.4)
Number of employees	15,610	(2.4)		15,610	(9.8)
Number of branches	544	(4.7)		544	(11.4)
Number of loyal customers (thousands)	378	(0.7)		378	2.6
Number of digital customers (thousands)	1,026	(1.8)		1,026	(2.5)

(1) Includes exchange differences.

(2) Excluding reverse repos.

(3) Excluding repos.

Mexico

EUR million

Underlying income statement	Q2'21	/ Q1'21		H1'21	/ H1'20	
		%	% excl. FX		%	% excl. FX
Net interest income	684	2.5	0.9	1,352	(6.7)	(3.9)
Net fee income	210	3.3	1.7	414	4.7	7.9
Gains (losses) on financial transactions ⁽¹⁾	12	(58.0)	(59.1)	40	(63.9)	(62.9)
Other operating income	(28)	(17.8)	(19.3)	(63)	48.6	53.0
Total income	878	1.6	(0.1)	1,743	(8.8)	(6.1)
Administrative expenses and amortizations	(379)	1.7	—	(752)	(0.5)	2.5
Net operating income	499	1.5	(0.2)	991	(14.3)	(11.7)
Net loan-loss provisions	(204)	(10.3)	(11.8)	(432)	(23.5)	(21.2)
Other gains (losses) and provisions	(6)	20.4	18.6	(11)	(19.1)	(16.6)
Profit before tax	289	11.5	9.7	548	(5.2)	(2.4)
Tax on profit	(68)	7.5	5.8	(130)	(6.8)	(3.9)
Profit from continuing operations	221	12.7	11.0	417	(4.7)	(1.8)
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	221	12.7	11.0	417	(4.7)	(1.8)
Non-controlling interests	(16)	13.1	11.4	(31)	(5.6)	(2.8)
Underlying attributable profit to the parent	205	12.7	11.0	387	(4.6)	(1.8)

Balance sheet

Loans and advances to customers	32,618	5.5	3.8	32,618	6.7	(3.1)
Cash, central banks and credit institutions	11,418	14.4	12.5	11,418	(2.5)	(11.4)
Debt instruments	19,590	(16.8)	(18.1)	19,590	(8.3)	(16.7)
Other financial assets	7,285	(14.2)	(15.6)	7,285	(46.9)	(51.8)
Other asset accounts	3,429	(5.2)	(6.7)	3,429	10.8	0.7
Total assets	74,340	(2.9)	(4.5)	74,340	(7.6)	(16.1)
Customer deposits	35,712	(2.0)	(3.6)	35,712	0.5	(8.6)
Central banks and credit institutions	13,258	(7.6)	(9.1)	13,258	(8.6)	(16.9)
Marketable debt securities	6,165	(7.3)	(8.8)	6,165	(15.6)	(23.3)
Other financial liabilities	10,260	2.0	0.4	10,260	(30.7)	(37.1)
Other liabilities accounts	2,111	(11.6)	(13.1)	2,111	(20.3)	(27.6)
Total liabilities	67,507	(3.4)	(5.0)	67,507	(9.7)	(18.0)
Total equity	6,834	2.8	1.1	6,834	20.0	9.1

Memorandum items:

Gross loans and advances to customers ⁽²⁾	32,097	2.1	0.4	32,097	5.8	(3.8)
Customer funds	42,870	2.7	1.0	42,870	12.6	2.3
<i>Customer deposits</i> ⁽³⁾	31,103	2.1	0.4	31,103	9.1	(0.9)
<i>Mutual funds</i>	11,767	4.3	2.6	11,767	23.0	11.7

Ratios (%), operating means and customers

Underlying RoTE	13.92	1.19		13.32	(2.14)
Efficiency ratio	43.2	—		43.1	3.6
NPL ratio	3.10	(0.10)		3.10	0.60
Total coverage ratio	90.6	(5.0)		90.6	(24.3)
Number of employees	25,543	9.7		25,543	22.7
Number of branches	1,376	—		1,376	(3.7)
Number of loyal customers (thousands)	3,712	1.7		3,712	12.0
Number of digital customers (thousands)	5,120	0.2		5,120	11.2

(1) Includes exchange differences.

(2) Excluding reverse repos.

(3) Excluding repos.

Other North America

EUR million

Underlying income statement	Q2'21	/ Q1'21		H1'21	/ H1'20	
		%	% excl. FX		%	% excl. FX
Net interest income	—	55.6	55.6	—	(44.5)	(44.5)
Net fee income	8	17.6	17.6	14	61.6	61.6
Gains (losses) on financial transactions ⁽¹⁾	—	—	—	—	—	—
Other operating income	(2)	(48.7)	(48.7)	(7)	—	—
Total income	5	156.4	156.4	7	(24.3)	(24.3)
Administrative expenses and amortizations	(32)	12.8	12.8	(59)	397.8	397.8
Net operating income	(26)	1.2	1.2	(52)	—	—
Net loan-loss provisions	—	(99.4)	(99.4)	—	(71.9)	(71.9)
Other gains (losses) and provisions	—	224.9	224.9	(1)	(65.5)	(65.5)
Profit before tax	(27)	2.4	2.4	(53)	—	—
Tax on profit	2	119.7	119.7	3	(10.8)	(10.8)
Profit from continuing operations	(25)	(1.6)	(1.6)	(50)	—	—
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	(25)	(1.6)	(1.6)	(50)	—	—
Non-controlling interests	—	(62.1)	(62.1)	—	70.4	70.4
Underlying attributable profit to the parent	(25)	(1.1)	(1.1)	(50)	—	—
Balance sheet						
Loans and advances to customers	18	14.2	14.2	18	111.6	111.6
Cash, central banks and credit institutions	214	(2.8)	(2.8)	214	228.2	228.2
Debt instruments	—	—	—	—	(100.0)	(100.0)
Other financial assets	1	8.4	8.4	1	(98.1)	(98.1)
Other asset accounts	266	4.1	4.1	266	27.7	27.7
Total assets	499	1.4	1.4	499	39.5	39.5
Customer deposits	10	(12.6)	(12.6)	10	(8.8)	(8.8)
Central banks and credit institutions	16	259.9	259.9	16	34.4	34.4
Marketable debt securities	—	—	—	—	—	—
Other financial liabilities	46	69.1	69.1	46	133.2	133.2
Other liabilities accounts	23	33.6	33.6	23	43.4	43.4
Total liabilities	95	57.3	57.3	95	61.6	61.6
Total equity	404	(6.5)	(6.5)	404	35.1	35.1
Memorandum items:						
Gross loans and advances to customers ⁽²⁾	19	10.6	10.6	19	116.4	116.4
Customer funds	10	(12.6)	(12.6)	10	(8.8)	(8.8)
Customer deposits ⁽³⁾	10	(12.6)	(12.6)	10	(8.8)	(8.8)
Mutual funds	—	—	—	—	—	—
Resources						
Number of employees	517	13.4		517	98.1	

(1) Includes exchange differences.

(2) Excluding reverse repos.

(3) Excluding repos.

SOUTH AMERICA

EUR million

Underlying income statement	Q2'21	/ Q1'21		H1'21	/ H1'20	
		%	% excl. FX		%	% excl. FX
Net interest income	2,760	7.2	5.3	5,334	(5.9)	11.1
Net fee income	928	10.2	8.2	1,770	(4.7)	13.9
Gains (losses) on financial transactions ⁽¹⁾	177	(13.6)	(14.2)	383	(11.1)	2.3
Other operating income	(92)	11.4	16.6	(175)	87.0	135.3
Total income	3,772	6.6	4.6	7,311	(7.0)	9.8
Administrative expenses and amortizations	(1,299)	6.6	5.7	(2,518)	(9.2)	7.3
Net operating income	2,473	6.6	4.1	4,793	(5.8)	11.2
Net loan-loss provisions	(809)	18.4	15.4	(1,492)	(38.7)	(27.8)
Other gains (losses) and provisions	(55)	(58.1)	(58.2)	(188)	(4.0)	18.8
Profit before tax	1,609	6.9	4.3	3,113	26.5	49.3
Tax on profit	(595)	(0.7)	(3.8)	(1,194)	35.1	61.2
Profit from continuing operations	1,014	12.0	9.7	1,919	21.7	42.7
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	1,014	12.0	9.7	1,919	21.7	42.7
Non-controlling interests	(143)	7.9	5.6	(275)	41.2	54.6
Underlying attributable profit to the parent	871	12.7	10.4	1,645	19.0	40.9

Balance sheet

Loans and advances to customers	124,784	8.0	2.5	124,784	12.4	9.6
Cash, central banks and credit institutions	50,441	14.5	6.6	50,441	13.2	11.9
Debt instruments	49,949	3.9	(3.9)	49,949	10.4	8.4
Other financial assets	12,455	(13.5)	(16.5)	12,455	(40.0)	(43.2)
Other asset accounts	16,244	8.2	1.0	16,244	(3.3)	(5.6)
Total assets	253,874	7.1	0.7	253,874	6.5	4.0
Customer deposits	124,500	11.6	5.3	124,500	10.6	9.1
Central banks and credit institutions	44,735	(1.9)	(8.2)	44,735	5.5	2.6
Marketable debt securities	22,965	9.5	4.0	22,965	(4.2)	(8.6)
Other financial liabilities	31,731	0.7	(6.1)	31,731	(1.5)	(5.6)
Other liabilities accounts	9,148	21.7	13.7	9,148	11.2	8.7
Total liabilities	233,080	7.3	0.9	233,080	6.2	3.7
Total equity	20,794	4.6	(1.5)	20,794	9.9	7.7

Memorandum items:

Gross loans and advances to customers ⁽²⁾	130,052	7.9	2.4	130,052	12.4	9.5
Customer funds	168,336	12.0	5.3	168,336	12.3	10.4
<i>Customer deposits⁽³⁾</i>	<i>115,589</i>	<i>12.1</i>	<i>6.2</i>	<i>115,589</i>	<i>13.3</i>	<i>12.2</i>
<i>Mutual funds</i>	<i>52,747</i>	<i>11.7</i>	<i>3.3</i>	<i>52,747</i>	<i>10.0</i>	<i>6.7</i>

Ratios (%), operating means and customers

Underlying RoTE	21.12	1.79		20.29	3.88
Efficiency ratio	34.4	—		34.4	(0.8)
NPL ratio	4.36	0.06		4.36	(0.37)
Total coverage ratio	98.1	(0.3)		98.1	5.2
Number of employees	67,198	2.3		67,198	(1.1)
Number of branches	4,438	(0.1)		4,438	(1.2)
Number of loyal customers (thousands)	9,612	6.2		9,612	23.8
Number of digital customers (thousands)	22,670	4.8		22,670	20.2

(1) Includes exchange differences.

(2) Excluding reverse repos.

(3) Excluding repos.

Brazil

EUR million

Underlying income statement	Q2'21	/ Q1'21		H1'21	/ H1'20	
		%	% excl. FX		%	% excl. FX
Net interest income	1,919	7.8	4.1	3,700	(9.4)	9.8
Net fee income	698	10.5	6.7	1,330	(10.3)	8.7
Gains (losses) on financial transactions ⁽¹⁾	78	(38.2)	(41.1)	205	(21.2)	(4.5)
Other operating income	(14)	(20.5)	(23.7)	(32)	(17.9)	(0.4)
Total income	2,682	6.4	2.7	5,203	(10.1)	9.0
Administrative expenses and amortizations	(779)	7.9	4.2	(1,502)	(18.3)	(1.0)
Net operating income	1,902	5.8	2.1	3,701	(6.3)	13.6
Net loan-loss provisions	(674)	22.8	18.8	(1,222)	(36.0)	(22.4)
Other gains (losses) and provisions	(28)	(70.5)	(72.8)	(124)	(21.6)	(4.9)
Profit before tax	1,200	4.0	0.4	2,354	25.1	51.7
Tax on profit	(516)	(2.6)	(6.1)	(1,046)	34.6	63.2
Profit from continuing operations	684	9.6	5.8	1,308	18.4	43.6
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	684	9.6	5.8	1,308	18.4	43.6
Non-controlling interests	(65)	3.9	0.3	(128)	16.7	41.5
Underlying attributable profit to the parent	619	10.2	6.5	1,180	18.6	43.8

Balance sheet

Loans and advances to customers	73,684	15.2	3.3	73,684	19.7	15.4
Cash, central banks and credit institutions	32,634	5.0	(5.9)	32,634	9.5	5.6
Debt instruments	37,664	4.2	(6.6)	37,664	5.6	1.9
Other financial assets	5,958	(1.7)	(11.9)	5,958	(17.1)	(20.1)
Other asset accounts	11,728	14.4	2.5	11,728	(1.8)	(5.3)
Total assets	161,670	9.6	(1.8)	161,670	10.6	6.6
Customer deposits	76,611	14.7	2.8	76,611	10.7	6.7
Central banks and credit institutions	28,827	(4.6)	(14.5)	28,827	9.3	5.4
Marketable debt securities	13,558	17.8	5.5	13,558	(4.6)	(8.0)
Other financial liabilities	22,434	3.2	(7.5)	22,434	24.9	20.4
Other liabilities accounts	6,643	31.6	17.9	6,643	5.7	2.0
Total liabilities	148,072	9.4	(1.9)	148,072	10.5	6.5
Total equity	13,597	11.8	0.2	13,597	12.1	8.1

Memorandum items:

Gross loans and advances to customers ⁽²⁾	77,341	15.1	3.2	77,341	19.2	15.0
Customer funds	109,299	15.9	3.8	109,299	12.0	8.0
<i>Customer deposits⁽³⁾</i>	<i>67,735</i>	<i>16.0</i>	<i>3.9</i>	<i>67,735</i>	<i>15.3</i>	<i>11.2</i>
<i>Mutual funds</i>	<i>41,563</i>	<i>15.6</i>	<i>3.6</i>	<i>41,563</i>	<i>7.0</i>	<i>3.1</i>

Ratios (%), operating means and customers

Underlying RoTE	22.73	1.30		22.12	5.00
Efficiency ratio	29.1	0.4		28.9	(2.9)
NPL ratio	4.55	0.13		4.55	(0.52)
Total coverage ratio	112.3	(4.2)		112.3	2.1
Number of employees	45,115	4.0		45,115	0.4
Number of branches	3,590	—		3,590	0.1
Number of loyal customers (thousands)	7,146	8.6		7,146	26.0
Number of digital customers (thousands)	17,466	5.2		17,466	20.5

(1) Includes exchange differences.

(2) Excluding reverse repos.

(3) Excluding repos.

Chile



EUR million

Underlying income statement	Q2'21	/ Q1'21		H1'21	/ H1'20	
		%	% excl. FX		%	% excl. FX
Net interest income	511	2.9	1.8	1,009	15.6	12.1
Net fee income	96	0.9	(0.1)	190	14.5	11.0
Gains (losses) on financial transactions ⁽¹⁾	48	49.4	48.1	81	(23.3)	(25.6)
Other operating income	(18)	79.6	78.2	(28)	281.4	269.9
Total income	637	3.8	2.7	1,252	10.1	6.8
Administrative expenses and amortizations	(245)	4.0	3.0	(481)	5.0	1.8
Net operating income	392	3.6	2.6	771	13.6	10.2
Net loan-loss provisions	(82)	(18.6)	(19.5)	(182)	(47.5)	(49.0)
Other gains (losses) and provisions	5	—	—	3	—	—
Profit before tax	315	13.8	12.8	592	78.9	73.5
Tax on profit	(70)	26.2	25.1	(125)	96.3	90.3
Profit from continuing operations	246	10.8	9.7	467	74.8	69.5
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	246	10.8	9.7	467	74.8	69.5
Non-controlling interests	(77)	11.2	10.2	(146)	73.6	68.4
Underlying attributable profit to the parent	169	10.6	9.5	321	75.3	70.0

Balance sheet

Loans and advances to customers	39,922	(2.1)	0.2	39,922	5.0	(1.8)
Cash, central banks and credit institutions	11,748	87.5	91.9	11,748	34.9	26.1
Debt instruments	8,315	(6.2)	(4.0)	8,315	39.6	30.5
Other financial assets	6,293	(22.9)	(21.1)	6,293	(52.7)	(55.8)
Other asset accounts	2,883	(7.1)	(5.0)	2,883	(12.9)	(18.6)
Total assets	69,162	3.0	5.4	69,162	(0.2)	(6.7)
Customer deposits	33,316	9.5	12.0	33,316	16.8	9.2
Central banks and credit institutions	11,664	2.6	4.9	11,664	(1.3)	(7.7)
Marketable debt securities	9,083	(2.1)	0.2	9,083	(5.3)	(11.5)
Other financial liabilities	8,513	(5.2)	(3.0)	8,513	(36.9)	(41.0)
Other liabilities accounts	1,871	4.0	6.4	1,871	46.6	37.1
Total liabilities	64,447	4.2	6.6	64,447	(0.4)	(6.9)
Total equity	4,714	(10.8)	(8.7)	4,714	2.6	(4.0)

Memorandum items:

Gross loans and advances to customers ⁽²⁾	41,125	(2.2)	0.1	41,125	5.1	(1.7)
Customer funds	42,312	6.8	9.3	42,312	17.8	10.2
Customer deposits ⁽³⁾	33,281	9.5	12.1	33,281	17.2	9.6
Mutual funds	9,031	(2.3)	—	9,031	20.0	12.2

Ratios (%), operating means and customers

Underlying RoTE	19.91	2.69		18.63	7.39
Efficiency ratio	38.5	0.1		38.4	(1.9)
NPL ratio	4.57	(0.18)		4.57	(0.42)
Total coverage ratio	63.9	0.4		63.9	9.1
Number of employees	10,628	(1.3)		10,628	(6.8)
Number of branches	332	(0.9)		332	(9.5)
Number of loyal customers (thousands)	778	(0.3)		778	12.7
Number of digital customers (thousands)	1,867	8.4		1,867	39.4

(1) Includes exchange differences.

(2) Excluding reverse repos.

(3) Excluding repos.

Argentina



EUR million

Underlying income statement	Q2'21	/ Q1'21		H1'21	/ H1'20	
		%	% excl. FX		%	% excl. FX
Net interest income	235	15.4	26.5	440	(12.5)	25.3
Net fee income	87	18.5	29.6	161	22.3	75.1
Gains (losses) on financial transactions ⁽¹⁾	34	5.5	16.0	66	99.8	186.1
Other operating income	(56)	17.0	28.1	(103)	163.1	276.7
Total income	301	14.8	25.8	563	(10.3)	28.5
Administrative expenses and amortizations	(179)	4.8	15.3	(349)	3.1	47.6
Net operating income	122	33.3	45.2	214	(26.0)	6.0
Net loan-loss provisions	(35)	148.4	166.2	(48)	(63.3)	(47.4)
Other gains (losses) and provisions	(31)	(9.1)	0.7	(65)	107.1	196.5
Profit before tax	57	29.7	41.5	100	(20.1)	14.3
Tax on profit	6	225.8	247.6	8	—	—
Profit from continuing operations	63	38.0	50.2	108	(1.2)	41.5
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	63	38.0	50.2	108	(1.2)	41.5
Non-controlling interests	—	48.2	60.9	(1)	(5.1)	35.8
Underlying attributable profit to the parent	62	37.9	50.1	108	(1.1)	41.5

Balance sheet

Loans and advances to customers	4,457	3.4	8.7	4,457	(5.6)	35.2
Cash, central banks and credit institutions	3,207	(12.1)	(7.5)	3,207	7.4	53.8
Debt instruments	2,188	35.8	42.8	2,188	(17.7)	17.8
Other financial assets	77	18.8	24.8	77	12.9	61.7
Other asset accounts	835	1.1	6.2	835	(0.6)	42.4
Total assets	10,765	2.9	8.2	10,765	(4.5)	36.7
Customer deposits	7,787	3.6	8.9	7,787	(4.3)	37.1
Central banks and credit institutions	824	0.3	5.4	824	(21.0)	13.1
Marketable debt securities	63	(4.9)	—	63	(16.5)	19.5
Other financial liabilities	675	(3.1)	1.9	675	3.6	48.4
Other liabilities accounts	313	(3.3)	1.7	313	(14.1)	23.0
Total liabilities	9,663	2.5	7.8	9,663	(5.9)	34.7
Total equity	1,102	6.7	12.2	1,102	9.6	56.9

Memorandum items:

Gross loans and advances to customers ⁽²⁾	4,713	3.7	9.0	4,713	(5.2)	35.8
Customer funds	9,896	4.2	9.5	9,896	2.3	46.5
<i>Customer deposits⁽³⁾</i>	<i>7,787</i>	<i>3.6</i>	<i>8.9</i>	<i>7,787</i>	<i>(4.3)</i>	<i>37.1</i>
<i>Mutual funds</i>	<i>2,109</i>	<i>6.5</i>	<i>12.0</i>	<i>2,109</i>	<i>37.4</i>	<i>96.7</i>

Ratios (%), operating means and customers

Underlying RoTE	27.01	6.58		23.95	(4.81)	
Efficiency ratio	59.4	(5.6)		62.0	8.1	
NPL ratio	3.34	1.02		3.34	0.19	
Total coverage ratio	167.6	(64.7)		167.6	2.0	
Number of employees	8,814	(2.8)		8,814	(4.7)	
Number of branches	408	—		408	(6.8)	
Number of loyal customers (thousands)	1,568	(0.3)		1,568	20.4	
Number of digital customers (thousands)	2,716	1.0		2,716	6.2	

(1) Includes exchange differences.

(2) Excluding reverse repos.

(3) Excluding repos.

Other South America

EUR million

Underlying income statement	Q2'21	/ Q1'21		H1'21	/ H1'20	
		%	% excl. FX		%	% excl. FX
Net interest income	93	0.5	3.0	186	(12.4)	1.3
Net fee income	46	12.1	14.4	88	18.0	32.8
Gains (losses) on financial transactions ⁽¹⁾	17	21.1	24.7	31	(2.5)	11.7
Other operating income	(5)	(38.2)	(37.6)	(12)	53.8	69.8
Total income	152	8.0	10.7	293	(5.8)	8.3
Administrative expenses and amortizations	(96)	6.7	8.5	(185)	35.7	53.5
Net operating income	57	10.1	14.6	108	(38.2)	(28.1)
Net loan-loss provisions	(19)	(8.1)	(5.5)	(39)	(17.6)	(5.0)
Other gains (losses) and provisions	(1)	(22.4)	(21.1)	(2)	(61.4)	(57.9)
Profit before tax	37	23.5	29.5	67	(45.3)	(36.0)
Tax on profit	(16)	(3.0)	(0.1)	(32)	15.3	35.1
Profit from continuing operations	21	54.7	65.4	35	(63.0)	(56.7)
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	21	54.7	65.4	35	(63.0)	(56.7)
Non-controlling interests	—	(54.6)	(54.2)	—	106.7	106.7
Underlying attributable profit to the parent	21	53.0	63.4	35	(62.8)	(56.4)

Balance sheet

Loans and advances to customers	6,720	2.3	4.1	6,720	0.7	11.0
Cash, central banks and credit institutions	2,852	(6.7)	(6.0)	2,852	(6.7)	2.8
Debt instruments	1,782	23.8	24.3	1,782	84.2	101.1
Other financial assets	127	5.6	7.9	127	(31.0)	(27.9)
Other asset accounts	797	(3.7)	(3.0)	797	12.9	17.0
Total assets	12,278	2.2	3.5	12,278	6.0	16.1
Customer deposits	6,786	(0.7)	(0.3)	6,786	0.9	10.9
Central banks and credit institutions	3,420	6.4	9.7	3,420	8.0	18.5
Marketable debt securities	261	128.9	137.1	261	168.7	208.0
Other financial liabilities	109	6.3	7.6	109	11.8	21.4
Other liabilities accounts	322	(7.6)	(6.6)	322	4.5	14.6
Total liabilities	10,898	2.7	4.0	10,898	4.8	15.2
Total equity	1,380	(1.2)	(0.6)	1,380	16.0	24.1

Memorandum items:

Gross loans and advances to customers ⁽²⁾	6,874	2.4	4.2	6,874	1.0	11.4
Customer funds	6,829	(0.7)	(0.2)	6,829	0.9	11.0
<i>Customer deposits</i> ⁽³⁾	6,786	(0.7)	(0.3)	6,786	0.9	10.9
<i>Mutual funds</i>	43	5.4	4.7	43	13.7	24.2

Resources

Number of employees	2,641	7.0		2,641	14.2	
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(1) Includes exchange differences.

(2) Excluding reverse repos.

(3) Excluding repos.

DIGITAL CONSUMER BANK

EUR million

Underlying income statement	Q2'21	/ Q1'21		H1'21	/ H1'20	
		%	% excl. FX		%	% excl. FX
Net interest income	1,075	1.8	1.4	2,130	(0.5)	(1.1)
Net fee income	206	9.5	9.4	395	11.0	11.0
Gains (losses) on financial transactions ⁽¹⁾	1	(88.9)	(89.5)	9	—	—
Other operating income	20	(60.3)	(60.7)	71	330.8	325.4
Total income	1,302	(0.1)	(0.5)	2,606	4.0	3.5
Administrative expenses and amortizations	(613)	2.2	1.9	(1,214)	5.7	5.3
Net operating income	689	(2.1)	(2.5)	1,392	2.6	2.0
Net loan-loss provisions	(142)	(14.4)	(14.7)	(308)	(41.9)	(42.2)
Other gains (losses) and provisions	(45)	44.3	43.6	(76)	—	—
Profit before tax	502	(0.9)	(1.3)	1,008	13.4	12.6
Tax on profit	(131)	(2.8)	(3.1)	(265)	12.2	11.6
Profit from continuing operations	371	(0.2)	(0.6)	742	13.8	12.9
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	371	(0.2)	(0.6)	742	13.8	12.9
Non-controlling interests	(93)	16.7	16.6	(173)	19.0	19.1
Underlying attributable profit to the parent	278	(4.8)	(5.3)	569	12.3	11.1

Balance sheet

Loans and advances to customers	112,738	(0.1)	0.1	112,738	1.4	0.1
Cash, central banks and credit institutions	28,445	3.3	3.6	28,445	45.4	44.2
Debt instruments	5,738	(3.5)	(3.6)	5,738	25.7	25.2
Other financial assets	41	6.5	6.7	41	14.1	12.6
Other asset accounts	6,481	1.6	1.7	6,481	23.6	21.7
Total assets	153,443	0.5	0.7	153,443	9.1	7.8
Customer deposits	54,041	1.3	1.5	54,041	9.7	8.7
Central banks and credit institutions	47,980	0.8	1.0	47,980	27.3	25.0
Marketable debt securities	33,740	0.1	0.3	33,740	(6.9)	(7.7)
Other financial liabilities	1,455	(5.5)	(5.4)	1,455	(13.2)	(14.1)
Other liabilities accounts	4,208	7.1	7.2	4,208	11.1	10.4
Total liabilities	141,424	1.0	1.1	141,424	9.9	8.6
Total equity	12,019	(4.8)	(4.5)	12,019	0.9	(0.6)

Memorandum items:

Gross loans and advances to customers ⁽²⁾	115,526	(0.1)	0.1	115,526	1.3	0.1
Customer funds	56,190	3.9	4.1	56,190	12.8	11.8
Customer deposits ⁽³⁾	54,041	1.3	1.5	54,041	9.7	8.7
Mutual funds	2,149	175.8	175.8	2,149	300.7	300.7

Ratios (%), operating means and customers

Underlying RoTE	12.09	0.1		12.04	1.50	
Efficiency ratio	47.1	1.1		46.6	0.8	
NPL ratio	2.18	(0.1)		2.18	(0.14)	
Total coverage ratio	111.9	0.4		111.9	3.9	
Number of employees	15,834	—		15,834	3.0	
Number of branches	314	(2.2)		314	(23.0)	
Number of total customers (thousands)	19,421	0.8		19,421	(4.3)	

(1) Includes exchange differences.

(2) Excluding reverse repos.

(3) Excluding repos.

CORPORATE CENTRE



EUR million

Underlying income statement	Q2'21	Q1'21	%	H1'21	H1'20	%
Net interest income	(355)	(324)	9.7	(679)	(658)	3.2
Net fee income	(8)	(5)	65.2	(13)	(15)	(12.2)
Gains (losses) on financial transactions ⁽¹⁾	(52)	(44)	17.1	(96)	78	—
Other operating income	(15)	3	—	(12)	(22)	(47.0)
Total income	(430)	(370)	16.4	(800)	(617)	29.6
Administrative expenses and amortizations	(81)	(79)	1.9	(160)	(166)	(4.1)
Net operating income	(511)	(449)	13.9	(960)	(784)	22.4
Net loan-loss provisions	(9)	(154)	(94.3)	(163)	(11)	—
Other gains (losses) and provisions	(33)	(33)	2.1	(66)	(391)	(83.2)
Profit before tax	(553)	(635)	(13.0)	(1,188)	(1,186)	0.2
Tax on profit	19	108	(82.4)	127	61	108.9
Profit from continuing operations	(534)	(527)	1.3	(1,061)	(1,125)	(5.7)
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	(534)	(527)	1.3	(1,061)	(1,125)	(5.7)
Non-controlling interests	(1)	—	—	(1)	(1)	108.1
Underlying attributable profit to the parent	(535)	(527)	1.7	(1,062)	(1,125)	(5.6)

Balance sheet

Loans and advances to customers	5,832	6,632	(12.1)	5,832	5,205	12.1
Cash, central banks and credit institutions	71,908	89,695	(19.8)	71,908	48,530	48.2
Debt instruments	1,605	1,450	10.7	1,605	1,340	19.7
Other financial assets	2,016	2,005	0.6	2,016	2,058	(2.0)
Other asset accounts	118,374	119,024	(0.5)	118,374	115,303	2.7
Total assets	199,736	218,806	(8.7)	199,736	172,436	15.8
Customer deposits	1,017	974	4.4	1,017	770	32.1
Central banks and credit institutions	38,914	62,440	(37.7)	38,914	19,119	103.5
Marketable debt securities	69,217	64,354	7.6	69,217	63,010	9.9
Other financial liabilities	534	1,085	(50.8)	534	1,901	(71.9)
Other liabilities accounts	8,009	8,106	(1.2)	8,009	8,225	(2.6)
Total liabilities	117,691	136,959	(14.1)	117,691	93,024	26.5
Total equity	82,044	81,847	0.2	82,044	79,412	3.3

Memorandum items:

Gross loans and advances to customers ⁽²⁾	6,138	6,972	(12.0)	6,138	5,367	14.4
Customer funds	1,021	992	3.0	1,021	786	29.9
Customer deposits ⁽³⁾	1,017	974	4.4	1,017	770	32.1
Mutual funds	4	18	(75.5)	4	17	(73.8)

Resources

Number of employees	1,743	1,737	0.3	1,743	1,773	(1.7)
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(1) Includes exchange differences.

(2) Excluding reverse repos.

(3) Excluding repos.

RETAIL BANKING

EUR million

Underlying income statement	Q2'21	/ Q1'21		H1'21	/ H1'20	
		%	% excl. FX		%	% excl. FX
Net interest income	7,766	3.9	3.0	15,238	(0.3)	7.0
Net fee income	1,753	2.6	1.6	3,462	(3.7)	4.1
Gains (losses) on financial transactions ⁽¹⁾	171	(30.5)	(29.6)	418	(22.9)	(22.7)
Other operating income	121	11.2	7.6	230	—	—
Total income	9,811	2.9	1.9	19,347	0.5	7.9
Administrative expenses and amortizations	(4,247)	2.1	1.6	(8,404)	(4.8)	1.0
Net operating income	5,564	3.4	2.2	10,942	5.0	13.8
Net loan-loss provisions	(1,726)	(3.2)	(4.5)	(3,509)	(48.0)	(43.5)
Other gains (losses) and provisions	(463)	14.2	15.0	(868)	54.5	67.9
Profit before tax	3,375	5.8	4.4	6,565	111.5	127.9
Tax on profit	(1,057)	1.0	(1.2)	(2,105)	112.6	134.6
Profit from continuing operations	2,318	8.2	7.1	4,461	110.9	124.9
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	2,318	8.2	7.1	4,461	110.9	124.9
Non-controlling interests	(364)	18.6	18.1	(670)	75.5	82.4
Underlying attributable profit to the parent	1,954	6.4	5.3	3,790	118.8	134.6

(1) Includes exchange differences.

CORPORATE & INVESTMENT BANKING

EUR million

Underlying income statement	Q2'21	/ Q1'21		H1'21	/ H1'20	
		%	% excl. FX		%	% excl. FX
Net interest income	739	2.6	2.4	1,460	5.6	14.0
Net fee income	434	(6.9)	(7.4)	900	11.5	18.4
Gains (losses) on financial transactions ⁽¹⁾	101	(75.5)	(75.9)	512	24.9	49.6
Other operating income	9	(84.6)	(84.5)	66	(38.1)	(39.6)
Total income	1,283	(22.5)	(22.8)	2,938	8.6	17.9
Administrative expenses and amortizations	(543)	3.3	3.0	(1,069)	4.0	9.5
Net operating income	740	(34.5)	(34.9)	1,870	11.3	23.3
Net loan-loss provisions	(21)	(54.7)	(54.3)	(68)	(72.2)	(72.0)
Other gains (losses) and provisions	31	—	—	6	—	—
Profit before tax	750	(29.1)	(29.6)	1,808	29.9	46.6
Tax on profit	(215)	(32.3)	(33.0)	(534)	33.8	52.7
Profit from continuing operations	534	(27.8)	(28.1)	1,274	28.3	44.2
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	534	(27.8)	(28.1)	1,274	28.3	44.2
Non-controlling interests	(41)	12.2	9.5	(77)	18.8	35.3
Underlying attributable profit to the parent	494	(29.8)	(30.1)	1,197	29.0	44.8

(1) Includes exchange differences.

WEALTH MANAGEMENT & INSURANCE

EUR million

Underlying income statement	Q2'21	/ Q1'21		H1'21	/ H1'20	
		%	% excl. FX		%	% excl. FX
Net interest income	91	3.3	2.8	179	(11.2)	(4.7)
Net fee income	316	6.3	6.0	612	6.0	10.6
Gains (losses) on financial transactions ⁽¹⁾	23	(36.1)	(36.4)	59	42.4	55.2
Other operating income	89	11.0	10.4	170	(10.6)	(6.5)
Total income	519	3.5	3.1	1,021	0.9	6.2
Administrative expenses and amortizations	(227)	2.8	2.4	(447)	(0.4)	4.4
Net operating income	293	4.0	3.6	574	1.9	7.6
Net loan-loss provisions	(3)	(50.0)	(50.0)	(8)	(30.8)	(29.0)
Other gains (losses) and provisions	(1)	(52.9)	(53.7)	(5)	51.7	45.9
Profit before tax	288	5.7	5.3	561	2.4	8.2
Tax on profit	(70)	4.4	4.0	(137)	5.7	10.6
Profit from continuing operations	218	6.2	5.8	424	1.3	7.4
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	218	6.2	5.8	424	1.3	7.4
Non-controlling interests	(9)	(4.1)	(5.8)	(18)	(4.3)	3.1
Underlying attributable profit to the parent	210	6.7	6.3	406	1.6	7.6

(1) Includes exchange differences.

PAGONXT

EUR million

Underlying income statement	Q2'21	/ Q1'21		H1'21	/ H1'20	
		%	% excl. FX		%	% excl. FX
Net interest income	(1)	46.7	41.8	(2)	281.8	562.5
Net fee income	127	56.3	53.6	209	21.6	39.2
Gains (losses) on financial transactions ⁽¹⁾	—	—	—	1	(66.2)	(49.3)
Other operating income	(3)	(79.5)	(79.6)	(18)	—	—
Total income	123	83.7	80.1	189	7.9	23.4
Administrative expenses and amortizations	(162)	19.8	18.7	(298)	58.8	72.7
Net operating income	(40)	(42.2)	(41.9)	(108)	796.5	471.1
Net loan-loss provisions	(2)	(1.5)	(4.9)	(5)	(32.5)	(19.0)
Other gains (losses) and provisions	(3)	114.7	114.5	(5)	—	—
Profit before tax	(45)	(37.4)	(37.2)	(118)	557.2	375.1
Tax on profit	(10)	—	—	(10)	(6.8)	33.7
Profit from continuing operations	(56)	(22.9)	(22.7)	(128)	352.3	298.9
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	(56)	(22.9)	(22.7)	(128)	352.3	298.9
Non-controlling interests	—	(79.6)	(79.3)	1	16.5	16.6
Underlying attributable profit to the parent	(56)	(22.5)	(22.4)	(127)	357.9	303.0

(1) Includes exchange differences.

ALTERNATIVE PERFORMANCE MEASURES (APMs)

In addition to the financial information prepared under IFRS, this consolidated directors' report contains financial measures that constitute alternative performance measures ('APMs') to comply with the guidelines on alternative performance measures issued by the European Securities and Markets Authority on 5 October 2015 and non-IFRS measures.

The financial measures contained in this consolidated directors' report that qualify as APMs and non-IFRS measures have been calculated using the financial information from Santander but are not defined or detailed in the applicable financial information framework or under IFRS and have neither been audited nor reviewed by our auditors.

We use these APMs and non-IFRS measures when planning, monitoring and evaluating our performance. We consider these APMs and non-IFRS financial measures to be useful metrics for management and investors to facilitate operating performance comparisons from period to period. While we believe that these APMs and non-IFRS financial measures are useful in evaluating our business, this information should be considered as supplemental in nature and is not meant as a substitute of IFRS measures. In addition, the way in which Santander defines and calculates these

APMs and non-IFRS measures may differ from the calculations and by other companies with similar measures and, therefore, may not be comparable.

The APMs and non-IFRS measures we use in this document can be categorised as follows:

Underlying results

In addition to IFRS results measures, we present some results measures which are non-IFRS measures and which we refer to as underlying measures. These underlying measures allow in our view a better year-on-year comparability as they exclude items outside the ordinary performance of our business which are grouped in the non-IFRS line net capital gains and provisions and are further detailed on page 11 of this report.

In addition, in the section "Financial information by segments", relative to the primary and secondary segments, results are presented on an underlying basis in accordance with IFRS 8, and reconciled on an aggregate basis to our IFRS consolidated results to the consolidated financial statements, which are set out below.

Reconciliation of underlying results to statutory results

EUR million

	January-June 2021		
	Underlying results	Adjustments	Statutory results
Net interest income	16,196	—	16,196
Net fee income	5,169	—	5,169
Gains (losses) on financial transactions ⁽¹⁾	894	—	894
Other operating income	436	—	436
Total income	22,695	—	22,695
Administrative expenses and amortizations	(10,377)	—	(10,377)
Net operating income	12,318	—	12,318
Net loan-loss provisions	(3,753)	—	(3,753)
Other gains (losses) and provisions	(937)	(714)	(1,651)
Profit before tax	7,628	(714)	6,914
Tax on profit	(2,658)	184	(2,474)
Profit from continuing operations	4,970	(530)	4,440
Net profit from discontinued operations	—	—	—
Consolidated profit	4,970	(530)	4,440
Non-controlling interests	(765)	—	(765)
Attributable profit to the parent	4,205	(530)	3,675

(1) Includes exchange differences.

Explanation of adjustments:

Restructuring costs for a net impact of -EUR 530 million: -EUR 293 million in the UK, -EUR 165 million in Portugal, -EUR 16 million in Digital Consumer Bank and -EUR 56 million in the Corporate Centre.

Reconciliation of underlying results to statutory results

EUR million

	January-June 2020		
	Underlying results	Adjustments	Statutory results
Net interest income	16,202	—	16,202
Net fee income	5,136	—	5,136
Gains (losses) on financial transactions ⁽¹⁾	1,073	—	1,073
Other operating income	107	(250)	(143)
Total income	22,518	(250)	22,268
Administrative expenses and amortizations	(10,653)	(54)	(10,707)
Net operating income	11,865	(304)	11,561
Net loan-loss provisions	(7,027)	—	(7,027)
Other gains (losses) and provisions	(997)	(9,947)	(10,944)
Profit before tax	3,841	(10,251)	(6,410)
Tax on profit	(1,468)	(2,460)	(3,928)
Profit from continuing operations	2,373	(12,711)	(10,338)
Net profit from discontinued operations	—	—	—
Consolidated profit	2,373	(12,711)	(10,338)
Non-controlling interests	(465)	5	(460)
Attributable profit to the parent	1,908	(12,706)	(10,798)

(1) Includes exchange differences.

Explanation of adjustments:

Adjustment to the valuation of goodwill of EUR -10,100 million, adjustment has been made to deferred tax assets of the Spanish consolidated fiscal group of EUR -2,500 million and restructuring costs and other for a net impact of EUR -106 million.

Profitability and efficiency ratios

The purpose of the profitability and efficiency ratios is to measure the ratio of profit to capital, to tangible capital, to assets and to risk weighted assets, while the efficiency ratio measures how much general administrative expenses (personnel and other) and amortization costs are needed to generate revenue.

Additionally, the goodwill adjustments have been removed from the RoTE numerator as, since they are not considered in the denominator, we believe this calculation is more correct.

Ratio	Formula	Relevance of the metric
RoE (Return on equity)	$\frac{\text{Attributable profit to the parent}}{\text{Average stockholders' equity}^1 \text{ (excl. minority interests)}}$	This ratio measures the return that shareholders obtain on the funds invested in the Bank and as such measures the company's ability to pay shareholders.
Underlying RoE	$\frac{\text{Underlying attributable profit to the parent}}{\text{Average stockholders' equity}^1 \text{ (excl. minority interests)}}$	This ratio measures the return that shareholders obtain on the funds invested in the Bank excluding items outside the ordinary performance of our business.
RoTE (Return on tangible equity)	$\frac{\text{Attributable profit to the parent}^2}{\text{Average stockholders' equity}^1 \text{ (excl. minority interests)} - \text{intangible assets}}$	This indicator is used to evaluate the profitability of the company as a percentage of its tangible equity. It's measured as the return that shareholders receive as a percentage of the funds invested in the entity less intangible assets.
Underlying RoTE	$\frac{\text{Underlying attributable profit to the parent}}{\text{Average stockholders' equity}^1 \text{ (excl. minority interests)} - \text{intangible assets}}$	This indicator measures the profitability of the tangible equity of a company arising from ordinary activities, i.e. excluding items outside the ordinary performance of our business.
RoA (Return on assets)	$\frac{\text{Consolidated profit}}{\text{Average total assets}}$	This metric measures the profitability of a company as a percentage of its total assets. It is an indicator that reflects the efficiency of the company's total funds in generating profit.
Underlying RoA	$\frac{\text{Underlying consolidated profit}}{\text{Average total assets}}$	This metric measures the profitability of a company as a percentage of its total assets, excluding non-recurring results. It is an indicator that reflects the efficiency of the company's total funds in generating underlying profit.
RoRWA (Return on risk weighted assets)	$\frac{\text{Consolidated profit}}{\text{Average risk weighted assets}}$	The return adjusted for risk is a derivative of the RoA metric. The difference is that RoRWA measures profit in relation to the bank's risk weighted assets.
Underlying RoRWA	$\frac{\text{Underlying consolidated profit}}{\text{Average risk weighted assets}}$	This relates the consolidated profit (excluding items outside the ordinary performance of our business) to the bank's risk weighted assets.
Efficiency ratio	$\frac{\text{Operating expenses}^3}{\text{Total income}}$	One of the most commonly used indicators when comparing productivity of different financial entities. It measures the amount of funds used to generate the bank's total income.

1. Stockholders' equity = Capital and Reserves + Accumulated other comprehensive income + Attributable profit to the parent + Dividends.

2. Excluding the adjustment to the valuation of goodwill.

3. Operating expenses = Administrative expenses + amortisations.

Profitability and efficiency ^{(1) (2) (3) (4)}	Q2'21	Q1'21	H1'21	H1'20
RoE	9.91%	9.80%	9.53%	-9.28%
Attributable profit to the parent	8,268	8,022	7,880	-8,890
Average stockholders' equity (excluding minority interests)	83,429	81,858	82,669	95,803
Underlying RoE	9.91%	10.44%	10.17%	3.98%
Attributable profit to the parent	8,268	8,022	7,880	-8,890
(-) Net capital gains and provisions	—	-530	-530	-12,706
Underlying attributable profit to the parent	8,268	8,552	8,410	3,816
Average stockholders' equity (excluding minority interests)	83,429	81,858	82,669	95,803
RoTE	12.29%	12.16%	11.82%	1.73%
Attributable profit to the parent	8,268	8,022	7,880	-8,890
(+) Goodwill impairment	—	—	—	-10,100
Attributable profit to the parent (excluding goodwill impairment)	8,268	8,022	7,880	1,210
Average stockholders' equity (excluding minority interests)	83,429	81,858	82,669	95,803
(-) Average intangible assets	16,131	15,892	16,015	25,712
Average stockholders' equity (excl. minority interests) - intangible assets	67,298	65,965	66,654	70,091
Underlying RoTE	12.29%	12.96%	12.62%	5.44%
Attributable profit to the parent	8,268	8,022	7,880	-8,890
(-) Net capital gains and provisions	—	-530	-530	-12,706
Underlying attributable profit to the parent	8,268	8,552	8,410	3,816
Average stockholders' equity (excl. minority interests) - intangible assets	67,298	65,965	66,654	70,091
RoA	0.64%	0.62%	0.61%	-0.51%
Consolidated profit	9,924	9,426	9,410	-7,965
Average total assets	1,557,364	1,526,899	1,539,167	1,548,851
Underlying RoA	0.64%	0.65%	0.65%	0.31%
Consolidated profit	9,924	9,426	9,410	-7,965
(-) Net capital gains and provisions	—	-530	-530	-12,711
Underlying consolidated profit	9,924	9,956	9,940	4,746
Average total assets	1,557,364	1,526,899	1,539,167	1,548,851
RoRWA	1.74%	1.67%	1.66%	-1.34%
Consolidated profit	9,924	9,426	9,410	-7,965
Average risk weighted assets	570,828	563,776	567,231	595,166
Underlying RoRWA	1.74%	1.77%	1.75%	0.80%
Consolidated profit	9,924	9,426	9,410	-7,965
(-) Net capital gains and provisions	—	-530	-530	-12,711
Underlying consolidated profit	9,924	9,956	9,940	4,746
Average risk weighted assets	570,828	563,776	567,231	595,166
Efficiency ratio	46.5%	44.9%	45.7%	47.3%
Underlying operating expenses	5,259	5,118	10,377	10,653
Operating expenses	5,259	5,118	10,377	10,707
Net capital gains and provisions impact in operating expenses	—	—	—	-54
Underlying total income	11,305	11,390	22,695	22,518
Total income	11,305	11,390	22,695	22,268
Net capital gains and provisions impact in total income	—	—	—	250

(1) Averages included in the RoE, RoTE, RoA and RoRWA denominators are calculated using 4 months' worth of data in the case of quarterly figures (from March to June in Q2 and December to March in Q1) and 7 months in the case of annual figures (from December to June).

(2) For periods less than one year, and if there are results in the net capital gains and provisions line, the profit used to calculate RoE and RoTE is the annualized underlying attributable profit to which said results are added without annualizing.

(3) For periods less than one year, and if there are results in the net capital gains and provisions line, the profit used to calculate RoA and RoRWA is the annualized underlying consolidated profit, to which said results are added without annualizing.

(4) The risk weighted assets included in the denominator of the RoRWA metric are calculated in line with the criteria laid out in the CRR (Capital Requirements Regulation).

Efficiency ratio

	H1'21			H1'20		
	%	Total income	Operating expenses	%	Total income	Operating expenses
Europe	51.2	8,091	4,144	59.2	7,115	4,213
Spain	49.4	3,478	1,719	54.9	3,350	1,841
United Kingdom	56.0	2,322	1,299	69.4	1,898	1,317
Portugal	39.6	730	289	44.3	668	296
Poland	41.5	774	321	42.4	742	315
North America	42.7	5,487	2,343	41.6	5,651	2,353
US	41.0	3,737	1,531	42.5	3,730	1,585
Mexico	43.1	1,743	752	39.5	1,912	756
South America	34.4	7,311	2,518	35.3	7,864	2,773
Brazil	28.9	5,203	1,502	31.8	5,788	1,839
Chile	38.4	1,252	481	40.3	1,137	458
Argentina	62.0	563	349	54.0	628	339
Digital Consumer Bank	46.6	2,606	1,214	45.8	2,505	1,148

Underlying RoTE

	H1'21			H1'20		
	%	Underlying attributable profit to the parent	Average stockholders' equity (excl. minority interests) - intangible assets	%	Underlying attributable profit to the parent	Average stockholders' equity (excl. minority interests) - intangible assets
Europe	7.24	2,851	39,394	2.70	1,058	39,125
Spain	5.21	780	14,979	3.24	501	15,484
United Kingdom	10.65	1,387	13,024	1.06	142	13,442
Portugal	11.92	478	4,011	8.52	319	3,751
Poland	3.33	108	3,260	4.63	147	3,168
North America	14.64	3,255	22,229	5.83	1,231	21,118
US	15.89	2,581	16,241	2.68	422	15,763
Mexico	13.32	774	5,809	15.46	811	5,247
South America	20.29	3,289	16,213	16.40	2,764	16,851
Brazil	22.12	2,361	10,672	17.12	1,990	11,625
Chile	18.63	642	3,448	11.23	366	3,261
Argentina	23.95	215	899	28.76	218	758
Digital Consumer Bank	12.04	1,138	9,451	10.54	1,014	9,615

Credit risk indicators

The credit risk indicators measure the quality of the credit portfolio and the percentage of non-performing loans covered by provisions.

Ratio	Formula	Relevance of the metric
NPL ratio (Non-performing loans)	$\frac{\text{Credit impaired loans and advances to customers, customer guarantees and customer commitments granted}}{\text{Total Risk}^1}$	The NPL ratio is an important variable regarding financial institutions' activity since it gives an indication of the level of risk the entities are exposed to. It calculates risks that are, in accounting terms, declared to be credit impaired as a percentage of the total outstanding amount of customer credit and contingent liabilities.
Total coverage ratio	$\frac{\text{Total allowances to cover impairment losses on loans and advances to customers, customer guarantees and customer commitments granted}}{\text{Credit impaired loans and advances to customers, customer guarantees and customer commitments granted}}$	The total coverage ratio is a fundamental metric in the financial sector. It reflects the level of provisions as a percentage of the credit impaired assets. Therefore it is a good indicator of the entity's solvency against client defaults both present and future.
Cost of credit	$\frac{\text{Allowances for loan-loss provisions over the last 12 months}}{\text{Average loans and advances to customers over the last 12 months}}$	This ratio quantifies loan-loss provisions arising from credit risk over a defined period of time for a given loan portfolio. As such, it acts as an indicator of credit quality.

(1) Total risk = Total loans and advances and guarantees to customers (including credit impaired assets) + contingent liabilities granted that are credit impaired

Credit risk (I)	Jun-21	Mar-21	Jun-21	Jun-20
NPL ratio	3.22%	3.20%	3.22%	3.26%
Credit impaired loans and advances to customers, customer guarantees and customer commitments granted	33,266	32,473	33,266	32,782
<i>Gross loans and advances to customers registered under the headings "financial assets measured at amortized cost" and "financial assets designated at fair value through profit or loss" classified in stage 3 (OCI), excluding POCl (Purchased or Originated Credit Impaired) that is currently impaired</i>	31,705	31,139	31,705	31,115
<i>POCl exposure (Purchased or Originated Credit Impaired) that is currently impaired</i>	431	459	431	622
<i>Customer guarantees and customer commitments granted classified in stage 3</i>	1,122	866	1,122	1,029
<i>Doubtful exposure of loans and advances to customers at fair value through profit or loss</i>	8	9	8	16
Total risk	1,032,084	1,014,552	1,032,084	1,006,796
<i>Impaired and non-impaired gross loans and advances to customers</i>	<i>978,096</i>	<i>963,163</i>	<i>978,096</i>	<i>957,778</i>
<i>Impaired and non-impaired customer guarantees and customer commitments granted</i>	<i>53,988</i>	<i>51,389</i>	<i>53,988</i>	<i>49,018</i>

Credit risk (II)

	Jun-21	Mar-21	Jun-21	Jun-20
Total coverage ratio	73%	74%	73%	72%
Total allowances to cover impairment losses on loans and advances to customers, customer guarantees and customer commitments granted	24,239	24,034	24,239	23,635
<i>Total allowances to cover impairment losses on loans and advances to customers measured at amortised cost and designated at fair value through OCI</i>	23,577	23,404	23,577	22,973
<i>Total allowances to cover impairment losses on customer guarantees and customer commitments granted</i>	662	630	662	662
Credit impaired loans and advances to customers, customer guarantees and customer commitments granted	33,266	32,473	33,266	32,782
<i>Gross loans and advances to customers registered under the headings "financial assets measured at amortized cost" and "financial assets designated at fair value through profit or loss" classified in stage 3 (OCI), excluding POCl (Purchased or Originated Credit Impaired) that is currently impaired</i>	31,705	31,139	31,705	31,115
<i>POCl exposure (Purchased or Originated Credit Impaired) that is currently impaired</i>	431	459	431	622
<i>Customer guarantees and customer commitments granted classified in stage 3</i>	1,122	866	1,122	1,029
<i>Doubtful exposure of loans and advances to customers at fair value through profit or loss</i>	8	9	8	16
Cost of credit	0.94%	1.08%	0.94%	1.26%
Underlying allowances for loan-loss provisions over the last 12 months	8,899	10,257	8,899	12,035
Average loans and advances to customers over the last 12 months	948,351	949,230	948,351	953,470

NPL ratio

	H1'21			H1'20		
	%	Credit impaired loans and advances to customers, customer guarantees and customer commitments granted	Total risk	%	Credit impaired loans and advances to customers, customer guarantees and customer commitments granted	Total risk
Europe	3.30	20,804	629,681	3.41	21,058	618,379
Spain	6.22	13,742	220,929	6.55	14,729	224,902
United Kingdom	1.30	3,424	263,318	1.10	2,767	251,376
Portugal	3.71	1,539	41,517	4.43	1,762	39,751
Poland	4.58	1,496	32,675	4.57	1,489	32,602
North America	2.28	3,149	137,802	1.73	2,487	143,833
US	2.00	2,043	102,175	1.49	1,648	110,324
Mexico	3.10	1,106	35,627	2.50	839	33,500
South America	4.36	6,215	142,500	4.74	5,964	125,946
Brazil	4.55	3,920	86,157	5.07	3,647	71,915
Chile	4.57	1,985	43,472	4.99	2,056	41,228
Argentina	3.34	158	4,728	3.15	157	4,995
Digital Consumer Bank	2.18	2,521	115,838	2.31	2,645	114,266

Total coverage ratio

	H1'21			H1'20		
	%	Total allowances to cover impairment losses on loans and advances to customers, customer guarantees and customer commitments granted	Credit impaired loans and advances to customers, customer guarantees and customer commitments granted	%	Total allowances to cover impairment losses on loans and advances to customers, customer guarantees and customer commitments granted	Credit impaired loans and advances to customers, customer guarantees and customer commitments granted
Europe	48.4	10,061	20,804	46.5	9,797	21,058
Spain	46.0	6,323	13,742	43.3	6,382	14,729
United Kingdom	37.4	1,280	3,424	42.8	1,184	2,767
Portugal	73.0	1,123	1,539	60.9	1,072	1,762
Poland	72.4	1,084	1,496	69.0	1,028	1,489
North America	152.3	4,796	3,149	206.5	5,135	2,487
US	185.7	3,794	2,043	253.1	4,171	1,648
Mexico	90.6	1,002	1,106	114.9	963	839
South America	98.1	6,098	6,215	93.0	5,544	5,964
Brazil	112.3	4,403	3,920	110.2	4,020	3,647
Chile	63.9	1,268	1,985	54.7	1,126	2,056
Argentina	167.6	265	158	165.7	261	157
Digital Consumer Bank	111.9	2,820	2,521	108.0	2,856	2,645

Cost of credit

	H1'21			H1'20		
	%	Underlying allowances for loan-loss provisions over the last 12 months	Average loans and advances to customers over the last 12 months	%	Underlying allowances for loan-loss provisions over the last 12 months	Average loans and advances to customers over the last 12 months
Europe	0.49	2,865	581,334	0.41	2,364	570,284
Spain	1.00	2,000	199,237	0.68	1,327	195,377
United Kingdom	0.09	208	243,289	0.22	557	256,161
Portugal	0.41	158	39,035	0.30	109	36,869
Poland	0.88	259	29,529	0.96	294	30,463
North America	1.67	2,136	127,577	3.21	4,427	137,819
US	1.34	1,289	96,047	3.30	3,418	103,580
Mexico	2.74	847	30,929	2.95	1,009	34,254
South America	2.51	2,981	118,697	3.49	4,365	125,015
Brazil	3.51	2,331	66,377	4.67	3,474	74,417
Chile	1.07	430	40,092	1.46	582	39,773
Argentina	3.94	142	3,614	5.67	225	3,958
Digital Consumer Bank	0.64	735	114,798	0.74	844	114,330

Other indicators

The market capitalization indicator provides information on the volume of tangible equity per share. The loan-to-deposit ratio (LTD) identifies the relationship between net customer loans and advances and customer deposits, assessing the proportion of loans and advances granted by the Group that are funded by customer deposits.

The Group also uses gross customer loan magnitudes excluding reverse repurchase agreements (repos) and customer deposits excluding repos. In order to analyze the evolution of the traditional commercial banking business of granting loans and capturing deposits, repos and reverse repos are excluded, as they are mainly treasury business products and highly volatile.

Ratio	Formula	Relevance of the metric
TNAV per share (Tangible equity net asset value per share)	$\frac{\text{Tangible book value}^1}{\text{Number of shares excluding treasury stock}}$	This is a very commonly used ratio used to measure the company's accounting value per share having deducted the intangible assets. It is useful in evaluating the amount each shareholder would receive if the company were to enter into liquidation and had to sell all the company's tangible assets.
Price / tangible book value per share (X)	$\frac{\text{Share price}}{\text{TNAV per share}}$	This is one of the most commonly used ratios by market participants for the valuation of listed companies both in absolute terms and relative to other entities. This ratio measures the relationship between the price paid for a company and its accounting equity value.
LTD ratio (Loan-to-deposit)	$\frac{\text{Net loans and advances to customers}}{\text{Customer deposits}}$	This is an indicator of the bank's liquidity. It measures the total (net) loans and advances to customers as a percentage of customer deposits.
Loans and advances (excl. reverse repos)	Gross loans and advances to customers excluding reverse repos	In order to aid analysis of the commercial banking activity, reverse repos are excluded as they are highly volatile treasury products.
Deposits (excl. repos)	Customer deposits excluding repos	In order to aid analysis of the commercial banking activity, repos are excluded as they are highly volatile treasury products.
PAT + After tax fees paid to SAN (in Wealth Management & Insurance)	Net profit + fees paid from Santander Asset Management and Santander Insurance to Santander, net of taxes, excluding Private Banking customers	Metric to assess Wealth Management & Insurance's total contribution to Grupo Santander profit.

(1) Tangible book value = Stockholders' equity - intangible assets

Others	Jun-21	Mar-21	Jun-21	Jun-20
TNAV (tangible book value) per share ⁽²⁾	3.98	3.84	3.98	3.83
Tangible book value	68,917	66,476	68,917	66,316
Number of shares excl. treasury stock (million) ⁽²⁾	17,306	17,311	17,306	17,315
Price / Tangible book value per share (X)	0.81	0.75	0.81	0.54
Share price (euros) ⁽²⁾	3.220	2.897	3.220	2.084
TNAV (tangible book value) per share ⁽²⁾	3.98	3.84	3.98	3.83
Loan-to-deposit ratio	107%	106%	107%	110%
Net loans and advances to customers	954,518	939,760	954,518	934,796
Customer deposits	894,127	882,854	894,127	846,832
	Q2'21	Q1'21	H1'21	H1'20
PAT + After tax fees paid to SAN (in WM&I) (Constant EUR million)	558.42	525.25	1,083.67	995.80
Profit after tax	218	206	424	395
Net fee income net of tax	340	319	660	601

(2) June 2020 data adjusted for the capital increase in December 2020.

Local currency measures

We make use of certain financial measures in local currency to help in the assessment of our ongoing operating performance. These non-IFRS financial measures include the results of operations of our subsidiary banks located outside the Eurozone, excluding the impact of foreign exchange. Because changes in foreign currency exchange rates do not have an operating impact on the results, we believe that evaluating their performance on a local currency basis provides an additional and meaningful assessment of performance to both management and the company's investors.

The Group presents, at both the Group level as well as the business unit level, the **real changes in the income statement as well as the changes excluding the exchange rate effect**, as it considers the latter facilitates analysis, since it enables businesses movements to be identified without taking into account the impact of converting each local currency into euros.

Said variations, excluding the impact of exchange rate movements, are calculated by converting P&L lines for the different business units comprising the Group into our presentation currency, the euro, applying the average exchange rate for the first half of 2021 to all periods contemplated in the analysis.

The Group presents, at both the Group level as well as the business unit level, the **changes in euros in the balance sheet as well as the changes excluding the exchange rate effect** for loans and advances to customers excluding reverse repos and customer funds (which comprise deposits and mutual funds) excluding repos. As with the income statement, the reason is to facilitate analysis by isolating the changes in the balance sheet that are not caused by converting each local currency into euros.

These changes excluding the impact of exchange rate movements are calculated by converting loans and advances to customers excluding reverse repos and customer funds excluding repos, into our presentation currency, the euro, applying the closing exchange rate on the last working day of June 2021 to all periods contemplated in the analysis.

The average and period-end exchange rates for the main currencies in which the Group operates are set out in the table below.

Exchange rates: 1 euro / currency parity

	Average (income statement)		Period-end (balance sheet)		
	H1'21	H1'20	Jun-21	Mar-21	Jun-20
US dollar	1.205	1.102	1.186	1.174	1.126
Pound sterling	0.868	0.874	0.858	0.852	0.910
Brazilian real	6.480	5.345	5.941	6.629	6.161
Mexican peso	24.316	23.604	23.587	23.981	25.959
Chilean peso	868.037	895.071	863.161	843.574	922.992
Argentine peso	110.020	70.957	113.539	108.004	79.304
Polish zloty	4.537	4.409	4.519	4.634	4.444

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

- CONSOLIDATED BALANCE SHEET
- CONSOLIDATED INCOME STATEMENT

NOTE: The following financial information for the first six months of 2021 and 2020 (attached herewith) corresponds to the condensed consolidated financial statements prepared in accordance with the International Financial Reporting Standards.

Interim condensed consolidated balance sheet

EUR million

ASSETS	Jun-21	Dec-20	Jun-20
Cash, cash balances at central banks and other deposits on demand	183,091	153,839	138,266
Financial assets held for trading	102,792	114,945	124,145
Non-trading financial assets mandatorily at fair value through profit or loss	4,838	4,486	5,902
Financial assets designated at fair value through profit or loss	56,486	48,717	91,368
Financial assets at fair value through other comprehensive income	114,505	120,953	122,560
Financial assets at amortized cost	1,003,417	958,378	976,298
Hedging derivatives	5,430	8,325	11,999
Changes in the fair value of hedged items in portfolio hedges of interest risk	1,434	1,980	2,387
Investments	7,562	7,622	8,668
Joint ventures entities	1,620	1,492	1,249
Associated entities	5,942	6,130	7,419
Assets under insurance or reinsurance contracts	276	261	307
Tangible assets	32,678	32,735	33,271
Property, plant and equipment	31,712	31,772	32,335
For own-use	12,921	13,213	13,527
Leased out under an operating lease	18,791	18,559	18,808
Investment property	966	963	936
Of which : Leased out under an operating lease	863	793	799
Intangible assets	16,454	15,908	15,946
Goodwill	12,854	12,471	12,595
Other intangible assets	3,600	3,437	3,351
Tax assets	24,707	24,586	26,218
Current tax assets	4,956	5,340	5,639
Deferred tax assets	19,751	19,246	20,579
Other assets	9,889	11,070	10,627
Insurance contracts linked to pensions	162	174	186
Inventories	5	5	6
Other	9,722	10,891	10,435
Non-current assets held for sale	5,077	4,445	4,919
TOTAL ASSETS	1,568,636	1,508,250	1,572,881

Interim condensed consolidated balance sheet

EUR million

	Jun-21	Dec-20	Jun-20
LIABILITIES			
Financial liabilities held for trading	68,982	81,167	97,700
Financial liabilities designated at fair value through profit or loss	54,131	48,038	59,619
Financial liabilities at amortized cost	1,310,433	1,248,188	1,283,581
Hedging derivatives	6,573	6,869	6,583
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	427	286	255
Liabilities under insurance or reinsurance contracts	1,014	910	2,246
Provisions	10,400	10,852	11,948
Pensions and other post-retirement obligations	3,454	3,976	5,516
Other long term employee benefits	1,407	1,751	1,196
Taxes and other legal contingencies	2,169	2,200	2,341
Contingent liabilities and commitments	661	700	666
Other provisions	2,709	2,225	2,229
Tax liabilities	9,154	8,282	8,844
Current tax liabilities	2,711	2,349	2,521
Deferred tax liabilities	6,443	5,933	6,323
Other liabilities	11,777	12,336	10,246
Liabilities associated with non-current assets held for sale	—	—	—
TOTAL LIABILITIES	1,472,891	1,416,928	1,481,022
EQUITY			
Shareholders' equity	117,552	114,620	112,899
Capital	8,670	8,670	8,309
Called up paid capital	8,670	8,670	8,309
Unpaid capital which has been called up	—	—	—
Share premium	47,979	52,013	52,446
Equity instruments issued other than capital	641	627	611
Equity component of the compound financial instrument	—	—	—
Other equity instruments issued	641	627	611
Other equity	165	163	172
Accumulated retained earnings	60,280	65,583	67,594
Revaluation reserves	—	—	—
Other reserves	(3,762)	(3,596)	(3,708)
(-) Own shares	(96)	(69)	(65)
Profit attributable to shareholders of the parent	3,675	(8,771)	(10,798)
(-) Interim dividends	—	—	(1,662)
Other comprehensive income (loss)	(32,181)	(33,144)	(30,637)
Items not reclassified to profit or loss	(4,962)	(5,328)	(5,010)
Items that may be reclassified to profit or loss	(27,219)	(27,816)	(25,627)
Non-controlling interest	10,374	9,846	9,597
Other comprehensive income	(1,817)	(1,800)	(1,697)
Other items	12,191	11,646	11,294
TOTAL EQUITY	95,745	91,322	91,859
TOTAL LIABILITIES AND EQUITY	1,568,636	1,508,250	1,572,881
MEMORANDUM ITEMS: OFF BALANCE SHEET AMOUNTS			
Loan commitments granted	247,154	241,230	228,767
Financial guarantees granted	12,121	12,377	12,166
Other commitments granted	81,277	64,538	78,654

Interim condensed consolidated income statement

EUR million

	H1'21	H1'20
Interest income	21,933	24,499
Financial assets at fair value through other comprehensive income	1,292	1,973
Financial assets at amortized cost	19,149	21,255
Other interest income	1,492	1,271
Interest expense	(5,737)	(8,297)
Interest income/ (charges)	16,196	16,202
Dividend income	309	265
Income from companies accounted for using the equity method	163	(135)
Commission income	6,676	6,716
Commission expense	(1,507)	(1,580)
Gain or losses on financial assets and liabilities not measured at fair value through profit or loss, net	344	688
Financial assets at amortized cost	77	(27)
Other financial assets and liabilities	267	715
Gain or losses on financial assets and liabilities held for trading, net	347	1,848
Reclassification of financial assets at fair value through other comprehensive income	—	—
Reclassification of financial assets from amortized cost	—	—
Other gains (losses)	347	1,848
Gains or losses on non-trading financial assets and liabilities mandatorily at fair value	10	27
Reclassification of financial assets at fair value through other comprehensive income	—	—
Reclassification of financial assets from amortized cost	—	—
Other gains (losses)	10	27
Gain or losses on financial assets and liabilities measured at fair value through profit or loss, net	221	(129)
Gain or losses from hedge accounting, net	57	(26)
Exchange differences, net	(85)	(1,335)
Other operating income	1,167	765
Other operating expenses	(1,289)	(1,122)
Income from assets under insurance and reinsurance contracts	769	715
Expenses from liabilities under insurance and reinsurance contracts	(683)	(631)
Total income	22,695	22,268
Administrative expenses	(8,996)	(9,288)
Staff costs	(5,438)	(5,470)
Other general and administrative expenses	(3,558)	(3,818)
Depreciation and amortization	(1,381)	(1,419)
Provisions or reversal of provisions, net	(1,490)	(614)
Impairment or reversal of impairment of financial assets not measured at fair value	(3,804)	(7,030)
Financial assets at fair value through other comprehensive income	(19)	(3)
Financial assets at amortized cost	(3,785)	(7,027)
Impairment of investments in subsidiaries, joint ventures and associates, net	—	—
Impairment on non-financial assets, net	(130)	(10,241)
Tangible assets	(125)	(93)
Intangible assets	(3)	(10,146)
Others	(2)	(2)
Gain or losses on non financial assets and investments, net	52	27
Negative goodwill recognized in results	—	6
Gains or losses on non-current assets held for sale not classified as discontinued operations	(32)	(119)
Operating profit/(loss) before tax	6,914	(6,410)
Tax expense or income from continuing operations	(2,474)	(3,928)
Profit/(loss) for the period from continuing operations	4,440	(10,338)
Profit/(loss) after tax from discontinued operations	—	—
Profit/(loss) for the period	4,440	(10,338)
Profit attributable to non-controlling interests	765	460
Profit/(loss) attributable to the parent	3,675	(10,798)
Earnings/(losses) per share		
Basic	0.20	(0.64)
Diluted	0.20	(0.64)

GLOSSARY

- **Active customer:** Those customers who comply with the minimum balance, income and/or transactionality requirements as defined according to the business area
- **ADR:** American Depositary Receipt
- **ALCO:** Assets and Liabilities Committee
- **APM:** Alternative Performance Measures
- **bps:** basis points
- **CDI:** CREST Depository Interest
- **CET1:** Core equity tier 1
- **CIB:** Corporate & Investment Banking
- **CNMV:** Spanish National Securities Market Commission (*Comisión Nacional del Mercado de Valores*)
- **DCB:** Digital Consumer Bank
- **DGF:** Deposit guarantee fund
- **Digital customers:** Every consumer of a commercial bank's services who has logged on to their personal online banking and/or mobile banking in the last 30 days
- **EBA:** European Banking Authority
- **ECB:** European Central Bank
- **EPS:** Earnings per share
- **ESG:** Environmental, Social and Governance
- **ESMA:** European Securities and Markets Authority
- **Fed:** Federal Reserve
- **FX:** Foreign Exchange
- **GDP:** Gross Domestic Product
- **GPTW:** Great Place to Work
- **ICO:** *Instituto de Crédito Oficial* (Official Credit Institution)
- **IFRS 9:** International Financial Reporting Standard 9, regarding financial instruments
- **IMF:** International Monetary Fund
- **Loyal customers:** Active customers who receive most of their financial services from the Group according to the commercial segment that they belong to. Various engaged customer levels have been defined taking profitability into account.
- **LCR:** Liquidity Coverage Ratio
- **NPLs:** Non-performing loans
- **NPS:** Net Promoter Score
- **P/E ratio:** Price / earnings per share ratio
- **PBT:** Profit before tax
- **POS:** Point of Sale
- **pp:** percentage points
- **PPI:** Payment protection insurance
- **Repos:** Repurchase agreements
- **RoA:** Return on assets
- **RoE:** Return on equity
- **RoRWA:** Return on risk weighted assets
- **RoTE:** Return on tangible equity
- **RWAs:** Risk weighted assets
- **SAM:** Santander Asset Management
- **SBNA:** Santander Bank N.A.
- **SCF:** Santander Consumer Finance
- **SCIB:** Santander Corporate & Investment Banking
- **SC USA:** Santander Consumer USA
- **SEC:** Securities and Exchanges Commission
- **SGP:** Santander Global Platform
- **SH USA:** Santander Holdings USA, Inc.
- **SMEs:** Small and medium enterprises
- **SPF:** Simple, Personal and Fair
- **SRF:** Single resolution fund
- **T1:** Tier 1
- **TLAC:** The total loss-absorption capacity requirement which is required to be met under the CRD V package
- **TLTRO:** Targeted longer-term refinancing operations
- **TNAV:** Tangible net asset value
- **VaR:** Value at Risk
- **WM&I:** Wealth Management & Insurance

IMPORTANT INFORMATION

Non-IFRS and alternative performance measures

This report contains, in addition to the financial information prepared in accordance with International Financial Reporting Standards ("IFRS") and derived from our financial statements, alternative performance measures ("APMs") as defined in the Guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority (ESMA) on 5 October 2015 (ESMA/2015/1415en) and other non-IFRS measures ("Non-IFRS Measures"). These financial measures that qualify as APMs and non-IFRS measures have been calculated with information from Santander Group; however those financial measures are not defined or detailed in the applicable financial reporting framework nor have been audited or reviewed by our auditors. We use these APMs and non-IFRS measures when planning, monitoring and evaluating our performance. We consider these APMs and non-IFRS measures to be useful metrics for our management and investors to compare operating performance between accounting periods, as these measures exclude items outside the ordinary course performance of our business, which are grouped in the "management adjustment" line and are further detailed in Section 3.2 of the Economic and Financial Review in our Directors' Report included in our Annual Report on Form 20-F for the year ended 31 December 2020. Nonetheless, these APMs and non-IFRS measures should be considered supplemental information to, and are not meant to substitute IFRS measures. Furthermore, companies in our industry and others may calculate or use APMs and non-IFRS measures differently, thus making them less useful for comparison purposes. For further details on APMs and Non-IFRS Measures, including its definition or a reconciliation between any applicable management indicators and the financial data presented in the consolidated financial statements prepared under IFRS, please see the 2020 Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission on 26 February 2021, as well as the section "Alternative performance measures" of the annex to this Banco Santander, S.A. ("Santander") Q2 2021 Financial Report, published as Inside Information on 28 July 2021. These documents are available on Santander's website (www.santander.com). Underlying measures, which are included in this report, are non-IFRS measures.

The businesses included in each of our geographic segments and the accounting principles under which their results are presented here may differ from the included businesses and local applicable accounting principles of our public subsidiaries in such geographies. Accordingly, the results of operations and trends shown for our geographic segments may differ materially from those of such subsidiaries.

Forward-looking statements

Banco Santander, S.A. ("Santander") advises that this report contains "forward-looking statements" as per the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These statements may be identified by words like "expect", "project", "anticipate", "should", "intend", "probability", "risk", "VaR", "RoRAC", "RoRWA", "TNAV", "target", "goal", "objective", "estimate", "future" and similar expressions. Found throughout this report, they include (but are not limited to) statements on our future business development, economic performance and shareholder remuneration policy. However, a number of risks, uncertainties and other important factors may cause actual developments and results to differ materially from our expectations. The following important factors, in addition to others discussed elsewhere in this report, could affect our future results and could cause materially different outcomes from those anticipated in forward-looking statements: (1) general economic or industry conditions of areas where we have significant operations or investments (such as a worse economic environment; higher volatility in the capital markets; inflation or deflation; changes in demographics, consumer spending, investment or saving habits; and the effects of the covid-19 pandemic in the global economy); (2) exposure to various market risks (particularly interest rate risk, foreign exchange rate risk, equity price risk and risks associated with the replacement of benchmark indices); (3) potential losses from early repayments on our loan and investment portfolio, declines in value of collateral securing our loan portfolio, and counterparty risk; (4) political stability in Spain, the United Kingdom, other European countries, Latin America and the US (5) changes in legislation, regulations, taxes, including regulatory capital and liquidity requirements, especially in view of the UK exit of the European Union and increased regulation in response to financial crisis; (6) our ability to integrate successfully our acquisitions and related challenges that result from the inherent diversion of management's focus and resources from other strategic opportunities and operational matters; and (7) changes in our access to liquidity and funding on acceptable terms, in particular if resulting from credit spreads shifts or downgrade in credit ratings for the entire group or significant subsidiaries.

Numerous factors could affect our future results and could cause those results deviating from those anticipated in the forward-looking statements. Other unknown or unpredictable factors could cause actual results to differ materially from those in the forward-looking statements.

Forward-looking statements speak only as of the date of this report and are informed by the knowledge, information and views available on such date. Santander is not required to update or revise any forward-looking statements, regardless of new information, future events or otherwise.

No offer

The information contained in this report is subject to, and must be read in conjunction with, all other publicly available information, including, where relevant any fuller disclosure document published by Santander. Any person at any time acquiring securities must do so only on the basis of such person's own judgment as to the merits or the suitability of the securities for its purpose and only on such information as is contained in such public information having taken all such professional or other advice as it considers necessary or appropriate in the circumstances and not in reliance on the information contained in this report. No investment activity should be

undertaken on the basis of the information contained in this report. In making this report available Santander gives no advice and makes no recommendation to buy, sell or otherwise deal in shares in Santander or in any other securities or investments whatsoever.

Neither this report nor any of the information contained therein constitutes an offer to sell or the solicitation of an offer to buy any securities. No offering of securities shall be made in the United States except pursuant to registration under the U.S. Securities Act of 1933, as amended, or an exemption therefrom. Nothing contained in this report is intended to constitute an invitation or inducement to engage in investment activity for the purposes of the prohibition on financial promotion in the U.K. Financial Services and Markets Act 2000.

Historical performance is not indicative of future results

Statements about historical performance or accretion must not be construed to indicate that future performance, share price or future (including earnings per share) in any future period will necessarily match or exceed those of any prior period. Nothing in this report should be taken as a profit forecast.

Third Party Information

In particular, regarding the data provided by third parties, neither Santander, nor any of its administrators, directors or employees, either explicitly or implicitly, guarantees that these contents are exact, accurate, comprehensive or complete, nor are they obliged to keep them updated, nor to correct them in the case that any deficiency, error or omission were to be detected. Moreover, in reproducing these contents in by any means, Santander may introduce any changes it deems suitable, may omit partially or completely any of the elements of this document, and in case of any deviation between such a version and this one, Santander assumes no liability for any discrepancy.

This document is a translation of a document originally issued in Spanish. Should there be any discrepancies between the English and the Spanish versions, only the original Spanish version should be binding.

OTHER DISCLOSURES REQUIRED BY THE BANK OF SPAIN

Financing for real estate construction and development

Policies and strategies to manage risks of financing for real estate construction

The policies for managing this portfolio, which are regularly reviewed and approved by the Group's senior management, are currently focused on reducing and consolidating exposure, while also staying attuned to new, viable business opportunities.

In order to manage this credit exposure, the Santander Group creates specialised teams that work not only in the risk areas, but also as a support for the entire life cycle of the operations: commercial management, legal treatment, potential recovery, etc.

Proactive management of these risks has allowed the Group to significantly reduce its exposure, ensuring a granular, regionally-diversified portfolio in which financing for second homes represents a very small portion overall. Mortgage loans for undeveloped land account for only a reduced portion of total land mortgage exposure, as the bulk of these loans relate to developed or developable land.

Exposure to financing of completed residences has been significantly reduced through a number of actions. In tandem with existing specialised sales channels, the Group carried out campaigns supported by specific management teams. In the case of the Santander network, these teams were directly guided by the recovery area. By directly managing loans to property developers and buyers and applying buyer reduction criteria, the Bank was able to subrogate outstanding loans. Subrogating the sale price and adapting financing conditions to borrowers' needs made it possible to diversify risk to a business segment whose NPL ratio is markedly lower.

Loan approval processes are managed by specialised teams working in direct coordination with sales teams, under clearly-defined policies and criteria:

- Property developers must have a strong creditworthiness profile and demonstrable market experience.
- Strict criteria are applied for transaction parameters: financing for the cost of construction only, high percentage of accredited sales, financing for primary residences, etc.
- Support is given for financing state-sponsored housing, with high percentages of accredited sales.
- Land financing is restricted to the level needed to re-establish proper coverage for existing financing or to increase collateral.

In addition to ongoing control by the Group's risk monitoring teams, a technical unit is specialised in monitoring and controlling this portfolio in respect of progress of works, compliance with work schedules and control of sales, as well as validation and control of payments made upon work certified. To that end, Santander uses specific tools created for this purpose. All mortgage distributions, drawdowns for any reason, modification of grace periods, etc., are authorised centrally.

In the event projects in the construction phase present any type of difficulty, the Group guarantees completion of the work in order to ensure that it has finished buildings that can be sold in the market. Individual analyses are carried out for each project and the most efficient measures are adopted for each specific case (supplier payment structures that ensure completion of the works, specific drawdown calendars, etc.).

In those cases that could potentially warrant a possible restructuring of the exposure, this restructuring is analysed collaboratively between the risks area and the recovery business area. The analysis is performed before any default occurs, in order to ensure that the payment structure of each project allows for its successful completion. These operations are authorised centrally by expert teams, applying strict criteria in line with the Group's prudent risk management principles. Possible losses are recognised as soon as they are identified, classifying the positions as needed and making any provisions required before any default occurs, in line with Bank of Spain regulations.

On-balance sheet real estate assets are managed through specialised property sales companies (Altamira Santander Real Estate, S.A. and Promodomus Desarrollo de Activos, S.L.), supported by the commercial network structure. Sales are made at low prices, in response to market conditions.

Foreclosed assets (Spain)

The sale and foreclosure of real estate assets is one of the mechanisms adopted in Spain in order to efficiently manage the portfolio.

The Group views acquisitions as a more effective tool for resolving defaulted loans than recurring to legal enforcement proceedings, given the following factors:

- Immediate availability of assets after an acquisition, compared to lengthy legal proceedings
- Cost savings
- Enhanced viability of companies, as acquisition provides them with an injection of liquidity
- Reduction in the possible loss of value of loans to these customers
- Reduction in exposure and expected loss

Disclosures required under Bank of Spain Circular 7/2010 on certain aspects of the mortgage market**a) Assets**

As required under Bank of Spain Circular 7/2010 and Circular 5/2011 of November 30 on certain aspects of the mortgage market, details are provided below of the nominal value of all mortgage loans and credits and of those that are eligible, pursuant to Royal Decree 716/2009 regulating the Spanish mortgage market, for calculating the limit for issuing mortgage covered bonds, mortgage loans and credits covering the issue of mortgage bonds, loans that have been monetised through mortgage participations or mortgage transfer certificates and uncommitted transactions corresponding to Banco Santander, S.A and Santander Consumer, S.A..

At 30 June 2021, the breakdown of mortgage loans, based on their eligibility in respect of mortgage market calculations, is as follows:

	Million euros
	Nominal value
	30-06-2021
Total mortgage loans and credits (*)	96,101
Mortgage participations issued	1802
Of which: On-balance sheet loans	—
Mortgage transfer certificates issued	7,009
Of which: On-balance sheet loans	6,511
Mortgage loans and credits securing financing received	—
Mortgage loans and credits backing the issue of mortgage bonds and mortgage covered bonds (**)	87,290
i) Ineligible mortgage loans and credits (***)	24,081
- That meet the eligibility requirements except for the limit established in article 5.1 of RD 716/2009	14,100
- Others	9,981
ii) Eligible mortgage loans and credits (****)	63,209
- Amounts not included in calculation (*****)	—
- Amounts included in calculation	63,209
a) Mortgage loans and credits covering issues of mortgage bonds	—
b) Mortgage loans and credits covering issues of mortgage covered bonds	63,209

(*) Including those acquired through mortgage participations and mortgage transfer certificates, even when derecognised from the balance sheet.

(**) Total loans less mortgage participations issued, mortgage transfer certificates issued and mortgage loans securing financing received.

(***) As the requirements of article 3 of Royal Decree 716/2009 are not met.

(****) As per article 3 of Royal Decree 716/2009, without deducting the limits for calculation pursuant to article 12 of Royal Decree 716/2009.

(*****) In line with the criteria set out under article 12 of Royal Decree 716/2009.

The nominal value of outstanding mortgage loans and credits and the nominal value of eligible loans and credits pursuant to Royal Decree 716/2009, without taking into account the calculation limits established in article 12 thereof and broken down by origin, currency, payment status, average residual maturity, interest rate, holder and type of collateral are as follows:

	Million euros	
	30-06-2021	
	Mortgage loans and credits backing the issue of mortgage bonds and mortgage covered bonds	Of which: Eligible loans (*)
Origin		
Originated by the Bank	86,468	62,449
Derived from subrogations	822	760
Other	—	—
	87,290	63,209
Currency		
Euros	86,675	63,209
Other currencies	615	—
	87,290	63,209
Payment status		
Performing	77,674	61,501
Other status	9,616	1,708
	87,290	63,209
Residual maturity		
Up to 10 years	26,571	15,456
10 to 20 years	33,042	27,083
20 to 30 years	26,175	20,194
Over 30 years	1,502	476
	87,290	63,209
Interest rate		
Fixed interest	16,184	13,305
Variable interest	71,106	49,904
Mixed interest	—	—
	87,290	63,209
Holder		
Legal entities and individual business owners	24,814	12,886
<i>Of which: Real estate developers</i>	2,696	—
Other individuals and non-profit institutions serving households	62,476	50,323
	87,290	63,209
Type of collateral		
Finished buildings – residential	68,293	53,349
<i>Of which: State-sponsored housing</i>	6,337	4,542
Finished buildings – commercial	6,499	3,583
Finished buildings – other	9,095	5,226
Buildings under construction – residential	1,146	—
<i>Of which: State-sponsored housing</i>	58	—
Buildings under construction – commercial	46	—
Buildings under construction – other	42	2
Land – certified for development	756	337
Land – other	1,413	712
	87,290	63,209

(*) As per article 3 of Royal Decree 716/2009, without deducting the limits for calculation established in article 12 of Royal Decree 716/2009.

The nominal value of mortgage loans and credits eligible pursuant to Royal Decree 716/2009, without taking into account the calculation limits established in article 12 thereof and broken down by the percentage loan-to-value (LTV) are as follows:

	30-06-2021				Total
	LTV (million euros)				
	<=40%	>40%, <= 60%	>60%, <= 80%	>80%	
Mortgage loans and credits eligible for issuing mortgage bonds and mortgage covered bonds (*)	23,682	23,755	15,772	—	63,209
<i>Residential</i>	18,228	19,349	15,772	—	53,349
<i>Other</i>	5,454	4,406	—	—	9,860

(*) As per article 3 of Royal Decree 716/2009, without deducting the limits for calculation established in article 12 of Royal Decree 716/2009.

Changes in the nominal value of mortgage loans and credits, both eligible and ineligible pursuant to Royal Decree 716/2009, are as follows:

	Million euros	
	Eligible mortgage loans and credits (*)	Ineligible mortgage loans and credits (**)
Balance at 31 December 2020	57,382	19,173
Derecognitions during the period	4,903	4,207
<i>Repaid upon maturity</i>	0	0
<i>Repaid early</i>	1,947	2,261
<i>Subrogated by other entities</i>	—	—
<i>Other</i>	2,956	1,946
Additions during the period	10,730	9,115
<i>Originated by the Bank</i>	4,474	2,432
<i>Subrogated from other entities</i>	11	6
<i>Other</i>	6,245	6,677
Balance at 30 June 2021	63,209	24,081

(*) As per article 3 of Royal Decree 716/2009, without deducting the limits for calculation pursuant to article 12 of Royal Decree 716/2009.

(**) As the requirements of article 3 of Royal Decree 716/2009 are not met.

The breakdown of available balances of mortgage loans and credits backing the issue of mortgage bonds and mortgage covered bonds is as follows:

	Million euros	
	Nominal value (*)	
	30-06-2021	
Potentially eligible (**)	527	
Ineligible	1,268	

(*) Amounts committed less amounts drawn down, including those amounts only delivered to developers upon sale of the property.

(**) Pursuant to article 3 of Royal Decree 716/2009.

b) Liabilities

The Bank has not issued any mortgage bonds. The aggregate nominal value of outstanding mortgage covered bonds issued by the Bank, pursuant to Royal Decree 716/2009 and broken down by residual maturity, is as follows:

Million euros	30-06-2021				Total
	Less than 3 years	3 to 5 years	5 to 10 years	Over 10 years	
Issued through public offerings:	10,925	8,750	18,627	5,907	44,209
Marketable mortgage covered bonds (1)	10,925	8,750	18,627	5,907	44,209
EIB covered bonds	—	—	—	—	—
Multi-seller bonds	300	—	—	—	300
Other issue	—	—	—	—	—
Marketable mortgage covered bonds	—	—	—	—	—
(-) Issues not recognised under liabilities	—	—	—	—	20,891
Total issued through public offerings and placed in the market	—	—	—	—	23,318

- (1) Recognised under "Financial liabilities at amortised cost - Marketable debt securities", for a cash value of EUR 24,301 million, after deducting unrecognised issues.

At the subject date, the Bank's overcollateralisation stood at 197% (based on all mortgage covered bonds, EUR 44,209 million), compared to the nominal value of the mortgage loan and credit portfolio pending repayment in accordance with Royal Decree 716/2009 (EUR 87,290 million).

None of the mortgage covered bonds issued by the Bank have replacement assets.

The aggregate nominal value of outstanding mortgage transfer certificates issued by the Bank at 30 June 2021, based on residual maturity, is as follows:

30-06-2021	Million euros				Total
	Less than 3 years	3 to 5 years	5 to 10 years	Over 10 years	
Mortgage transfer certificates	—	—	—	6,511	6,511
Issued through public offerings	—	—	—	—	—

The members of the Board of Directors hereby state that the Bank has implemented policies and procedures to expressly address all activities carried out in respect of the mortgage market issues it performs and to ensure rigorous compliance with mortgage market regulations applicable to these activities as per Royal Decree 716/2009 of April 24, implementing certain aspects of Mortgage Market Law 2/1981 of March 25, and therefore, of Bank of Spain Circular 7/2010 of November 30, along with other regulations governing the mortgage and financial system. In addition, the financial management area defines the Bank's funding strategy.

The risk policies applied to mortgage market transactions foresee maximum loan-to-value limits. In addition, specific policies are in place for each mortgage product, which at times apply even more restrictive limits.

The general policies defined in that respect require that a repayment capacity analysis be carried out for each potential customer. This analysis determines whether the customer's income is sufficient to allow it to settle each repayment required. In addition, the analysis determines whether the customer's income can be considered stable over the entire lifetime of the transaction in question. The indicator used to measure repayment capacity (housing affordability index) of each customer primarily looks at the ratio of the potential debt to the borrowers' income, taking into account both monthly repayments on the requested transaction as well as for other debts held, in comparison with monthly salary income and any other duly-justified income.

In ascertaining the customer's information and creditworthiness, the Bank applies specialised documentary verification tools and procedures (see Note 49 to the Bank's financial statements for the year ended 31 December 2020).

Under the Bank's procedures, an individual appraisal must be carried out by an independent appraisal company for each mortgage loan originated in the mortgage market.

Although under article 5 of Mortgage Market Law 41/2007 any Bank of Spain-certified appraisal company may issue valid valuation reports, under this same article, the Bank of Spain sets out a series of verifications, selecting, among these entities, a smaller group with which it signs collaboration agreements, applying special conditions and automated control mechanisms. The Bank's internal regulations further specify, in detail, each internally-certified appraisal company, along with the pertinent certification requirements and procedures and the specific review controls established. This regulation also governs the functioning of an appraisal committee comprising several Bank areas that engage with these appraisal companies. The purpose of this committee is to regulate and adapt internal rules, as well as these companies' procedures, to the market and business situation.

In this way, the appraisal companies that wish to work with the Bank must have a relevant activity in the mortgage market and in the region in question, pass certain filters in respect of independence criteria, technical capacity and creditworthiness (to ensure their business continuity) and, lastly, successfully complete a series of tests prior to definitive certification.

Moreover, in accordance with the Bank's internal regulations, any appraisal submitted by a potential customer is reviewed, regardless of the issuing company, in order to formally verify that all requirements, procedures and methods employed are suitable for the asset valued, based on prevailing regulations, and that the values reported are in line with market conditions.

Disclosures required under Bank of Spain Circular 6/2012 on sector and geographic concentration of risk

Concentration of risk

The breakdown at 30 June 2021 of the concentration of the Group's risk, by activity and geographic location of counterparties, is as follows:

Million euros	30-06-2021				
	Total	Spain	Rest of the European Union	America	Rest of the world
Central banks and Credit institutions	310,823	79,124	59,876	86,797	85,026
Public sector	154,735	36,719	31,699	79,307	7,010
Of which:					
Central government	130,238	24,953	29,663	69,183	6,439
Other central government	24,497	11,766	2,036	10,124	571
Other financial institutions (financial business activity)	121,288	14,868	39,570	29,324	37,526
Non-financial companies and individual entrepreneurs (non-financial business activity) (broken down by purpose)	414,597	123,155	88,177	139,746	63,519
Of which:					
Construction and property development	24,740	3,991	3,657	8,289	8,803
Civil engineering construction	5,850	2,779	2,107	817	147
Large companies	242,784	57,687	50,507	92,842	41,748
SMEs and individual entrepreneurs	141,223	58,698	31,906	37,798	12,821
Households – other (broken down by purpose)	526,265	87,788	95,352	119,219	223,906
Of which:					
Residential	341,954	61,507	35,071	41,127	204,249
Consumer loans	165,751	18,815	57,907	72,932	16,097
Other purposes	18,560	7,466	2,374	5,160	3,560
Total	1,527,708	341,654	314,674	454,393	416,987

(*) For the purpose of this table, the definition of risk includes the following public balance sheet items: loans and advances to credit institutions, deposits at central banks, loans and advances to customers, debt securities, capital instruments, trading derivatives, hedging derivatives, equity investments and guarantees extended.

Million euros (*)

	Secured loans								
	Net exposure					Loan-to-value (a)			
	Total	Unsecured loans	Of which: Mortgage collateral	Of which: Other collateral	Less than or equal to 40%	Greater than 40% and less than or equal to 60%	Greater than 60% and less than or equal to 80%	Greater than 80% and less than or equal to 100%	Greater than 100%
Public sector	20,990	20,307	186	497	64	84	34	497	4
Other financial institutions (financial business activity)	70,597	24,173	1,676	44,748	1,251	1,077	432	42,822	842
Non-financial corporations and individual entrepreneurs (non-financial business activity) (broken down by purpose)	323,244	185,823	64,196	73,225	25,991	23,041	19,431	51,419	17,539
Of which:									
Construction and property development	21,736	2,589	14,065	5,082	5,684	4,711	1,959	5,550	1,243
Civil engineering construction	3,538	2,112	289	1,137	143	274	92	801	116
Large companies	167,472	114,440	18,679	34,353	8,940	6,658	6,910	23,498	7,026
SMEs and individual entrepreneurs	130,498	66,682	31,163	32,653	11,224	11,398	10,470	21,570	9,154
Households – other (broken down by)	522,896	94,318	348,567	80,011	91,793	110,625	123,779	62,509	39,872
Of which:									
Residential	341,783	1,960	339,297	526	85,311	104,292	115,293	30,484	4,443
Consumer loans	163,579	90,134	1,740	71,705	3,006	3,788	5,271	27,216	34,164
Other purposes	17,534	2,224	7,530	7,780	3,476	2,545	3,215	4,809	1,265
Total	937,727	324,621	414,625	198,481	119,099	134,827	143,676	157,247	58,257
Memorandum item									
Refinanced and restructured transactions	27,747	11,015	12,371	4,361	3,891	2,417	2,514	2,539	5,371

(*) In addition, the Group has granted customer prepayments amounting to EUR 16,791 million; therefore, the total amount of credits and customer prepayments amounts to EUR 954,518 million.

(**) Includes fair value impairment and losses net balance due to credit risk.

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INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**Banco Santander, S.A. and subsidiaries
(Santander Group)**

Independent Auditor's Report

Interim Condensed Consolidated Financial Statements as at June 30, 2021

Interim Consolidated Directors' Report



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

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

To the shareholders of Banco Santander, S.A.:

Report on the interim condensed consolidated financial statements

Opinion

We have audited the interim condensed consolidated financial statements of Banco Santander, S.A. (the Parent company) and its subsidiaries (the Group), which comprise the balance sheet as at June 30, 2021, and the income statement, statement of recognised income and expense, statement of changes in total equity, statement of cash flow and related notes, all condensed and consolidated, for the six-month period then ended.

In our opinion, the accompanying interim condensed consolidated financial statements of Banco Santander, S.A. and its subsidiaries for the six-month period then ended have been prepared, in all material respects, in accordance with the requirements of International Accounting Standard (IAS) 34, "Interim Financial Reporting", as adopted by the European Union, as provided in Article 12 of Royal Decree 1362/2007, for the preparation of interim condensed financial statements.

Basis for opinion

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the interim condensed consolidated financial statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the interim condensed consolidated financial statements in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the interim condensed consolidated financial statements of the current period. These matters were addressed in the context of our audit of the interim condensed consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key audit matters	How our audit addressed the key audit matters
<p data-bbox="277 474 826 564">Estimation of impairment of financial assets at amortised cost - loans and advances to customers – for credit risk</p> <p data-bbox="277 600 836 1025">The models used to estimate the expected credit losses along with the adaptations made in the context of the covid-19 crisis imply a high complexity by incorporating new estimates and judgments, especially those related to the adjustments made to the models to determine the expected credit loss. These estimates require an elevated component of judgment by management and are one of the most significant and complex estimates in the preparation of the interim condensed consolidated financial statements as at June 30, 2021 included herein, therefore it has been considered one of the key audit matters.</p> <p data-bbox="277 1057 813 1120">The main judgements and assumptions used by management are the following:</p> <ul data-bbox="277 1151 836 1675" style="list-style-type: none"> <li data-bbox="277 1151 836 1240">• The estimation of the Probability of Default (PD) and Loss Given Default (LGD) parameters. <li data-bbox="277 1272 836 1361">• Identification and classification of the staging criteria of loans and advances to customers. <li data-bbox="277 1393 836 1550">• The definition and evaluation of post model adjustments to adapt the parameters estimated by the models to the current conditions and environment derived from the covid-19 crisis. <li data-bbox="277 1581 836 1675">• The main assumptions used in the determination of provisions for risks estimated individually. <p data-bbox="277 1706 836 1886">The Group's business is focused primarily on commercial banking products and is concentrated in nine key markets (Brazil, Chile, Spain, United States, Mexico, Poland, Portugal, United Kingdom and the consumer finance business in Europe).</p> <p data-bbox="277 1917 836 2038">As a result, as at June 30, 2021 the Group has recognised an amount of EUR 3,785 million of impairment of financial assets at amortised cost.</p>	<p data-bbox="865 600 1455 810">We have obtained, in collaboration with our credit risk experts, an understanding of management's process to estimate the impairment of financial assets at amortised cost - loans and advances to customers – over the estimation of impairment of financial assets assessed collectively and individually.</p> <p data-bbox="865 842 1465 1057">In regards with the internal control, we have focused on testing the design and operating effectiveness of key controls over the process, focusing on management's review of the main assumptions used and the estimations and approval of post models adjustments, in the cases in which it has applied.</p> <p data-bbox="865 1088 1458 1151">In addition, we have performed the following tests of details:</p> <ul data-bbox="865 1182 1465 1832" style="list-style-type: none"> <li data-bbox="865 1182 1465 1397">• Evaluation of the principal models with respect to: i) calculation and segmentation methods; ii) methodology used for the estimation of the expected loss parameters; iii) data and main assumptions used, iv) staging criteria and v) scenario information and assumptions. <li data-bbox="865 1429 1465 1518">• Reperform of the collective impairment losses based on the expected credit loss models parameters. <li data-bbox="865 1550 1465 1617">• Evaluation of the post model adjustments made by management. <li data-bbox="865 1648 1465 1832">• On a sample basis, evaluation of the individual credit files to determine the adequacy of their accounting and classification, discounted cash flows and, where appropriate, corresponding impairment. <p data-bbox="865 1863 1417 1953">We have not identified exceptions outside of a reasonable range in the procedures outlined above.</p>



Key audit matters	How our audit addressed the key audit matters
<p>Refer to notes 1 and 5 of the interim condensed consolidated financial statements as at June 30, 2021 included herein.</p> <hr/> <p>Assessment for indications of goodwill impairment</p> <p>Goodwill impairment assessment is an exercise that requires a high degree of judgment and estimation especially in the current context of the covid-19, therefore it has been considered one of the key audit matters.</p> <p>Due to their relevance to Santander Group, management monitors goodwill and assesses for indications of goodwill impairment during the year.</p> <p>On an annual basis or whenever there are indications of impairment, the Group performs a goodwill impairment test using assumptions to estimate the recoverable amount of the Cash Generating Units (CGUs), such as financial projections, discount rates, perpetual growth rates and market quotes (if available). Such valuations, and some of these assumptions, are performed by management's experts.</p> <p>In connection with the interim condensed consolidated financial statements, management assesses for indications of impairment since the previous year-end reporting period and performs a goodwill impairment test, if necessary.</p> <p>The amount of the Group's consolidated goodwill balance as at June 30, 2021 is EUR 12,854 million.</p> <p>Refer to notes 1 and 8 of the interim condensed consolidated financial statements as at June 30, 2021 included herein.</p>	<p>We have obtained, in collaboration with our valuation experts, an understanding of the process performed by management to assess for indications of goodwill impairment.</p> <p>In regards with the internal control, we have focused on testing the design and operating effectiveness of key controls over the assessment of indicators of impairment in the goodwill registered by the Group, including the review of the process and its approvals.</p> <p>We have also conducted tests of details to contrast the impairment evidence assessment, considering market practices and specific sector expectations. This assessment included the budgetary compliance of the main CGUs, verification of the assumptions such as discount rates and perpetual growth rates, and the impact of the variances identified in all of them which served as the basis for the Group to determine the possible indicators of impairment.</p> <p>Based on the procedures performed, we believe that the determination by the Group that no indicators of impairment exist for the registered goodwill is based on sufficient evidence in the context of the circumstances in which the interim condensed consolidated financial statements are prepared.</p>
<p>Recoverability of deferred tax assets – Spain and Brazil</p> <p>Assessing the recoverability of deferred tax assets is an exercise that requires a high degree of judgement and estimation especially in the current context of the covid-19, with particular relevance to the Group in Spain and Brazil, therefore it has been considered one of the key audit matters.</p>	<p>We have obtained, in collaboration with our tax experts, an understanding of the estimation process performed by management to assess the recoverability of deferred tax assets.</p>

Key audit matters	How our audit addressed the key audit matters
<p>Within the framework of the recoverability model defined by management, in relation to the Consolidated Tax Group, on an annual basis, or whenever there is any indication of impairment, each business unit compiles the assumptions that support the business plans that are projected over the time horizon established for that business.</p> <p>The process carried out during this period includes specific considerations that management takes into account when assessing the recoverability of deferred tax assets. The most significant considerations made by management in this respect are:</p> <ul style="list-style-type: none"> Assuring that the tax regulations of each country are applied correctly and the temporary differences that meet the consideration as deductibles are duly recognised. Reviewing the projections that are part of the recoverability model of deferred tax assets which is in turn used to estimate the tax profits used to assess the recoverability of the deferred tax assets that will be recoverable in future periods, are indeed achievable. Applying the model and validating the calculations of this model to ensure that the valuation of tax assets and that the conclusions drawn regarding their recoverability are appropriate. <p>The amount of the Group's consolidated deferred tax assets balance as at June 30, 2021 is EUR 19,751 million.</p> <p>Refer to note 1 of the interim condensed consolidated financial statements as at June 30, 2021 included herein.</p>	<p>In regards with the internal control, we have focused on testing the design and operating effectiveness of key controls over the process of estimating the financial projections used in the determination of future taxable profits are based on the recoverability model of deferred tax assets, including its monitoring.</p> <p>We have also performed the following tests of details:</p> <ul style="list-style-type: none"> Evaluated the accuracy of the calculations and the reasonableness of the estimations made by management for deductible temporary differences. Assessed the completeness and appropriateness of the assumptions used by management in their calculation of the deductible temporary differences. Analysed the key assumptions used by management in their estimation and monitoring of the recoverability of deferred tax assets, including: <ul style="list-style-type: none"> Obtaining and analysing the financial projections carried out by the Group and the assumptions used, including the detail of the economic forecasts and indicators used in the analysis. Analysing the tax strategy planned by the Group for the recoverability of the deferred tax assets. <p>We have not identified exceptions outside of a reasonable range in the procedures outlined above.</p>

Litigation provisions and contingencies

The Group is party to a range of tax and legal proceedings - administrative and judicial - which primarily arose in the ordinary course of its operations. Also, there are other situations not yet subject to any judicial process that, however, have required the registration of provisions, such as aspects of conduct with clients and their compensation.

We have obtained, in collaboration with our experts, an understanding of the estimation process performed by management for litigation provisions and contingencies.

Key audit matters	How our audit addressed the key audit matters
<p>These procedures generally take a long period of time to run their course, giving rise to complex processes in accordance with the applicable legislation, therefore it has been considered one of the key audit matters.</p> <p>Management decides when to recognize a provision for these contingent liabilities, based on an estimate calculated using certain procedures consistent with the nature of the uncertainty of the obligations.</p> <p>Among these provisions, the most significant are those that cover the tax and labour proceedings in Brazil and those that cover the legal proceedings in Brazil, Spain and Poland.</p> <p>The amount of the litigation provisions and contingencies as at June 30, 2021 is EUR 3,764 million.</p> <p>Refer to notes 1 and 10 of the interim condensed consolidated financial statements as at June 30, 2021 included herein.</p>	<p>In regards with the internal control, we have focused on testing the design and operating effectiveness of key controls over the processes related to the assessment of the criteria used to estimate the expected losses from litigation provisions and the completeness and accuracy of the key data, maintained in the systems, used in the calculations of the provisions.</p> <p>In addition, we have performed the following tests of details:</p> <ul style="list-style-type: none"> • Analysed for reasonableness of the expected outcomes of the most significant tax and legal proceedings. • Assessed of possible contingencies relating to compliance with the tax obligations for all the years open to inspection, of the communications with the regulatory bodies and analysis of the ongoing regulatory inspections. • Obtained confirmation letters from external and internal lawyers and external tax advisors who work with the Group and performing alternative procedures. • Analysed the recognition and reasonableness of the provisions recorded. <p>In the procedures described above, no exceptions were identified outside of a reasonable range.</p>

Information systems

The Group's financial information is highly dependent on information technology (IT) systems and the geographies where it operates, therefore an adequate control of these systems is crucial to ensuring correct data processing.

In this context, it is relevant to evaluate aspects such as the organization of the Group's Technology and Operations department, controls over software maintenance and development, physical and logical security controls, and controls over computer operations, therefore it has been considered one of the key audit matters.

We have evaluated, in collaboration with our IT system specialists, the internal controls over the IT systems, databases and applications that support the Group's financial reporting.

For this purpose, we performed procedures over internal control and test of details related to:

- The function of the IT governance framework.
- Access and logical security controls over the applications, operating systems and databases that support the relevant financial information.



Key audit matters	How our audit addressed the key audit matters
<p>In this respect, management continues monitoring the internal controls over IT systems, including the access controls that support the Group's technology processes.</p>	<ul style="list-style-type: none">• Application development and change management.• Maintenance of computer operations. <p>In addition, considering the monitoring carried out by management over its internal controls over IT systems, our approach and audit plan focused on the following aspects:</p> <ul style="list-style-type: none">• Evaluation of the monitoring made by management as part of its access control environment of the Group.• Testing of the design and operating effectiveness of the controls implemented by management, including access controls. <p>In the procedures described above, no relevant exceptions were identified related to this matter.</p>

Emphasis of matter

We draw attention to note 1.b, which describes that these interim condensed consolidated financial statements do not include all the information required in a complete set of consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and therefore the accompanying interim condensed consolidated financial statements should be read together with the consolidated annual accounts of the Group for the year ended December 31, 2020. Our opinion is not modified in respect of this matter.

Other information: Interim Consolidated Directors' report

Other information comprises only the interim consolidated director's report for the six-month period ended June 30, 2021, the formulation of which is the responsibility of the Parent company's directors and does not form an integral part of the interim condensed consolidated financial statements.

Our audit opinion on the interim condensed consolidated financial statements does not cover the interim consolidated director's report. Our responsibility regarding the interim consolidated director's report, in accordance with legislation governing the audit practice, is to evaluate and report on the consistency between the interim consolidated director's report and the interim condensed consolidated financial statements as a result of our knowledge of the Group obtained during the audit of the aforementioned financial statements, as well as to evaluate and report on whether the content and presentation of the interim consolidated director's report is in accordance with applicable regulations. If, based on the work we have performed, we conclude that material misstatements exist, we are required to report that fact.

On the basis of the work performed, as described in the previous paragraph, the information contained in the interim consolidated director's report is consistent with that contained in the interim condensed consolidated financial statements for the six-month period ended June 30, 2021, and its content and presentation are in accordance with the applicable regulations.



Responsibility of the directors and the audit committee for the interim condensed consolidated financial statements

The Parent company's directors are responsible for the preparation of the accompanying interim condensed consolidated financial statements in accordance with the requirements of International Accounting Standard (IAS) 34, "Interim Financial Reporting", as adopted by the European Union, for the preparation of interim condensed financial information, as provided in Article 12 of Royal Decree 1362/2007, and for such internal control as the directors determine is necessary to enable the preparation of interim condensed consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the interim condensed consolidated financial statements, the Parent company's directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the aforementioned directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Parent company's audit committee is responsible for overseeing the process of preparation and presentation of the interim condensed consolidated financial statements.

Auditor's responsibilities for the audit of the interim condensed consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the interim condensed consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with legislation governing the audit practice in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these interim condensed consolidated financial statements.

As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the interim condensed consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent company's directors.
- Conclude on the appropriateness of the Parent company's directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the interim condensed consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.



Banco Santander, S.A. and its subsidiaries

- Evaluate the overall presentation, structure and content of the interim condensed consolidated financial statements, including the disclosures.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the interim condensed consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Parent company's audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Parent company's audit committee with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate with the aforementioned those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Parent company's audit committee, we determine those matters that were of most significance in the audit of the interim condensed consolidated financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

Appointment period

The General Ordinary Shareholders' Meeting held on March 26, 2021 appointed us as auditors of the Group for a period of one year, for the year ended December 31, 2021.

Previously, we were appointed by resolution of the General Shareholders' Meeting for a period of three years and we have audited the accounts continuously since the year ended December 31, 2016.

Services provided

PricewaterhouseCoopers Auditores, S.L. has provided to the Group services different to the audit relating to the issuance of comfort letters, agreed upon procedures, other assurance services, services relating to securitizations and other regulatory reviews required to the auditor.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by

Julián González Gómez (20179)

July 29, 2021

Banco Santander, S.A. and companies composing Santander Group

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

Translation of interim condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 17). In the event of a discrepancy, the Spanish-language version prevails.

The interim consolidated financial statements included herein have not been audited or reviewed in accordance with Public Company Accounting Oversight Board (PCAOB) standards of the United States.

Translation of interim condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 17). In the event of a discrepancy, the Spanish-language version prevails.

GRUPO SANTANDER

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

(EUR million)

ASSETS	Note	30-06-2021	31-12-2020 (*)
CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEPOSITS ON DEMAND		183,091	153,839
FINANCIAL ASSETS HELD FOR TRADING	5	102,792	114,945
NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS	5	4,838	4,486
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	5	56,486	48,717
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	5	114,505	120,953
FINANCIAL ASSETS AT AMORTISED COST	5	1,003,417	958,378
HEDGING DERIVATIVES		5,430	8,325
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RISK		1,434	1,980
INVESTMENTS		7,562	7,622
Joint venture entities		1,620	1,492
Associated entities		5,942	6,130
ASSETS UNDER INSURANCE OR REINSURANCE CONTRACTS		276	261
TANGIBLE ASSETS	7	32,678	32,735
Property, plant and equipment		31,712	31,772
For own-use		12,921	13,213
Leased out under an operating lease		18,791	18,559
Investment properties		966	963
Of which : Leased out under an operating lease		863	793
INTANGIBLE ASSETS	8	16,454	15,908
Goodwill		12,854	12,471
Other intangible assets		3,600	3,437
TAX ASSETS		24,707	24,586
Current tax assets		4,956	5,340
Deferred tax assets		19,751	19,246
OTHER ASSETS		9,889	11,070
Insurance contracts linked to pensions		162	174
Inventories		5	5
Other		9,722	10,891
NON-CURRENT ASSETS HELD FOR SALE	6	5,077	4,445
TOTAL ASSETS		1,568,636	1,508,250

(*) Presented for comparison purposes only (see note 1.e).

The accompanying explanatory Notes 1 to 17 are an integral part of the condensed consolidated balance sheet as at 30 June 2021.

Translation of interim condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 17). In the event of a discrepancy, the Spanish-language version prevails.

GRUPO SANTANDER

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

(EUR million)

LIABILITIES	Note	30-06-2021	31-12-2020 (*)
FINANCIAL LIABILITIES HELD FOR TRADING	9	68,982	81,167
FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	9	54,131	48,038
FINANCIAL LIABILITIES AT AMORTISED COST	9	1,310,433	1,248,188
HEDGING DERIVATIVES		6,573	6,869
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK		427	286
LIABILITIES UNDER INSURANCE OR REINSURANCE CONTRACTS		1,014	910
PROVISIONS		10,400	10,852
Pension and other post-retirement obligations	10	3,454	3,976
Other long term employee benefits	10	1,407	1,751
Taxes and other legal contingencies	10	2,169	2,200
Contingent liabilities and commitments	14	661	700
Other provisions	10	2,709	2,225
TAX LIABILITIES		9,154	8,282
Current tax liabilities		2,711	2,349
Deferred tax liabilities		6,443	5,933
OTHER LIABILITIES		11,777	12,336
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE		—	—
TOTAL LIABILITIES		1,472,891	1,416,928
SHAREHOLDERS' EQUITY		117,552	114,620
CAPITAL	11	8,670	8,670
Called up paid capital		8,670	8,670
Unpaid capital which has been called up		—	—
SHARE PREMIUM		47,979	52,013
EQUITY INSTRUMENTS ISSUED OTHER THAN CAPITAL		641	627
Equity component of the compound financial instrument		—	—
Other equity instruments issued		641	627
OTHER EQUITY		165	163
ACCUMULATED RETAINED EARNINGS		60,280	65,583
REVALUATION RESERVES		—	—
OTHER RESERVES		(3,762)	(3,596)
(-) OWN SHARES		(96)	(69)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	3	3,675	(8,771)
(-) INTERIM DIVIDENDS		—	—
OTHER COMPREHENSIVE INCOME (LOSS)		(32,181)	(33,144)
ITEMS NOT RECLASSIFIED TO PROFIT OR LOSS	11	(4,962)	(5,328)
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	11	(27,219)	(27,816)
NON-CONTROLLING INTEREST		10,374	9,846
Other comprehensive income		(1,817)	(1,800)
Other items		12,191	11,646
TOTAL EQUITY		95,745	91,322
TOTAL LIABILITIES AND EQUITY		1,568,636	1,508,250
MEMORANDUM ITEMS: OFF BALANCE SHEET AMOUNTS	14		
Loan commitments granted		247,154	241,230
Financial guarantees granted		12,121	12,377
Other commitments granted		81,277	64,538

(*) Presented for comparison purposes only (see note 1.e).

The accompanying explanatory Notes 1 to 17 are an integral part of the condensed consolidated balance sheet as at 30 June 2021.

Translation of interim condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 17). In the event of a discrepancy, the Spanish-language version prevails.

GRUPO SANTANDER
CONDENSED CONSOLIDATED INCOME STATEMENTS
FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2021 AND 2020
(EUR million)

	Note	Debit (Credit)	
		01-01-2021 a 30-06-2021	01-01-2020 a 30-06-2020
Interest income		21,933	24,499
<i>Financial assets at fair value through other comprehensive income</i>		1,292	1,973
<i>Financial assets at amortised cost</i>		19,149	21,255
<i>Other interest income</i>		1,492	1,271
Interest expense		(5,737)	(8,297)
Interest income/ (charges)		16,196	16,202
Dividend income		309	265
Income from companies accounted for using the equity method		163	(135)
Commission income		6,676	6,716
Commission expense		(1,507)	(1,580)
Gain or losses on financial assets and liabilities not measured at fair value through profit or loss, net		344	688
<i>Financial assets at amortised cost</i>		77	(27)
<i>Other financial assets and liabilities</i>		267	715
Gain or losses on financial assets and liabilities held for trading, net		347	1,848
<i>Reclassification of financial assets at fair value through other comprehensive income</i>		—	—
<i>Reclassification of financial assets at amortized cost</i>		—	—
<i>Other gains (losses)</i>		347	1,848
Gains or losses on non-trading financial assets and liabilities mandatorily at fair value through profit or loss		10	27
<i>Reclassification of financial assets at fair value through other comprehensive income</i>		—	—
<i>Reclassification of financial assets at amortized cost</i>		—	—
<i>Other gains (losses)</i>		10	27
Gain or losses on financial assets and liabilities measured at fair value through profit or loss, net		221	(129)
Gain or losses from hedge accounting, net		57	(26)
Exchange differences, net		(85)	(1,335)
Other operating income		1,167	765
Other operating expenses		(1,289)	(1,122)
Income from assets under insurance and reinsurance contracts		769	715
Expenses from liabilities under insurance and reinsurance contracts		(683)	(631)
Total income		22,695	22,268
Administrative expenses		(8,996)	(9,288)
<i>Staff costs</i>		(5,438)	(5,470)
<i>Other general and administrative expenses</i>		(3,558)	(3,818)
Depreciation and amortisation cost		(1,381)	(1,419)
Provisions or reversal of provisions, net		(1,490)	(614)
Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss and net gains and losses from changes		(3,804)	(7,030)
<i>Financial assets at fair value through other comprehensive income</i>		(19)	(3)
<i>Financial assets at amortised cost</i>	5	(3,785)	(7,027)
Impairment of investments in subsidiaries, joint ventures and associates, net		—	—
Impairment on non-financial assets, net		(130)	(10,241)
<i>Tangible assets</i>		(125)	(93)
<i>Intangible assets</i>		(3)	(10,146)
<i>Others</i>		(2)	(2)
Gain or losses on non financial assets and investments, net		52	27
Negative goodwill recognised in results		—	6
Gains or losses on non-current assets held for sale not classified as discontinued operations	6	(32)	(119)
Operating profit/(loss) before tax		6,914	(6,410)
Tax expense or income from continuing operations		(2,474)	(3,928)
Profit/(loss) for the period from continuing operations		4,440	(10,338)
Profit/(loss) after tax from discontinued operations		—	—
Profit/(loss) for the period		4,440	(10,338)
Profit attributable to non-controlling interests		765	460
Profit/(loss) attributable to the parent		3,675	(10,798)
Earnings/(losses) per share	3		
Basic		0.20	(0.64)
Diluted		0.20	(0.64)

(*) Presented for comparison purposes only (see note 1.e).

The accompanying explanatory Notes 1 to 17 are an integral part of the condensed consolidated income statement for the six-month period ended 30 June 2021.

Translation of interim condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 17). In the event of a discrepancy, the Spanish-language version prevails.

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

(EUR million)

	Note	01-01-2021 to 30-06-2021	01-01-2020 to 30-06-2020 (*)
CONSOLIDATED PROFIT/(LOSS) FOR THE PERIOD		4,440	(10,338)
OTHER RECOGNISED INCOME AND EXPENSE		946	(7,184)
Items that will not be reclassified to profit or loss	11	390	(696)
Actuarial gains and losses on defined benefit pension plans		885	204
Non-current assets held for sale		—	—
Other recognised income and expense of investments in subsidiaries, joint ventures and associates		(8)	(7)
Changes in the fair value of equity instruments measured at fair value through other comprehensive income		(68)	(880)
Gains or losses resulting from the accounting for hedges of equity instruments measured at fair value through other comprehensive income, net		—	—
<i>Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedged item)</i>		54	12
<i>Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedging instrument)</i>		(54)	(12)
<i>Changes in the fair value of financial liabilities at fair value through profit or loss attributable to changes in credit risk</i>		(129)	65
Income tax relating to items that will not be reclassified		(290)	(78)
Items that may be reclassified to profit or loss	11	556	(6,488)
Hedges of net investments in foreign operations (effective portion)	11	(1,001)	2,524
<i>Revaluation gains (losses)</i>		(1,001)	2,524
<i>Amounts transferred to income statement</i>		—	—
<i>Other reclassifications</i>		—	—
Exchange differences	11	3,036	(9,499)
<i>Revaluation gains (losses)</i>		3,036	(9,499)
<i>Amounts transferred to income statement</i>		—	—
<i>Other reclassifications</i>		—	—
Cash flow hedges (effective portion)		(230)	774
<i>Revaluation gains (losses)</i>		(651)	3,070
<i>Amounts transferred to income statement</i>		421	(2,296)
<i>Transferred to initial carrying amount of hedged items</i>		—	—
<i>Other reclassifications</i>		—	—
Hedging instruments (items not designated)		—	—
<i>Revaluation gains (losses)</i>		—	—
<i>Amounts transferred to income statement</i>		—	—
<i>Other reclassifications</i>		—	—
Debt instruments at fair value with changes in other comprehensive income		(1,914)	(82)
<i>Revaluation gains (losses)</i>		(1,637)	272
<i>Amounts transferred to income statement</i>		(277)	(727)
<i>Other reclassifications</i>		—	373
Non-current assets held for sale		—	—
<i>Revaluation gains (losses)</i>		—	—
<i>Amounts transferred to income statement</i>		—	—
<i>Other reclassifications</i>		—	—
Share of other recognised income and expense of investments		49	(212)
Income tax relating to items that may be reclassified to profit or loss		616	7
Total recognised income and expenses for the year		5,386	(17,522)
<i>Attributable to non-controlling interests</i>		748	(255)
<i>Attributable to the parent</i>		4,638	(17,267)

(*) Presented for comparison purposes only (see note 1.e).

The accompanying explanatory Notes 1 to 17 are an integral part of the condensed consolidated statement of recognised income and expense for the six-month period ended 30 June 2021.

Translation of interim condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 17). In the event of a discrepancy, the Spanish-language version prevails.

GRUPO SANTANDER

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2021 AND 2020

(EUR million)

	Capital	Share premium	Equity instruments issued (not capital)	Other equity instruments	Accumulated retained earnings	Revaluation reserves	Other reserves	(-) Own shares	Profit Attributable to shareholders of the parent	(-) Interim dividends	Other comprehensive income	Non-Controlling interest		Total
												Other comprehensive income	Other items	
Balance as at 31-12-2020 (*)	8,670	52,013	627	163	65,583	—	(3,596)	(69)	(8,771)	—	(33,144)	(1,800)	11,646	91,322
Adjustments due to errors	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Adjustments due to changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Opening balance as at 01-01-2021 (*)	8,670	52,013	627	163	65,583	—	(3,596)	(69)	(8,771)	—	(33,144)	(1,800)	11,646	91,322
Total recognised income and expense	—	—	—	—	—	—	—	—	3,675	—	963	(17)	765	5,386
Other changes in equity	—	(4,034)	14	2	(5,303)	—	(166)	(27)	8,771	—	—	—	(220)	(963)
Issuance of ordinary shares	—	—	—	—	—	—	—	—	—	—	—	—	17	17
Issuance of preferred shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Issuance of other financial instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Maturity of other financial instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Conversion of financial liabilities into equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Capital reduction	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Dividends	—	(477)	—	—	—	—	—	—	—	—	—	—	(347)	(824)
Purchase of equity instruments	—	—	—	—	—	—	—	(404)	—	—	—	—	—	(404)
Disposal of equity instruments	—	—	—	—	—	—	7	377	—	—	—	—	—	384
Transfer from equity to liabilities	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Transfer from liabilities to equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Transfers between equity items	—	(3,557)	—	—	(5,303)	—	89	—	8,771	—	—	—	—	—
Increases (decreases) due to business combinations	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Share-based payment	—	—	—	(48)	—	—	—	—	—	—	—	—	—	(48)
Others increases or (-) decreases of the equity	—	—	14	50	—	—	(262)	—	—	—	—	—	110	(88)
Balance as at 30-06-2021	8,670	47,979	641	165	60,280	—	(3,762)	(96)	3,675	—	(32,181)	(1,817)	12,191	95,745

(*) Presented for comparison purposes only (see note 1.e).

The accompanying explanatory Notes 1 to 17 are an integral part of the condensed consolidated statement of changes in total equity for the six-month period ended 30 June 2021.

Translation of interim condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 17). In the event of a discrepancy, the Spanish-language version prevails.

GRUPO SANTANDER

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2021 AND 2020

(EUR million)

	Capital	Share premium	Equity instruments issued (not capital)	Other equity instruments	Accumulated retained earnings	Revaluation reserves	Other reserves	(-) Own shares	Profit Attributable to shareholders of the parent	(-) Interim dividends	Other comprehensive income	Non-Controlling interest		Total
												Other comprehensive income	Other items	
Balance as at 31-12-2019 (*)	8,309	52,446	598	146	61,028	—	(3,110)	(31)	6,515	(1,662)	(24,168)	(982)	11,570	110,659
Adjustments due to errors	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Adjustments due to changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Opening balance as at 01-01-2020 (*)	8,309	52,446	598	146	61,028	—	(3,110)	(31)	6,515	(1,662)	(24,168)	(982)	11,570	110,659
Total recognised income and expense	—	—	—	—	—	—	—	—	(10,798)	—	(6,469)	(715)	460	(17,522)
Other changes in equity	—	—	13	26	6,566	—	(598)	(34)	(6,515)	—	—	—	(736)	(1,278)
Issuance of ordinary shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Issuance of preferred shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Issuance of other financial instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Maturity of other financial instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Conversion of financial liabilities into equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Capital reduction	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Dividends	—	—	—	—	—	—	—	—	—	—	—	—	(279)	(279)
Purchase of equity instruments	—	—	—	—	—	—	—	(454)	—	—	—	—	—	(454)
Disposal of equity instruments	—	—	—	—	—	—	1	420	—	—	—	—	—	421
Transfer from equity to liabilities	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Transfer from liabilities to equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Transfers between equity items	—	—	—	—	6,566	—	(51)	—	(6,515)	—	—	—	—	—
Increases (decreases) due to business combinations	—	—	—	—	—	—	—	—	—	—	—	—	4	4
Share-based payment	—	—	—	(56)	—	—	—	—	—	—	—	—	—	(56)
Others increases or (-) decreases of the equity	—	—	13	82	—	—	(548)	—	—	—	—	—	(461)	(914)
Balance as at 30-06-2020 (*)	8,309	52,446	611	172	67,594	—	(3,708)	(65)	(10,798)	(1,662)	(30,637)	(1,697)	11,294	91,859

(*) Presented for comparison purposes only (see Note 1.e).

The accompanying explanatory Notes 1 to 17 are an integral part of the condensed consolidated statement of changes in total equity for the six-month period ended 30 June 2021.

GRUPO SANTANDER

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

(EUR million)

	Note	30-06-2021	30-06-2020(*)
A. CASH FLOWS FROM OPERATING ACTIVITIES		28,045	45,068
Profit/(loss) for the period		4,440	(10,338)
Adjustments made to obtain the cash flows from operating activities		11,142	24,498
Depreciation and amortisation cost		1,381	1,419
Other adjustments		9,761	23,079
Net increase/(decrease) in operating assets		9,091	116,992
Financial assets held-for-trading		(13,569)	23,047
Non-trading financial assets mandatorily at fair value through profit or loss		280	1,093
Financial assets at fair value through profit or loss		7,447	31,872
Financial assets at fair value through other comprehensive income		(6,313)	6,719
Financial assets at amortised cost		26,923	49,175
Other operating assets		(5,677)	5,086
Net increase/(decrease) in operating liabilities		22,830	148,123
Financial liabilities held-for-trading		(13,014)	25,175
Financial liabilities designated at fair value through profit or loss		6,467	1,171
Financial liabilities at amortised cost		33,692	124,835
Other operating liabilities		(4,315)	(3,058)
Income tax recovered/(paid)		(1,276)	(223)
B. CASH FLOWS FROM INVESTING ACTIVITIES		(1,678)	(2,845)
Payments		4,022	4,664
Tangible assets	7	3,363	2,538
Intangible assets		593	609
Investments		11	466
Subsidiaries and other business units	2	55	1,051
Non-current assets held for sale and associated liabilities		—	—
Other payments related to investing activities		—	—
Proceeds		2,344	1,819
Tangible assets	7	1,673	875
Intangible assets		—	—
Investments		286	29
Subsidiaries and other business units		—	526
Non-current assets held for sale and associated liabilities	6	385	389
Other proceeds related to investing activities		—	—
C. CASH FLOW FROM FINANCING ACTIVITIES		(286)	(1,858)
Payments		2,277	4,210
Dividends	3	477	—
Subordinated liabilities		645	2,089
Redemption of own equity instruments		—	—
Acquisition of own equity instruments		404	454
Other payments related to financing activities		751	1,667
Proceeds		1,991	2,352
Subordinated liabilities		1,586	1,853
Issuance of own equity instruments	11	—	—
Disposal of own equity instruments		387	421
Other proceeds related to financing activities		18	78
D. EFFECT OF FOREIGN EXCHANGE RATE DIFFERENCES		3,171	(3,166)
E. NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		29,252	37,199
F. CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		153,839	101,067
G. CASH AND CASH EQUIVALENTS AT END OF PERIOD		183,091	138,266
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF PERIOD			
Cash		6,929	7,002
Cash equivalents at central banks		160,991	114,253
Other financial assets		15,171	17,011
Less: Bank overdrafts refundable on demand		—	—
TOTAL CASH AND CASH EQUIVALENTS AT END OF PERIOD		183,091	138,266
In which: restricted cash		—	—

(*) Presented for comparison purposes only (see note 1.e).

The accompanying explanatory Notes 1 to 17 are an integral part of the condensed consolidated statement of cash flows for the six-month period ended 30 June 2021.

Banco Santander, S.A. and Companies composing Grupo Santander

Explanatory notes to the interim condensed consolidated financial statements for the six-month period ended 30 June 2021.

1. Introduction, basis of presentation of the interim condensed consolidated financial statements and other information

a) Introduction

Banco Santander, S.A. ('the parent' or 'Banco Santander') is a private-law entity subject to the rules and regulations applicable to banks operating in Spain. The Bylaws and other public information of the Bank can be consulted at its registered office at Paseo de Pereda 9-12, Santander.

In addition to the operations carried on directly by it, Banco Santander is the head of a group of subsidiaries that engage in various business activities and which compose, together with it, Grupo Santander ('Santander' or 'The Group').

Grupo Santander's interim condensed consolidated financial statements for the six-month period ended 30 June 2021 ('interim financial statements') were authorised by Grupo Santander's directors at the board of directors meeting held on 27 July 2021. Grupo Santander's consolidated annual accounts for year 2020 were approved by shareholders at Banco Santander annual general meeting on 26 March 2021.

b) Basis of presentation of the interim financial statements

Under Regulation (EC) n.º 1606/2002 of the European Parliament and of the Council of 19 July 2002 all companies governed by the law of an EU Member State and whose securities are admitted to trading on a regulated market of any Member State must prepare their consolidated financial statements for the years beginning on or after 1 January, 2005 in conformity with the International Financial Reporting Standards ('IFRS') previously adopted by the European Union ('EU-IFRS'). In order to adapt the accounting system of Spanish credit institutions with the principles and criteria established by the IFRS adopted by the European Union ('EU-IFRS'), the Bank of Spain published circular 4/2017, dated 27 November 2017, and subsequent changes, on Public and Confidential Financial Reporting Standards and Financial Statement Formats.

The consolidated annual accounts for 2020 were approved at the board of directors meeting on 22 February 2021 in compliance with International Financial Reporting Standards as adopted by the European Union, taking into account Bank of Spain Circular 4/2017, and subsequent modifications, using the basis of consolidation, accounting policies and measurement bases described in Note 2 to the aforementioned consolidated annual accounts and, accordingly, they presented fairly Grupo Santander's consolidated equity and consolidated financial position at 31 December 2020 and the consolidated results of its operations, and the consolidated cash flows in 2020. The aforementioned consolidated annual accounts, which are included in Grupo Santander's Form 6-K filed with the U.S. Securities and Exchange Commission on 14 April 2021, and these interim financial statements are also in compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IFRS-IASB', and together with EU-IFRS, 'IFRS').

These interim financial statements were prepared and are presented in accordance with International Accounting Standard (IAS 34), Interim Financial Reporting, for the preparation of interim condensed financial statements, in conformity with Article 12 of Royal Decree 1362/2007, and taking into account the requirements of Circular 3/2018, of 28 June, of the Spanish National Securities Market Commission ('CNMV'). The aforementioned interim financial statements were included in the half-year financial report for the first six months of 2021 to be presented by the Group in accordance with the Circular 3/2018.

In accordance with IAS 34, the interim financial statements are intended only to provide an update on the content of the latest consolidated annual accounts authorised for issue, focusing on new activities, events and circumstances occurring during the first six months, and does not duplicate information previously reported in the latest consolidated annual accounts. Consequently, these interim financial statements do not include all the information that would be required for a complete set of consolidated annual accounts prepared in accordance with IFRS and, accordingly, for a proper comprehension of the information included in these interim financial statements, they should be read together with Grupo Santander's consolidated annual accounts for the year ended 31 December 2020.

Grupo Santander policies include presenting the interim financial statements for its use in the different markets using the Euro as its presentation currency. The amounts held in other currencies and the balances of entities whose functional currency is not the Euro, have been translated to the presentation currency in accordance with the criteria indicated in Note 2.a to the consolidated annual accounts for 2020. As indicated in that Note, for practical reasons, the balance sheet amount has been converted to the closing exchange rate, the equity to the historical type, and the income and expenses have been converted by applying the average exchange rate of the period; the application of such exchange rate or that corresponding to the date of each transaction does not lead to significant differences in the interim financial statements of Grupo Santander.

The accounting policies and methods used in preparing these interim financial statements are the same as those applied in the consolidated annual accounts for 2020 taking into account the standards and interpretations that became applicable during the first six months of 2021, which are detailed below:

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

The aforementioned amendment to accounting standards and interpretations has not had a significant effect on Grupo Santander's financial statements.

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

By the time of the preparation and authorisation of these interim financial statements, there was the following standard to be adopted by the European Union whose effective date of implementation by the IASB is 1 January 2021.

- Amendment IFRS 16 Leases: as a result of the covid-19 pandemic, IFRS 16 is amended to allow the lessee to apply a practical expedient and not consider the rental concessions a lease modification whenever the following requirements are met: the revised consideration is the same or less than the consideration prior to the change, the affected payments are prior to 30 June 2021, and there are no substantial changes in the rest of the lease conditions. On 31 March 2021, the IASB published an additional amendment to extend the scope of the practical expedient to 30 June 2022.

The entry into force of the aforementioned amendment to the accounting standard no significant effects on the Group's interim financial statements are expected.

IBOR Reform

Since 2015, central banks and regulators in several major jurisdictions have promoted the transition to suitable replacements for some existing IBOR (Interbank Offered Rates) benchmarks such as Euro Overnight Index Average (EONIA) and London Interbank Offered Rates (LIBORs).

On 27 July 2017, the Chief Executive of the U.K. Financial Conduct Authority (the FCA), which regulates the LIBOR, announced that the FCA will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmarks after 2021.

Additionally, on 13 September 2018 the WG euro RFR recommended that the Euro Short Term Rate (€STR) shall replace EONIA. Since 2 October 2019, the date on which the €STR became available, EONIA changed its methodology to be calculated as the €STR plus a spread of 8.5 basis points. This change in EONIA's methodology is intended to facilitate the market's transition from EONIA to €STR, with the former expected to be discontinued by the 3 January 2022.

On October 2020, the International Swaps and Derivatives Association (ISDA) launched the IBOR Fallbacks Protocol, which become effective on 25 January 2021, and provide derivatives market participants with new IBOR fallbacks for legacy and new derivatives contracts. Banco Santander S.A. and several subsidiaries have adhered to this protocol.

On December 2020, the European Union Council endorsed new rules amending of the European Union Benchmark Regulation (BMR). The aim of the amendments to the Benchmark Regulation is to make sure that a statutory replacement benchmark can be established by the regulators by the time a systemically important benchmark is no longer in use, and thus protect financial stability on European Union markets. The new rules give the Commission the power to replace so-called 'critical benchmarks', which could affect the stability of financial markets in Europe, and other relevant benchmarks, if their termination would result in a significant disruption in the functioning of financial markets in the European Union. The Commission will also be able to replace third country benchmarks if their cessation would result in a significant disruption in the functioning of financial markets or pose a systemic risk for the financial system in the European Union.

In March 2021, the FCA announced the final dates for the cessation of LIBORs:

- 31 December 2021 will see the cessation of publication of USD LIBOR (1-week and 2-month terms), CHF LIBOR (all terms), GBP LIBOR (overnight, 1-week, 2-month and 12-month terms), JPY LIBOR (overnight, 1-week, 2-month, and 12-month terms) and EUR LIBOR (all terms).
- On 31 December 2021 the calculation methodology for some LIBORs will be reformed and will become non-representative: GBP LIBOR (1 month, 3 months and 6 months), JPY LIBOR (1 month, 3 months and 6 months).
- On 30 June 2021 the publication of USD LIBOR (overnight, 12-month and 12-month maturities) will cease and the calculation methodology for USD LIBOR (1-month, 3-month and 6-month maturities) will be reformed and become non-representative.

Interest rate benchmarks have an extended footprint in a significant number of contracts that Santander Group is holding and are used in multiple processes. The most relevant interest rate benchmarks for Santander are EURIBOR, EONIA, USD-LIBOR, GBP-LIBOR, and CHF-LIBOR. Santander Group uses these benchmarks as the reference rate not only for derivatives, but also for loans, discounting products, deposits, collateral agreements and floating rate notes, among others.

The main risks to which Santander is exposed arising from financial instruments because of the transition are: (i) legal risks arising from potential changes required to documentation for new and existing transactions; (ii) risk management, financial and accounting risks arising from market risk models and from valuation, hedging, discontinuation and recognition of financial instruments linked to benchmark rates; (iii) business risk of a decrease in revenues of products linked to indices that will be replaced; (iv) pricing risks arising from how changes to benchmark indices could impact pricing mechanisms on some instruments; (v) operational risks arising from the potential requirement to adapt IT systems, trade reporting infrastructure and operational processes; (vi) conduct risks arising from the potential impact of communication with customers and engagement during the transition period and (vii) litigation risks regarding our existing products and services, which could adversely impact our profitability.

In order to monitor the risks and address the challenges of the transition, Santander launched the IBOR Transition Programme in 2019. This programme has a group wide scope and reports on a regular basis to Executive Management involving statutory committees. Its main objective is to ensure a smooth operational transition and to anticipate and address any potential customer and conduct related issues that could arise from the IBOR transition. It also aims to ensure that all impacted areas, business units and geographies understand the risks associated with the transition in a homogeneous way and can take appropriate measures to mitigate them.

This IBOR Transition Programme is aligned with the recommendations, guidance and milestones defined by regulators and working groups of different jurisdictions and is structured around the following areas: Technology & Operations, Legal, Client Outreach, Risk Management & Models, Conduct & Communications and Accounting & Finance.

Additionally, Grupo Santander is engaged with the public and private sector initiatives in connection with IBOR transition. As part of this involvement, Santander participates in the WG Risk Free Rate Groups of different jurisdictions in Europe and America. Santander provides active feedback on the multiple consultations issued by industry forums, market associations, bank associations and other public organisms on this issue.

c) Use of critical estimates

The consolidated results and the determination of the consolidated equity are sensitive to the accounting principles and policies, valuation criteria and estimates used by the directors of Banco Santander in preparing the interim financial statements. The main accounting principles, policies, and valuation criteria are indicated in Note 2 of the consolidated annual accounts of the year 2020, except for those indicated in these interim financial statements due to the rules that have come into effect during the first six months of the year 2021.

The interim financial statements contain estimates made by the senior management of Banco Santander and of the consolidated entities in order to quantify certain of the assets, liabilities, income, expenses and obligations reported in the consolidated entities. These estimates, which were made on the basis of the best information available, relate mainly to the following:

1. The income tax expense, which, in accordance with IAS 34, is recognised in interim periods based on the best estimate of the weighted average tax rate expected by Grupo Santander for the full financial year;
2. The impairment losses on certain assets – Financial assets at fair value through other comprehensive income, financial assets at amortised cost, non-current assets held for sale, investments in subsidiaries, joint ventures and associates, tangible assets and intangible assets;
3. The assumptions used in the calculation of the post-employment benefit liabilities and commitments and other obligations;
4. The useful life of the tangible and intangible assets;
5. The measurement of goodwill impairment arising on consolidation;
6. The calculation of provisions and the consideration of contingent liabilities;
7. The fair value of certain unquoted assets and liabilities;
8. The recoverability of deferred tax assets; and
9. The fair value of the identifiable assets acquired and the liabilities assumed in business combinations in accordance with IFRS 3.

In order to update the estimates described above, Grupo Santander's management took into account the current situation as a result of covid-19, which significantly affects economic activity worldwide and, consequently, Grupo Santander's operations and financial results, as well as generating uncertainty in the estimates made. As a result, Group management has made an assessment of the current situation based on the best information available to date, identifying potential impacts of covid-19 on the main estimates made since the start of the pandemic, as well as for the first half of 2021. For estimates that have not changed during the first six months of this year, details are provided in Note 1.c of the consolidated financial statements for 2020.

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

– Credit risk:

i. Covid-19 management and customer support:

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

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

Grupo Santander continued to support its customers in the first half of 2021, fostering their economic resilience in all the Group's geographies.

Regarding the moratorium measures granted, the amount at 30 June 2021 was around EUR 104,300 million. Of these, around 66% corresponded to residential mortgages, mainly in the UK where the portfolio has a low average loan to value (LTV) (<50%). The moratoriums granted in consumer lending operations (around EUR 16,400 million, or 16% of the total portfolio) are mainly car loans. The granting of new moratoriums slowed down from the second half of 2020 onwards.

92% of the total moratoriums (about EUR 96,000 million) have already matured by the end of June 2021, showing a good performance, with 5% of them being classified as stage 3 in accordance with IFRS 9. Loans subject to moratorium and not overdue amounted to EUR 8,700 million (mainly in Spain and Portugal), with about EUR 7,500 million maturing at the end of the third quarter.

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

ii. Estimation of expected loss:

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

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

1. Continuous monitoring of clients:

- We continue to monitor and provide solutions to those Group customers whose moratoriums have expired, facilitating the restructuring of their debt for those customers with loans subject to government guarantee programmes that so require. Strict classification and loss recognition criteria are always applied in accordance with our internal rules, current regulations and supervisory recommendations.

- Progress continued to be made in the processes of assessing and classifying our customers at the individual and sectoral level, following the various collective analyses carried out during the year. To this end, the behaviour of customers and the collective analyses carried out are continuously monitored, identifying and classifying on an individual basis those customers showing signs of impairment. As some of the uncertainties generated by the pandemic are cleared up, there will be a progressive move away from collective analyses towards a more individualised identification of deterioration.

2. Foresight

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

3. Additional elements

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

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

iii. Quantification of additional provisions by covid-19:

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

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

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

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

– Market risk:

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

As a result, there has been no significant impact on the fair value hierarchy and most markets, underlying and maturities have maintained their classification, in line with our observability and significance criteria. Reclassifications between levels have been concentrated and not significant on specific positions for which there may have been a change in observability conditions or a change in access to reliable valuation sources.

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

The levels of risk measured in terms of VaR in all the Grupo Santander's units are at historically low levels. During the first semester of the year, positions in the portfolio remained low, with low use of the authorised risk limits. Grupo Santander's treasury activity continued to be concentrated in low complexity instruments and focused on providing services to our corporate clients, mainly in interest rate and FX risk factors. Although in the time window used to calculate VaR levels the high volatility scenarios observed last year due to the covid-19 crisis are maintained, exposure to risk is at historical lows of the last few years, approximately EUR 8.7 million (VaR 1d 99%) at the end of the semester .

– Tax matters:

In Spain, in June the tax assessments for corporate income tax financial years 2012-2015 were partially signed in disagreement. Banco Santander, S.A., as the parent of the Consolidated Tax Group, considers that these assessments should not have a significant impact on the consolidated financial statements or on capital, as there are sound defensive arguments in the appeals that will be filed.

During the six-month period ended 30 June 2021, there have been no additional significant changes in the estimates made at the end of 2020, other than those indicated in this interim financial information.

d) Contingent assets and liabilities

Note 2.o to Grupo Santander's consolidated annual accounts for the year ended 31 December 2020 includes information on the contingent assets and liabilities at that date. There were no significant changes in Grupo Santander's contingent assets and liabilities from 31 December 2020 to the date of formal preparation of these interim financial statements.

e) Comparative information

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

The information in Note 3.b regarding the outstanding shares on June 2020 has been restated due to the capital increase described in Note 31.a of the consolidated annual accounts for year 2020 in accordance with IAS 33 Earnings per share.

Additionally, the segment information corresponding to the period ended 30 June 2020 were restated for comparative purposes in accordance with the Group's new organizational structure, as required by IFRS 8 (see Note 12).

In order to interpret the changes in the balances with respect to 31 December 2020, it is necessary to take into consideration the exchange rate effect arising from the volume of foreign currency balances held by the Group in view of its geographic diversity (Note 50.b to the consolidated annual accounts for the year ended 31 December 2020) and the impact of the appreciation/ depreciation of the various currencies against the euro in the first six months of 2021: Mexican peso (3.61%), US dollar (3.45%), Brazilian real (7.28%), Argentine peso (-9.14%), Pound sterling (4.63%), Chilean peso (1.00%) and Polish zloty (0.90%); as well as the evolution of the average exchange rates between comparable periods: Mexican peso (-2.93%), US dollar (-8.57%), Brazilian real (-17.51%), Argentine peso (-35.51%), Pound sterling (0.74%), Chilean peso (3.11%) and Polish zloty (-2.80%).

f) Seasonality of the Grupo Santander's transactions

The business activities carried on by Grupo Santander entities, and their transactions are not cyclical or seasonal in nature. Therefore, no specific disclosures are included in these explanatory notes to the interim financial statements for the six-month period ended 30 June 2021.

g) Materiality

In determining the note disclosures to be made on the various items in the interim financial statements or other matters, Grupo Santander, in accordance with IAS 34, took into account their materiality in relation to the interim financial statements for the six-month period ended 30 June 2021.

h) Events after the reporting period

From 1 July 2021 until the date of approval of the interim financial statements for the six-month period ended 30 June 2021, it is worth mentioning the following significant events:

- On July 2, Santander Holdings USA, Inc (the parent company that groups Grupo Santander's businesses in the United States) announced an offer to acquire all the shares of Santander Consumer USA Holdings, Inc that it does not currently own at a price of USD 39 per share. At the time of the announcement Santander Holdings USA, Inc owns 80% of Santander Consumer USA. If all minority shareholders accept the offer, the transaction would represent a cash outlay for the Group of USD 2,358 million (equivalent to approximately EUR 2,000 million).

- On July 15, Grupo Santander announced that its subsidiary Santander Holdings USA, Inc (the parent company that groups the Group's businesses in the US) has reached an agreement to acquire independent fixed income broker Amherst Pierpoint Securities through the purchase of its parent Pierpoint Capital Holdings LLC for a total amount of approximately USD 600 million (around EUR 500 million). The transaction, subject to regulatory approvals and customary closing conditions, is expected to be completed by the end of the first quarter of 2022.

2. Grupo Santander

Appendices I, II and III to the consolidated annual accounts for the year ended 31 December 2020 provide relevant information on Grupo Santander companies at that date and on the companies accounted for under the equity method.

Also, Note 3 to the aforementioned consolidated annual accounts includes a description of the most significant acquisitions and disposals of companies performed by Grupo Santander in 2020, 2019 and 2018.

The most significant transactions carried out during the first six months of 2021 or pending execution at 30 June 2021 are described below:

Tender offer for shares of Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander Mexico

On 26 March, Banco Santander, S.A. announced its intention to make a tender offer for all shares of Banco Santander Mexico, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México ('Santander México') that are not owned by Grupo Santander, representing approximately 8.3% of the share capital of Santander México. On 8 June, Banco Santander, S.A. announced that, in order to provide a liquidity window for those investors who would like to exit their positions in the short term at the offered price, it intends to launch the Tender Offer as a voluntary tender offer pursuant to article 97 of the Mexican Securities Market Law, instead of a delisting tender offer, as previously announced. As a result, the Tender Offer will cease to be a delisting tender offer and, therefore, will no longer be subject to the approval of at least 95% of the existing capital of Santander México.

The expected consideration for shareholders accepting the offer will be MXN 24 (approximately EUR 1) for each Santander Mexico share (and its equivalent for each American Depositary Share, securities listed on the New York Stock Exchange). If all the shares held by minority shareholders accept the offer, considering the currently envisaged, the acquisition of 8.3% would imply an investment by Banco Santander, S.A. of approximately MXN 13.19 billion (approximately EUR 550 million).

The transaction is expected to close in the second semester of 2021. The commencement of the offer and the offer itself will be subject to customary regulatory conditions and approvals.

3. Shareholder remuneration system and earnings per share

a) Shareholder remuneration system

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

	30-06-2021			30-06-2020		
	% of par value	Euros per share	Amount (EUR million)	% of par value	Euros per share	Amount (EUR million)
Ordinary shares	5.50 %	0.0275	477	—	—	—
Other shares (without vote, redeemable, etc.)	—	—	—	—	—	—
Total remuneration paid	5.50 %	0.0275	477	—	—	—
Dividend paid out of profit	—	—	—	—	—	—
Dividend paid with a charge to reserves or share premium	5.50 %	0.0275	477	—	—	—
Dividend in kind	—	—	—	—	—	—
Flexible payment	—	—	—	—	—	—

In May 2021, the Bank paid a dividend of 2.75 euro cents per share in cash for the 2020 financial year against share premium of EUR 477 million (see ECPN and Note 11), which is the maximum amount allowed under the limit set by the European Central Bank's recommendation of 15 December 2020. This payment was made in execution of the premium distribution resolution approved at the Bank's General Meeting of Shareholders held on 27 October 2020.

b) Earnings per share from continuing and discontinued operations*i. Basic earnings per share*

Basic earnings per share for the period are calculated by dividing the net profit attributable to Grupo Santander for the six-month period adjusted by the after-tax amount relating to the remuneration of contingently convertible preference shares recognised in equity by the weighted average number of ordinary shares outstanding during the period, excluding the average number of treasury shares held in the period.

Accordingly:

	30-06-2021	30-06-2020
Profit attributable to the Parent (EUR million)	3,675	(10,798)
Remuneration of contingently convertible preferred securities (CCPS) (EUR million)	(271)	(278)
	3,404	(11,076)
<i>Of which:</i>		
<i>Profit or Loss from discontinued operations (non controlling interest net) (EUR million)</i>	—	—
<i>Profit or Loss from continuing operations (CCPS net) (EUR million)</i>	3,404	(11,076)
Weighted average number of shares outstanding	17,309,951,841	16,598,649,355
Impact factor correction (a)	Not applicable	721,680,407
Adjusted number of shares	17,309,951,841	17,320,329,762
Basic earnings per share (euros)	0.20	(0.64)
<i>Of which: from discontinued operations (euros)</i>	—	—
<i>from continuing operations (euros)</i>	0.20	(0.64)

(a) Correction factor for the capital increase on 3 December 2020 (see note 1.e).

ii. Diluted earnings per share

Diluted earnings per share for the period are calculated by dividing the net profit attributable to Grupo Santander for the six-month period adjusted by the after-tax amount relating to the remuneration of contingently convertible preference shares recognised in equity and of perpetual liabilities contingently amortisable in their case by the weighted average number of ordinary shares outstanding during the period, excluding the average number of treasury shares and adjusted for all the dilutive effects inherent to potential ordinary shares (share options, warrants and convertible debt instruments).

Accordingly, diluted earnings per share were determined as follows:

	30-06-2021	30-06-2020
Profit attributable to the Parent (EUR million)	3,675	(10,798)
Remuneration of contingently convertible preferred securities (CCPS) (EUR million)	(271)	(278)
	3,404	(11,076)
<i>Of which:</i>		
<i>Profit or Loss from discontinued operations (non controlling interest net) (EUR million)</i>	—	—
<i>Profit or Loss from continuing operations (CCPS net) (EUR million)</i>	3,404	(11,076)
Weighted average number of shares outstanding	17,309,951,841	16,598,649,355
Dilutive effect of options/receipt of shares	48,815,931	Not applicable
Impact factor correction (a)	Not applicable	721,680,407
Adjusted number of shares	17,358,767,772	17,320,329,762
Diluted earnings per share (euros)	0.20	(0.64)
Of which: from discontinued operations (euros)	—	—
from continuing operations (euros)	0.20	(0.64)

(a) Correction factor for the capital increase on 3 December 2020 (see note 1.e).

4. Remuneration and other benefits paid to Banco Santander's directors and senior managers

Note 5 to Grupo Santander's consolidated annual accounts for the year ended 31 December 2020 details the remuneration and other benefits to members of Banco Santander's Board of Directors and senior management in 2020.

Following is a summary of the most significant data on the remunerations and benefits for the six months ended 30 June 2021 and 2020:

Remuneration of members of the board of directors (1)

	Thousand euros	
	30-06-2021	30-06-2020
Members of the board of directors: (2)(3)(4)(5)(6)(7)(8)(9)		
Remuneration concept		
Fixed salary remuneration of executive directors	3,234	2,859
Variable salary remuneration of executive directors	—	—
Directors fees	590	605
Bylaw-stipulated emoluments (annual emolument)	1,857	1,637
Other (except insurance premiums)	1,236	1,416
Sub-total	6,917	6,517
Transactions with shares and/or other financial instruments	—	—
	6,917	6,517

(1) The Notes to the consolidated annual accounts for 2021 will contain detailed and complete information on the remuneration paid to all the directors, including executive directors.

(2) Mr Rodrigo Echenique ceased to be a non-executive director on 22 December 2020.

(3) Mr Sergio Rial was appointed as executive director since 30 May 2020.

(4) Mr Luis Isasi was appointed as director since 19 May 2020.

(5) Mr Guillermo de la Dehesa ceased to be a director on 3 April 2020.

(6) Mr Ignacio Benjumea ceased to be a director on 5 May 2020.

(7) Ms Esther Giménez-Salinas ceased to be a director on 27 October 2020.

(8) Ms Gina Díez was appointed as director since 22 December 2020.

(9) Mr Ramón Martín Chávez was appointed as director since 27 October 2020.

Other benefits of members of the board of directors

	Thousand euros	
	30-06-2021	30-06-2020
Members of the board of directors		
Other benefits		
Advances	—	—
Loans granted	73	34
Pension funds and plans: Endowments and/or contributions (1)	912	1,010
Pension funds and plans: Accumulated rights (2)	68,317	79,015
Life insurance premiums	677	896
Guarantees provided for directors	—	—

- (1) These correspond to the endowments and/or contributions made during the first six months of 2021 and 2020 in respect of retirement pensions and complementary benefits for widowhood, orphanhood and permanent disability.
- (2) Corresponds to the rights accrued by the directors in matters of pensions. Additionally, former members of the board had at 30 June 2021 and 30 June 2020 rights accrued for this concept for EUR 50,107 thousand and EUR 56,778 thousand, respectively.

Remuneration of senior management (1)(2)

The table below includes the corresponding amounts related to remunerations of senior management at 30 June 2021 and 2020, excluding the executive directors:

	Thousand euros	
	30-06-2021	30-06-2020
Senior management (1)		
Total remuneration of senior management (2)	14,014	15,275

- (1) Remunerations received during the first six months by members of the senior management who ceased in their functions by 30 June 2021, amounted to 2,690 thousand euros (EUR 2,822 thousand at 30 June 2020).
- (2) The number of members of Banco Santander's senior management, excluding executive directors, is 16 as at 30 June 2021 (30 June 2020: 17).

The variable annual remuneration (or bonuses) received for fiscal year 2020, both for directors and the rest of senior management, were included in the information on remuneration included in the annual report for that year. Similarly, the variable remuneration attributable to the 2021 results, which will be submitted for approval by the Board of Directors at the appropriate time, will be included in the financial statements for the current year.

Funds and pension plans of senior management

	Thousand euros	
	30-06-2021	30-06-2020
Senior management (1)		
Pension funds: Endowments and / or contributions (2)	2,917	2,987
Pension funds: Accumulated rights (3)	57,372	55,229

- (1) Remunerations received as endowments and/or contributions to pension funds during the first six months by members of the senior management who ceased in their functions by 30 June 2021, amounted to EUR 195 thousand (EUR 178 thousand at 30 June 2020).
- (2) Corresponds to the allocations and/or contributions made during the first six months of 2021 and 2020 as retirement pensions.
- (3) Corresponds to the rights accrued by members of senior management in the area of pensions. In addition, former members of senior management had at 30 June 2021 and 30 June 2020 rights accumulated for this same concept for EUR 132,597 thousand and EUR 160,278 thousand, respectively.

5. Financial assets

a) Breakdown

The detail, by nature and category for measurement purposes, of Grupo Santander's financial assets, other than the balances relating to Cash, cash balances at central banks and other deposits on demand and Hedging derivatives, at 30 June 2021 and 31 December 2020 is as follows, presented by the nature and categories for valuation purposes:

	EUR million				
	30-06-2021				
	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost
Derivatives	54,867				
Equity instruments	13,545	3,607		2,751	
Debt instruments	34,114	810	2,763	103,549	29,038
Loans and advances	265	421	53,723	8,205	974,379
Central Banks	—	—	4,881	—	13,548
Credit institutions	—	—	23,910	—	40,136
Customers	265	421	24,932	8,205	920,695
Total	102,792	4,838	56,486	114,505	1,003,417

	EUR million				
	31-12-2020				
	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost
Derivatives	67,137				
Equity instruments	9,615	3,234		2,783	
Debt instruments	37,894	700	2,979	108,903	26,078
Loans and advances	299	552	45,738	9,267	932,300
Central Banks	—	—	9,481	—	12,499
Credit institutions	3	—	12,136	—	37,838
Customers	296	552	24,121	9,267	881,963
Total	114,945	4,486	48,717	120,953	958,378

Following is the gross exposure of financial assets subject to impairment stages at 30 June 2021 and 31 December 2020:

	EUR million							
	30-06-2021				31-12-2020			
	Gross amount				Gross amount			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Financial assets at fair value through other comprehensive income	111,684	29	101	111,814	118,150	6	50	118,206
Debt instruments	103,554	1	6	103,561	108,903	6	6	108,915
Loans and advances	8,130	28	95	8,253	9,247	—	44	9,291
Central Banks	—	—	—	—	—	—	—	—
Credit institutions	—	—	—	—	—	—	—	—
Customers	8,130	28	95	8,253	9,247	—	44	9,291
Financial assets at amortised cost	927,729	66,964	32,045	1,026,738	884,892	66,170	30,670	981,732
Debt instruments	28,773	118	435	29,326	25,889	66	395	26,350
Loans and advances	898,956	66,846	31,610	997,412	859,003	66,104	30,275	955,382
Central Banks	13,548	—	—	13,548	12,499	—	—	12,499
Credit institutions	40,142	—	—	40,142	37,845	—	1	37,846
Customers	845,266	66,846	31,610	943,722	808,659	66,104	30,274	905,037
Total	1,039,413	66,993	32,146	1,138,552	1,003,042	66,176	30,720	1,099,938

On 30 June 2021, Grupo Santander has EUR 502 million (EUR 497 million on 31 December 2020) of exposure in impaired assets purchased with impairment, of which 431 million still show signs of impairment, which mainly correspond to the business combinations carried out by Grupo Santander.

b) Impairment allowances of financial assets at amortised cost portfolio

The following is the movement that has taken place, during the six-month periods ended 30 June 2021 and 2020, in the balance of provisions that cover losses due to impairment of assets which comprise the heading balance of the financial assets at amortised cost:

	EUR million	
	30-06-2021	30-06-2020
Balance as at beginning of period	23,849	22,713
Impairment losses charged to income for the period	4,384	7,441
Of which:		
Impairment losses charged to income	9,778	12,616
Impairment losses reversed with a credit to income	(5,394)	(5,175)
Write-off of impaired balances against recorded impairment allowance	(4,353)	(5,183)
Exchange differences and other	(57)	(1,716)
Balance as at end of period	23,823	23,255
Of which, relating to:		
Impaired assets	14,101	13,571
Other assets	9,722	9,684
Of which:		
Individually calculated	3,077	3,358
Collectively calculated	20,746	19,897

Following is the movement of the loan loss provision broken down by impairment stage of loans and advances to customers recognised under 'Financial assets at amortised cost' as at 30 June 2021 and 30 June 2020:

	EUR million			
	30-06-2021			
	Stage 1	Stage 2	Stage 3	Total
Impairment allowance as at beginning of period	4,252	5,672	13,647	23,571
Transfers between stages	(474)	747	2,273	2,546
Variation due to credit risk	473	(904)	2,269	1,838
Write-offs	—	—	(4,353)	(4,353)
Exchange differences and other	(104)	33	(2)	(73)
Carrying amount at end of period	4,147	5,548	13,834	23,529

	EUR million			
	30-06-2020			
	Stage 1	Stage 2	Stage 3	Total
Impairment allowance as at beginning of period	3,835	4,474	13,933	22,242
Transfers between stages	(722)	694	2,622	2,594
Variation due to credit risk	2,328	(327)	2,911	4,912
Write-offs	—	—	(5,057)	(5,057)
Exchange differences and other	(333)	(290)	(1,093)	(1,716)
Carrying amount at end of period	5,108	4,551	13,316	22,975

Previously written-off assets recovered during the first six months of 2021 and 2020 amount to EUR 599 million and to EUR 543 million, respectively. In addition, during the first six months of 2020 an amount of EUR 129 million was recognized in the account for losses due to renegotiation or contractual modification. Considering these amounts, the recorded impairment of financial assets at amortised cost is EUR 3,785 million and EUR 7,027 million during the first six months of 2021 and 2020, respectively.

c) Impaired assets of financial assets at amortised cost portfolio

The movement during the six-month periods ended 30 June 2021 and 2020, in the balance of financial assets classified at amortised cost and considered impaired by reason for the credit risk is as follows:

	EUR million	
	30-06-2021	30-06-2020
Balance as at beginning of period	31,168	33,184
Net additions	4,842	5,586
Written-off assets	(4,353)	(5,183)
Exchange differences and other	819	(1,407)
Balance at end of period	32,476	32,180

This amount, after deducting the related allowances, represents Grupo Santander's best estimate of the discounted value of the flows that are expected to be recovered from the impaired assets.

d) Guarantees received

Following is the breakdown of the value of the guarantees received to ensure the collection of the financial assets that comprise the heading of financial assets at amortized cost, distinguishing between real guarantees and other guarantees as of 30 June 2021 and 31 December 2020:

	EUR million	
	30-06-2021	31-12-2020
Real guarantees value	574,360	537,216
Of which: Impaired	12,239	12,106
Other guarantees value	85,342	82,314
Of which: Impaired	1,751	1,253
Total value of the guarantees received	659,702	619,530

e) Fair value of financial assets not measured at fair value

Following is a comparison of the carrying amounts of Grupo Santander's financial assets measured at other than fair value and their respective fair values at 30 June 2021 and 31 December 2020:

	EUR million		EUR million	
	30-06-2021		31-12-2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans and advances	974,379	981,129	932,300	940,258
Debt instruments	29,038	29,367	26,078	26,532
ASSETS	1,003,417	1,010,496	958,378	966,790

The main valuation methods and inputs used in the estimation of the fair value of the financial assets of the previous table are detailed in Note 50.c of the consolidated annual accounts for the year 2020.

6. Non-current assets held for sale

The detail, by nature, of Grupo Santander's non-current assets held for sale at 30 June 2021 and 31 December 2020 is as follows presented by nature:

	EUR million	
	30-06-2021	31-12-2020
Tangible assets	4,369	4,445
Of which:		
Foreclosed assets	3,963	4,081
Of which: Property assets in Spain	3,370	3,485
Other tangible assets held for sale	406	364
Other assets	708	—
	5,077	4,445

On 30 June 2021, the allowance recognised for the non-current tangible assets held for sale represented the 47.4% (31 December 2020: 48.0%). The charges recorded in the first six months of 2021 and 2020 amounted to EUR 84 million and EUR 167 million, respectively, and the recoveries undergone during those periods amount to EUR 17 million and EUR 19 million, respectively.

7. Tangible assets

a) Changes in the period

In the first six months of 2021 and 2020, tangible assets (rights of use are not included) were acquired for EUR 3,363 million and EUR 2,538 million, respectively.

Also, in the first six months of 2021 and 2020 tangible asset items were disposed of with a carrying amount of EUR 1,621 million and EUR 848 million respectively, giving rise to a net gain of EUR 52 million and EUR 27 million, respectively.

b) Property, plant and equipment purchase commitments

At 30 June 2021 and 2020, Grupo Santander did not have any significant commitments to purchase property, plant and equipment items.

c) Leasing rights

As of 30 June 2021, Grupo Santander has tangible assets under lease for the amount of EUR 2,784 million (EUR 2,837 million at 31 December 2020).

d) Tangible asset impairment

In the first semester of 2021, EUR 125 million of tangible asset impairment was recognised in the tangible asset impairment line.

8. Intangible assets

The detail of Intangible Assets - Goodwill at 30 June 2021 and 31 December 2020, based on the cash-generating units giving rise thereto, is as follows:

	EUR million	
	30-06-2021	31-12-2020
Banco Santander (Brazil)	3,386	3,109
SAM Investment Holdings Limited	1,444	1,444
Santander Consumer Germany	1,314	1,314
Santander Bank Polska	1,114	1,104
Santander Portugal	1,040	1,040
Santander España	1,027	1,027
Santander Consumer USA	935	904
Santander UK	619	592
Santander Bank National Association	614	594
Banco Santander Chile	577	571
Grupo Financiero Santander (Mexico)	414	399
Santander Consumer Nordics	220	216
Other entities	150	157
Total Goodwill	12,854	12,471

During the first half of 2021 there has been an increase in goodwill of EUR 383 million, mainly due to exchange differences (Note 11), which, in accordance with current regulations, have been recognised with a credit to Other comprehensive income - Items that may be reclassified to profit or loss - Foreign currency translation in equity through the condensed consolidated statement of recognised income and expense.

Note 17 to the consolidated annual accounts for the year ended 31 December 2020 includes detailed information on the procedures followed by Grupo Santander to analyse the potential impairment of the goodwill recognised with the respect to its recoverable amount and to recognise the related impairment losses, where appropriate.

The accounting standard (IAS 36) requires that a cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

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

During the second quarter of 2020, considering the economic and business environment resulting from covid-19, market conditions and the existing economic uncertainty, an impairment test was performed for certain CGUs. As a result, the Group recognised goodwill impairment of EUR 10,100 million, mainly associated with Santander UK, Santander Bank Polska, Santander Bank, National Association, Santander Consumer USA and Santander Consumer Nordics.

9. Financial liabilities

a) Breakdown

The following is a breakdown of Grupo Santander's financial liabilities, other than the balances corresponding to the Derivatives - hedge accounting heading, as of 30 June 2021 and 31 December 2020, presented by nature and categories for valuation purposes:

	EUR million					
	30-06-2021			31-12-2020		
	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Financial liabilities at amortised cost	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Financial liabilities at amortised cost
Derivatives	52,440			64,469		
Short Positions	16,542			16,698		
Deposits	—	48,640	1,038,892	—	43,598	990,391
Central banks	—	3,189	124,947	—	2,490	112,804
Credit institutions	—	7,446	57,823	—	6,765	62,620
Customer	—	38,005	856,122	—	34,343	814,967
Debt instruments	—	5,491	237,739	—	4,440	230,829
Other financial liabilities	—	—	33,802	—	—	26,968
Total	68,982	54,131	1,310,433	81,167	48,038	1,248,188

b) Information on issues, repurchases or redemptions of debt instruments issued

The detail of the balance of debt instruments issued according to their nature is:

	EUR million	
	30-06-2021	31-12-2020
Bonds and debentures outstanding	194,860	191,577
Subordinated	23,383	21,686
Promissory notes and other securities	24,987	22,006
Total debt instruments issued	243,230	235,269

The detail, at 30 June 2021 and 2020, of the outstanding balance of the debt instruments, excluding promissory notes, which at these dates had been issued by Banco Santander or any other Group entity is disclosed below. Also included is the detail of the changes in this balance in the first six months of 2021 and 2020:

	EUR million					
	30-06-2021					
	Opening balance at 01-01-21	Perimeter	Issuances or placements	Repurchases or redemptions	Exchange rate and other adjustments	Closing balance at 30-06-21
Bonds and debentures outstanding	191,577	—	33,415	(32,496)	2,364	194,860
Subordinated	21,686	—	1,578	—	119	23,383
Bonds and debentures outstanding and subordinated liabilities issued	213,263	—	34,993	(32,496)	2,483	218,243

	EUR million					Closing balance at 30-06-20
	30-06-2020					
	Opening balance at 01-01-20	Perimeter	Issuances or placements	Repurchases or redemptions	Exchange rate and other adjustments	
Bonds and debentures outstanding	208,455	—	39,109	(36,749)	(4,574)	206,241
Subordinated	20,878	—	1,853	(1,615)	(639)	20,477
Bonds and debentures outstanding and subordinated liabilities issued	229,333	—	40,962	(38,364)	(5,213)	226,718

At 12 May 2021, Banco Santander placed the issue contingently convertible preference shares into newly issued ordinary shares of the Bank, previously announced, for a total nominal amount of EUR 1,578 million, issued in a US Dollar Series of USD 1,000 million (EUR 828 million at the exchange rate on the day of the issue) and a Euro Series of EUR 750 million.

The issuance is carried out at par and the remuneration of PPCC, whose payment is subject to certain conditions and is also discretionary, has been fixed (i) for the Dollar Series at 4.750% per annum for the first six years, revised every five years thereafter by applying a margin of 375.3 basis points over the 5-year UST rate (5-year UST) and (ii) for the Euro Series at 4.125% per annum for the first seven years, revised every five years thereafter by applying a margin of 431.1 basis points over the applicable 5-year Euro mid-swap.

At 12 March 2020, Banco Santander proceeded to redeem early and voluntarily the entire outstanding issue of Tier 1 Contingently Convertible Preferred Participations Series I/2014, for a total nominal amount of EUR 1,500 million.

In January 2020, Banco Santander carried out a placement of contingently convertible preferred participations into newly issued ordinary shares of Banco Santander (the 'PPCCs'), excluding the pre-emptive subscription rights of its shareholders and for a nominal amount of EUR 1,500 million (the 'Issue' and the 'PPCCs').

The Issue was made at par and the remuneration of the PPCCs, the payment of which is subject to certain conditions and is also discretionary, was set at 4.375% per annum for the first six years, revised every five years thereafter by applying a margin of 453.4 basis points over the 5-year Mid-Swap Rate.

c) Other issues guaranteed by Grupo Santander

At 30 June 2021 and 2020, there were no debt instruments issued by associates or non-Group third parties (unrelated) that had been guaranteed by Banco Santander or any other Group entity.

d) Fair value of financial liabilities not measured at fair value

Following is a comparison between the value by which Grupo Santander's financial liabilities are recorded that are measured using criteria other than fair value and their corresponding fair value at 30 June 2021 and 31 December 2020:

	EUR million			
	30-06-2021		31-12-2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Deposits	1,038,892	1,037,223	990,391	990,807
Debt instruments	237,739	246,161	230,829	241,174
Liabilities	1,276,631	1,283,384	1,221,220	1,231,981

Additionally, other financial liabilities are accounted for EUR 33,802 million and EUR 26,968 million as of 30 June 2021 and 31 December 2020, respectively.

The main valuation methods and inputs used in the estimation of the fair value of the financial liabilities in the previous table are detailed in Note 50.c of the consolidated annual accounts for 2020, other than those mentioned in these interim financial statements.

10. Provisions

a) Provisions for Pensions and other post-retirements obligations and Other long term employee benefits

The variation experienced by the balance of the Pensions and other post-retirements obligations and other long-term employee benefits from 31 December 2020 to 30 June 2021, is mainly due to lower net actuarial losses as a result of changes in actuarial assumptions (see Note 11.d).

b) Provisions for taxes and other legal contingencies and Other provisions

Set forth below is the detail, by type of provision, of the balances at 30 June 2021 and at 31 December 2020 of Provisions for taxes and other legal contingencies and Other provisions. The types of provision were determined by grouping together items of a similar nature:

	EUR million	
	30-06-2021	31-12-2020
Provisions for taxes	609	600
Provisions for employment-related proceedings (Brazil)	432	437
Provisions for other legal proceedings	1,128	1,163
Provision for customer remediation	625	395
Regulatory framework-related provisions	24	69
Provision for restructuring	1,114	810
Other	946	951
	4,878	4,425

Relevant information is set forth below in relation to each type of provision shown in the preceding table:

The provisions for taxes include provisions for tax-related proceedings.

The provisions for employment-related proceedings (Brazil) relate to claims filed by trade unions, associations, the prosecutor's office and ex-employees claiming employment rights to which, in their view, they are entitled, particularly the payment of overtime and other employment rights, including litigation concerning retirement benefits. The number and nature of these proceedings, which are common for banks in Brazil, justify the classification of these provisions in a separate category or as a separate type from the rest. The Group calculates the provisions associated with these claims in accordance with past experience of payments made in relation to claims for similar items. When claims do not fall within these categories, a case-by-case assessment is performed and the amount of the provision is calculated in accordance with the status of each proceeding and the risk assessment carried out by the legal advisers.

The provisions for other legal proceedings include provisions for court, arbitration or administrative proceedings (other than those included in other categories or types of provisions disclosed separately) brought against Santander Group companies.

The provisions for customer remediation include mainly the estimated cost of payments to remedy errors relating to the sale of certain products in the UK, the estimated cost of the Banco Popular Español, S.A.U. floor clauses and the estimated cost claim's cost made on CHF index-linked loan contracts in Poland. To calculate the provision for customer remediation, the best estimate of the provision made by management is used, which is generally based on the estimated number of claims to be received and, of these, the number that will be accepted, as well as the estimated average payment per case.

The regulatory framework-related provisions include mainly the provisions for the extraordinary contribution to *Financial Services Compensation Scheme* (FSCS) and the Bank Levy in the UK, and those relating to *Banking Tax* in Poland.

The provisions for restructuring include only the direct costs arising from restructuring processes by the various Group companies.

Qualitative information on the main litigation is provided in Note 10.c.

Our general policy is to record provisions for tax and legal proceedings in which we assess the chances of loss to be probable and we do not record provisions when the chances of loss are possible or remote. We determine the amounts to be provided for as our best estimate of the expenditure required to settle the corresponding claim based, among other factors, on a case-by-case analysis of the facts and the legal opinion of internal and external counsel or by considering the historical average amount of the loss incurred in claims of the same nature. The definitive date of the outflow of resources embodying economic benefits for the Group depends on each obligation. In certain cases, the obligations do not have a fixed settlement term and, in others, they depend on legal proceedings in progress.

The changes in provisions arising from civil contingencies and legal nature are disclosed in this note.

The main changes in provisions in the first six months of 2021 are as follows:

Regarding the provisions for labour processes and others of a legal nature, Brazil has charged EUR 83 million and EUR 69 million, respectively, making payments of EUR 138 million and EUR 131 million, respectively.

Regarding the provisions arising for customer remediation Poland has registered EUR 154 million in the six first months of the year in order to cover the mortgage portfolio in CHF.

Regarding in provisions constituted by regulatory framework, EUR 46 million in the first six months of 2021 in United Kingdom has been used (Bank Levy and FSCS). In addition, EUR 64 million have been charged and paid in the first six months of 2021 in Poland.

In addition, the restructuring provision includes the provisions made mainly in the United Kingdom and Portugal, as well as the payments made by the Group in the first half of the year.

c) *Litigation and other matters*

i. Tax-related litigation

At 30 June 2021 the main tax-related proceedings concerning the Group were as follows:

- Legal actions filed by Banco Santander (Brasil) S.A. and other Group entities to avoid the application of Law 9.718/98, which modifies the basis to calculate PIS and COFINS social contribution, extending it to all the entities income, and not only to the income from the provision of services. In relation of Banco Santander (Brasil) S.A. process, in May 2015 the Federal Supreme Court (FSC) admitted the extraordinary appeal filed by the Federal Union regarding PIS, and dismissed the extraordinary appeal lodged by the Brazilian Public Prosecutor's Office regarding COFINS contribution, confirming the decision of Federal Regional Court favourable to Banco Santander (Brasil) S.A. of August 2007. The appeals filed by the other entities before the Federal Supreme Court, both for PIS and COFINS, are still pending. These claims are fully provisioned.
- Banco Santander (Brasil) S.A. and other Group companies in Brazil have appealed against the assessments issued by the Brazilian tax authorities questioning the deduction of loan losses in their income tax returns (IRPJ and CSLL) in relation to different administrative processes of various years on the ground that the requirements under the applicable legislation were not met. The appeals are pending decision in CARF. No provision was recognised in connection with the amount considered to be a contingent liability.
- Banco Santander (Brasil) S.A. and other Group companies in Brazil are involved in administrative and legal proceedings against several municipalities that demand payment of the Service Tax on certain items of income from transactions not classified as provisions of services. There are several cases in different judicial instances. A provision was recognised in connection with the amount of the estimated loss.
- Banco Santander (Brasil) S.A. and other Group companies in Brazil are involved in administrative and legal proceedings against the tax authorities in connection with the taxation for social security purposes of certain items which are not considered to be employee remuneration. There are several cases in different judicial instances. A provision was recognised in connection with the amount of the estimated loss.
- In May 2003 the Brazilian tax authorities issued separate infringement notices against Santander Distribuidora de Títulos e Valores Mobiliários Ltda. (DTVM, actually Santander Brasil Tecnologia S.A.) and Banco Santander (Brasil) S.A. in relation to the Provisional Tax on Financial Movements (CPMF) of the years 2000 to 2002. The administrative discussion ended unfavourably for both companies, and on July 3, 2015, filed a lawsuit requesting the cancellation of both tax assessments. The lawsuit was judged unfavourably in first instance. Therefore, both plaintiffs appealed to the court of second instance. On December 2020, the appeal was decided unfavourably. Against the judgment, the bank filed a motion for clarification which has not been accepted. Currently it is appealed to higher courts. There is a provision recognized for the estimated loss.
- In December 2010 the Brazilian tax authorities issued an infringement notice against Santander Seguros S.A. (Brazil), currently Zurich Santander Brasil Seguros e Previdência S.A., as the successor by merger to ABN AMRO Brasil dois Participações S.A., in relation to income tax (IRPJ and CSLL) for 2005, questioning the tax treatment applied to a sale of shares of Real Seguros, S.A. The administrative discussion ended unfavourably, and the CARF decision has been appealed at the Federal Justice. As the former parent of Santander Seguros S.A. (Brasil), Banco Santander (Brasil) S.A. is liable in the event of any adverse outcome of this proceeding. No provision was recognised in connection with this proceeding as it is considered to be a contingent liability.
- In November 2014 the Brazilian tax authorities issued an infringement notice against Banco Santander (Brasil) S.A. in relation to corporate income tax (IRPJ and CSLL) for 2009 questioning the tax-deductibility of the amortisation of the goodwill of Banco ABN AMRO Real S.A. performed prior to the absorption of this bank by Banco Santander (Brasil) S.A., but accepting the amortisation performed after the merger. Actually it is appealed before the Higher Chamber of CARF. No provision was recognised in connection with this proceeding as it was considered to be a contingent liability.
- Banco Santander (Brasil) S.A. has also appealed against infringement notices issued by the tax authorities questioning the tax deductibility of the amortisation of the goodwill arising on the acquisition of Banco Comercial e de Investimento Sudameris S.A. from years 2007 to 2012. No provision was recognised in connection with this matter as it was considered to be a contingent liability.
- Banco Santander (Brasil) S.A. and other companies of the Group in Brazil are undergoing administrative and judicial procedures against Brazilian tax authorities for not admitting tax compensation with credits derived from other tax concepts, not having registered a provision for such amount since it is considered to be a contingent liability.
- Banco Santander (Brasil) S.A. is involved in appeals in relation to infringement notices initiated by tax authorities regarding the offsetting of tax losses in the CSLL ('Social Contribution on Net Income') of year 2009. The appeal is pending decision in CARF. No provision was recognised in connection with this matter as it is considered to be a contingent liability.

- Brazilian tax authorities have issued infringement notices against Getnet Adquirência e Serviços para Meios de Pagamentos S.A and Banco Santander (Brasil) S.A. as jointly liable in relation to corporate income tax (IRPJ and CSLL) for 2014 to 2018 questioning the tax-deductibility of the amortization of the goodwill from the acquisition of Getnet Tecnologia Process S.A., considering that the company would not have complied with the legal requirements for such amortization. A defense against the tax assessment notices was submitted. The notice related to the fiscal years 2014 and 2015 has already been appealed at the CARF, meanwhile the one related to the fiscal years of 2016 to 2018 is pending on judgment. No provision was recognized as it is considered to be a contingent liability.

The total amount for the aforementioned Brazil lawsuits that are fully provisioned is EUR 889 million, and for lawsuits that qualify as contingent liabilities is EUR 3,632 million.

- Legal action brought by Sovereign Bancorp, Inc. (currently Santander Holdings USA, Inc.) claiming its right to take a foreign tax credit for taxes paid outside the United States in fiscal years 2003 to 2005 as well as the related issuance and financing costs. On 17 July 2018, the District Court finally ruled against Santander Holdings USA, Inc. On September 5, 2019 the Federal District Court in Massachusetts entered a judgement resolving the Company's tax liability for fiscal years 2003 to 2005, which had no effect on income. The Company has agreed to resolve the treatment of the same transactions for 2006 and 2007, consistent with the September 5, 2019 judgment. The Congressional Joint Committee on Taxation has completed its review of the proposed resolution of the 2006 and 2007 tax years, with no objection. The IRS finalized its administrative process to close-out the issue, which resulted in no impact on net income.
- Banco Santander has appealed before European Courts the Decisions 2011/5/CE of 28 October 2009, and 2011/282/UE of 12 January 2011 of the European Commission, ruling that the deduction of the financial goodwill regulated pursuant to Article 12.5 of the Corporate Income Tax Law constituted illegal State aid. On November 2018 the General Court confirmed these Decisions but these judgements have been appealed at the Court of justice of the European Union. The Advocate-General has issued his conclusions proposing the dismissal of the appeal. The dismissal of this appeal would not have effect on equity.

At the date of approval of these interim financial statements certain other less significant tax-related proceedings are also in progress.

ii. Non-tax-related proceedings

At 30 June 2021 the main non-tax-related proceedings concerning the Group were as follows:

- Payment Protection Insurance (PPI): claims associated with the sale by Santander UK plc of payment protection insurance or PPI to its customers. At 30 June 2021, the remaining provision for PPI redress and related costs was GBP 37 million (EUR 43 million) (2020: GBP 76 million – EUR 87 million). There was no additional provision in the first semester of 2021.

At 30 June 2021, the outstanding activities which drive the ongoing provision requirement relate to the final aspects of complaints close-down activity and the ongoing commercial negotiation with the Official Receiver. Although the deadline for bringing complaints has passed, customers can still commence litigation for PPI mis-selling. Provision has been made for the best estimate of any obligation to pay compensation in respect of current stock and estimated future claims. There are ongoing factual issues to be resolved regarding such litigation which may have legal consequences including the volume and quality of future litigation claims. As a result, the extent of the potential liability and amount of any compensation to be paid continues to have a significant uncertainty component.

In relation to a specific PPI portfolio of complaints, there is a legal dispute regarding allocation of liability for pre-2005 PPI policies underwritten by two affiliates (Axa France) that Axa Group acquired from Genworth Financial International Holdings, Inc. in September 2015. The dispute involves a Santander Cards UK Limited (formerly known as GE Capital Bank Limited which was acquired by Banco Santander, S.A. from GE Capital group in 2008) which was the distributor of the refer pre-2005 PPI policies and Santander Insurance Services UK Limited (the Santander Entities).

In July 2017, Santander UK plc notified Axa France that the Santander Entities did not accept liability for losses on PPI policies relating to this period, but entered in a Complaints Handling Agreement –that included a standstill agreement- agreeing to handle complaints on Axa affiliates behalf, paying these latter companies redress assessed to be due to relevant policyholders on a without prejudice basis.

After the termination of the Complaints Handling Agreement, on 30 December 2020 Axa France has provided written notice to the Santander Entities to terminate the standstill agreement. On 5 March 2021, the Santander Entities were served with a Claim Form and Brief Details of Claim by AXA France, claiming that the Santander Entities are liable to reimburse AXA France for pre-2005 PPI mis-selling losses, currently estimated at GBP 636 million (EUR 739 million). On 22 March 2021, the Santander Entities acknowledged service of the claim and notified the court of their intention to defend the claim in full and have issued an application for Axa Frances's claim to be struck out/summarily dismissed. This dispute is at an early stage and there are ongoing factual issues to be resolved which may have legal consequences including in relation to liability. These issues create uncertainties which mean that it is difficult to reliably predict the outcome or the timing of the resolution of the matter. The regulatory and other provision includes our best estimate of the Santander UK's liability to PPI and portfolio claims.

- Delforca: dispute arising from equity swaps entered into by Gaesco (now Delforca 2008, S.A.) on shares of Inmobiliaria Colonial, S.A. Banco Santander, S.A. is claiming to Delforca before the Court of Barcelona in charge of the bankruptcy proceedings, a total of EUR 66 million from the liquidation resulting from the early termination of financial transactions due to Delforca's non-payment of the equity swaps. In the same bankruptcy proceedings, Delforca and Mobiliaria Monesa have in turn claimed the Bank to repay EUR 56.8 million, which the Bank received for the enforcement of the agreed guarantee, as a result of the aforementioned liquidation. The procedure in its first instance, in which the two crossed claims will be resolved, is completed pending judgement. In 2009, Mobiliaria Monesa, S.A. (parent of Delforca) filed a civil procedure with the Courts of Santander against the Bank claiming damages that have not been specified to date. The procedure is suspended.
- Former employees of Banco do Estado de São Paulo S.A., Santander Banespa, Cia. de Arrendamiento Mercantil: a claim was filed in 1998 by the association of retired Banespa employees (AFABESP) requesting the payment of a half-yearly bonus contemplated in the by-laws of Banespa in the event that Banespa obtained a profit and that the distribution of this profit were approved by the Board of Directors. The bonus was not paid in 1994 and 1995 since Banespa had not made a profit during those years. Partial payments were made from 1996 to 2000, as approved by the Board of Directors. The relevant clause was eliminated in 2001. The Regional Labour Court and the High Employment Court (TST) ordered Santander Brasil, as successor to Banespa, to pay this half-yearly bonus for the period from 1996 to the present. On 20 March 2019, the Supreme Federal Court (STF) rejected the extraordinary appeal filed by Banco Santander Brasil.

The Bank filed a rescissory action to nullify the decisions of the main proceedings and suspend the execution of the judgment, which was deemed inadmissible, therefore its execution was suspended. The rescissory action was dismissed and a motion for clarification was filed, due to the absence of an explicit argument to deny the rescissory action filed by the Bank. After the decision of the motion for clarification, the Bank filled an extraordinary appeal in the rescissory action in February 2021, which was denied in an interlocutory decision in June 2021 by the TST. As the Bank understands that there is a conflict between the TST decision and the STF, an appeal will be made.

At this moment we have the legal opinion of the bank's external advisers, who have classified the risk as probable. The recorded provisions are considered sufficient to cover the risks associated with the legal claims that are being substantiated as of today.

- 'Planos Económicos': like the rest of the banking system in Brasil, Santander Brasil has been the target of customer complaints and collective civil suits stemming from legislative changes and its application to bank deposits, fundamentally ('economic plans'). At the end of 2017, there was an agreement between regulatory entities and the Brazilian Federation of Banks (Febraban), already approved by the Supremo Tribunal Federal, with the purpose of closing the lawsuits. Discussions focused on specifying the amount to be paid to each affected client according to the balance in their notebook at the time of the Plan. Finally, the total value of the payments will depend on the number of endorsements they have made and the number of savers who have demonstrated the existence of the account and its balance on the date the indexes were changed. In November 2018, the STF ordered the suspension of all economic plan processes for two years from May 2018. On 29 May 2020, the Supremo Tribunal Federal approved the extension of the agreement for 5 additional years starting from 3 June 2020. Condition for this extension was to include in the agreement actions related to the "Collor I Plan". The provisions recorded for the economic plan processes are considered to be sufficient. The provisions recorded for the economic plan processes are considered to be sufficient.
- Floor clauses: in consequence of the acquisition of Banco Popular Español, S.A.U, the Group has been exposed to a material number of transactions with floor clauses. The so-called "floor clauses" or minimum clauses are those under which the borrower accepts a minimum interest rate to be paid to the lender, regardless of the applicable reference interest rate. Banco Popular Español, S.A.U. included "floor clauses" in certain asset transactions with customers. In relation to this type of clauses, and after several rulings made by the Court of Justice of the European Union and the Spanish Supreme Court, and the extrajudicial process established by the Spanish Royal Decree-Law 1/2017, of 2 January, Banco Popular Español, S.A.U. made extraordinary provisions that were updated in order to cover the effect of the potential return of the excess interest charged for the application of the floor clauses between the contract date of the corresponding mortgage loans and May 2013. The Group considered that the maximum risk associated with the floor clauses applied in its contracts with consumers, in the most severe and not probable scenario, would amount to approximately EUR 900 million, as initially measured and without considering the returns performed. At 30 June 2021, after having processed most of the customer requests, the potential residual loss associated with ongoing court proceedings is estimated at EUR 49.6 million, amount which is fully covered by provisions.
- Banco Popular's acquisition: considering the declaration setting out the resolution of Banco Popular Español, S.A.U., the redemption and conversion of its capital instruments and the subsequent transfer to Banco Santander, S.A. of the shares resulting from this conversion in exercise of the resolution instrument involving the sale of the institution's business, in the application accordance with the single resolution framework regulation referred to in Note 3 of the 2018 consolidated annual accounts, some investors have filed claims against the EU's Single Resolution Board decision, the FROB's resolution executed in accordance to the aforementioned decision, and claims have been filed and may be filed in the future against Banco Santander, S.A. or other Santander Group companies deriving from or related to the acquisition of Banco Popular Español, S.A.U..

At this stage, it is not possible to foresee the total number of claims that could be filed by the former holders of shares and capital instruments (arising from the acquisition by investors of such shares and capital instruments of Banco Popular prior to resolution, including in particular, without limitation, the shares acquired in the context of the capital increase with pre-emptive subscription rights carried out in 2016), and their economic implications (especially considering that the decision to resolve in application of the new regulation has no precedent, and that it may be possible that future claims do not specify a specific amount, put forward new legal interpretations or involve a large number of parties).

In this respect, on 2 September 2020, the Provincial Court of La Coruña has referred a preliminary ruling to the Court of Justice of the European Union ("CJEU") asking for the correct interpretation of Article 60(2) of Directive 2014/59/EU of the European Parliament and of the Council, dated 15 May 2014, which establishes a framework for the restructuring and resolution of credit institutions and investment firms. This article establishes that, in cases of redemption of capital instruments in a bank resolution, no liability shall remain in relation to the amount of the instrument that has been redeemed. The judgement given by the CJEU in this case is likely to condition the outcome on the judicial proceedings that are currently open.

The estimated cost of any compensation to shareholders and bondholders of Banco Popular recognized in the 2017 accounts amounted to EUR 680 million, of which EUR 535 million were applied to the commercial loyalty program. The provisions recorded are considered sufficient to cover the risks associated with the court claims that can be estimated to date. However, if additional amounts have to be paid for claims already raised with an undetermined economic interest or for new claims, this could have a significant adverse effect on the Santander Group's results and financial situation.

Likewise, the Central Court of Instruction 4 is currently conducting preliminary proceedings 42/2017, in which, amongst other things, is being investigated the following: (i) the accuracy of the prospectus for the capital increase with pre-emptive subscription rights carried out by Banco Popular in 2016; and (ii) the alleged manipulation of the share price of Banco Popular until the resolution of the bank, in June 2017. During the course of the proceedings, on 30 April 2019, the Spanish National Court, ruled in favour of Banco Santander, S.A. declaring that Banco Santander, S.A. cannot inherit Banco Popular's potential criminal liability. This ruling was appealed before the Supreme Court who have rejected the appeal. In this procedure, Banco Santander has the status of possible subsidiary civil liability.

- German shares investigation: the Cologne Public Prosecution Office is conducting an investigation against the Bank, and other group entities based in UK - Santander UK plc, Santander Financial Services Plc and Cater Allen International Limited -, in relation to a particular type of tax dividend linked transactions known as cum-ex transactions.

The Group is cooperating with the German authorities. According to the state of the investigations, the result and the effects for the Group, which may potentially include the imposition of financial penalties, cannot be anticipated. For this reason, the Bank has not recognized any provisions in relation to the potential imposition of financial penalties.

- IRPH Index: a portion of our Spanish mortgage loan portfolio bears interest at a rate indexed to the "Índice de Referencia de Préstamos Hipotecarios" known as "IRPH," which, at the time the contracts were entered into, served as reference rate for many mortgage loan agreements in Spain and was published by the Bank of Spain. Consumers in Spain have brought lawsuits against most of the Spanish banking sector alleging that the use and related disclosures of such rate did not comply with the transparency requirements of European regulation. On 14 December 2017, the Supreme Court of Spain ruled that these clauses were valid, as the IRPH is an official rate and therefore non-subject to transparency requirements. The matter was referred to the Court of Justice of the European Union through a preliminary ruling procedure. On 3 March 2020 the CJEU rendered its decision.

The CJEU ruled that, being the IRPH a valid index, national courts are entitled to examine its use on each particular contract in order to verify whether the transparency requirements have been met. When carrying out the transparency control, national courts have to take into account all the circumstances surrounding the conclusion of the particular contract, including whether essential information relating to the calculation of that rate was easily accessible and the provision of data relating to past fluctuations of the index. Finally, with regards to the effects of nullity of an IRPH index clause, the CJUE entitles national courts to substitute it with another statutory index, thus not declaring the nullity of the whole contract.

On 12 November 2020, the Supreme Court has issued four judgments applying the doctrine established by the CJUE that resolve individual appeals in which the validity of the IRPH clauses was questioned. The Court understands that in those cases there is a lack of transparency because the financial institutions had not been able to prove the delivery to the client of the information on the evolution of the index in the two years prior to the contract. However, the Supreme Court reminds that the lack of transparency does not automatically imply the invalidity of the clause, but rather it is necessary to analyze whether this lack of transparency generates abusiveness. The Supreme Court resolves that in the case of the IRPH, that specific lack of transparency does not mean that the clause is abusive to the detriment of the client, so the clause is valid and fully applicable.

Currently, the balance of the relevant mortgage indexed to IRPH loans held by the Group, equals approximately EUR 2.8 billion.

- Banco Santander, S.A. has been sued in a legal proceeding in which the plaintiff alleges that a contract was concluded whereby he would be entrusted with the functions of CEO of the Bank. In the complaint, the claimant mainly requests a declaratory ruling that affirms the validity and conclusion of such contract and its enforcement together with the payment of certain amounts. If the main request is not granted, the claimant seeks compensation for a total amount of approximately EUR 112 million or, an alternative relief for other minor amounts. Banco Santander, S.A. has answered to the complaint. In this answer, it is stated that the conditions to which the appointment was subject to were not met and that the contract required by law was not concluded. The trial took place on 19 May 2021. The claimant waived specific performance of the alleged contract. The trial was suspended because of two witnesses' failure to appear and it will begin again when a new date for hearing their evidence is agreed.

- Universalpay Entidad de Pago, S.L. has filed a lawsuit against Banco Santander, S.A. for breach of the marketing alliance agreement (MAA) and in claim of quantity. The claim is processed in the Court of First Instance no. 81 of Madrid, ordinary procedure 156/2021. The MAA was originally subscribed by Banco Popular Español, S.A.U. and its purpose is the business of acquiring services for businesses in the Spanish market. The lawsuit is mainly based on the potential breach of clause 6 of the MAA, which establishes certain obligations of exclusivity, non-competition and customer reference. The claim is at a very early stage, and there are factual issues pending resolution, which may have legal consequences and affect eventual liability. This uncertainty makes it impossible to reliably predict the resolution of the issue, the timing or the significance of the potential impact. The Bank has answered the complaint. The pretrial hearing is scheduled for 16 December 2021.
- CHF Polish Mortgage Loans: On 3 October 2019, the Court of Justice of the European Union (CJEU) rendered its decision in relation to a lawsuit against an unrelated bank in Poland, with regards to unfair contractual clauses in consumer agreements, specifically the consequences of potentially unfair contractual clauses in CHF-indexed loan agreements. The CJEU has left to Polish courts the decision on whether the whole contract can be maintained once the abusive terms have been removed, which should in turn decide whether the effects of the annulment of the contract are prejudicial to the consumer. In that case, the court may only integrate the contract with default provisions of national law and decide, in accordance with those provisions, on the applicable rate.

In December 2020, the Chairman of the Financial Supervision Authority announced a high-level proposal for voluntary settlements between banks and borrowers under which active loans based on Swiss francs would be converted into PLN loans with interest at the WIBOR rate and an appropriate margin. No details of the proposal, or legal or tax considerations, were provided as at the date of publication of these financial statements. This proposal is currently under analysis within the Bank, as well as by representatives of the financial sector in consultation with the competent authorities. Depending on the results of this analysis, the Bank will decide whether to adhere to this proposal and will proceed to include additional scenarios in the models for calculating provisions and reflect the estimated impact on their level. The Group considers that the maximum risk associated to this proposal, assuming that 100% of customers choose to convert their active loans as proposed, would amount to approximately PLN 3.5 billion (EUR 768 million).

On May 2021, the Supreme Court was expected to take a position regarding the key issues in disputes concerning loans based on foreign currency, clarifying the discrepancies and unifying the court jurisprudence. The resolution was not adopted, the case was adjourned (without setting a new date) and the Supreme Court asked the Ombudsman, the Financial Ombudsman, the Children's Ombudsman, the National Bank of Poland and the FSA to take a position on the case, which they did during the months of June and July. The Supreme Court is expected to take a position on 2 September 2021.

While the above referred events could lead to significant changes in the level of expected provisions, in the opinion of the Management Board, as at the date of these financial statements it is not possible to reliably estimate the value of their impact on the financial position of the Group.

As of 30 June 2021, Santander Bank Polska and Santander Consumer Bank Poland have a portfolio of mortgage loans denominated in, or indexed to, CHF of approximately PLN 9,067 million (EUR 2,007 million). At the same date, the provision registered is PLN 1,304 million (EUR 289 million), being EUR 154 million, the provision charged to first semester results. This provision represents the best estimate to date given the difficulty to predict the financial impact, as it is for national courts to decide the relevant issues and the process of analyzing and deciding on the proposal described above has not yet been completed. Santander Bank Polska and Santander Consumer Bank Poland will continue to monitor and assess appropriateness of those provisions in the upcoming reporting periods.

Banco Santander and the other Group companies are subject to claims and, therefore, are party to certain legal proceedings incidental to the normal course of their business including those in connection with lending activities, relationships with employees and other commercial or tax matters.

With the information available to it, the Group considers that, at 30 June 2021, it had reliably estimated the obligations associated with each proceeding and had recognized, where necessary, sufficient provisions to cover reasonably any liabilities that may arise as a result of these tax and legal risks. Disputes in which provisions have been registered but are not disclosed is justified on the basis that it would be prejudicial to the proper defense of the Group. Subject to the qualifications made, it also believes that any liability arising from such claims and proceedings will not have, overall, a material adverse effect on the Group's business, financial position, or results of operations.

11. Equity

In the six-month periods ended 30 June 2021 and 2020 there were no quantitative or qualitative changes in Grupo Santander's equity other than those indicated in the condensed consolidated statements of changes in total equity.

a) Capital

As of 30 June 2021 and 31 December 2020, the Bank's capital stock was represented by 17,340,641,302 shares, with a nominal amount of EUR 8,670 million, in both dates.

b) Share premium

The decreased produced in the first semester of 2021 for an amount of EUR 4,034 million has been the consequence of applying the result obtained by Banco Santander during the financial year 2020, consisting of losses of EUR 3,557 million, as reflected in the consolidated statements of changes in total equity, and the charge of the dividend for fiscal year 2020 for an amount of EUR 477 million (Note 3 and consolidated statements of changes in total equity).

c) Breakdown of other comprehensive income - Items not reclassified to profit or loss and Items that may be reclassified to profit or loss

	EUR million	
	30-06-2021	31-12-2020
Other comprehensive income accumulated	(32,181)	(33,144)
Items not reclassified to profit or loss	(4,962)	(5,328)
Actuarial gains or losses on defined benefit pension plans	(4,415)	(5,002)
Non-current assets held for sale	—	—
Share in other income and expenses recognised in investments, joint ventures and associates	(11)	(2)
Other valuation adjustments	—	—
Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income	(428)	(308)
Inefficacy of fair value hedges of equity instruments measured at fair value with changes in other comprehensive income	—	—
Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income (hedged item)	213	159
Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income (hedging instrument)	(213)	(159)
Changes in the fair value of financial liabilities measured at fair value through profit or loss attributable to changes in credit risk	(108)	(16)
Items that may be reclassified to profit or loss	(27,219)	(27,816)
Hedge of net investments in foreign operations (effective portion)	(4,125)	(3,124)
Exchange differences	(24,032)	(26,911)
Hedging derivatives (effective portion)	126	295
Changes in the fair value of debt instruments measured at fair value with changes in other comprehensive income	1,250	2,411
Hedging instruments (items not designated)	—	—
Non-current assets held for sale	—	—
Share in other income and expenses recognised in investments, joint ventures and associates	(438)	(487)

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

The changes in the balance of Other comprehensive income - Items not reclassified to profit or loss - Actuarial gains or losses on defined benefit pension plans include the actuarial gains or losses generated in the period and the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset), less the administrative expenses and taxes inherent to the plan, and any change in the effect of the asset ceiling. Its variation is shown in the condensed consolidated statement of recognised income and expense.

During the first six months of 2021, the amount of actuarial losses (net of actuarial gains) has decreased by EUR 885 million. The main impacts are:

- Decrease of EUR 865 million in the accrued actuarial losses relating to Grupo Santander's businesses in the United Kingdom, mainly due to the change in the discount rate (increase from 1.28% to 1.91%), partially offset by the change in the inflation rate (increase from 2.95% to 3.24%) and the change in assets.
- Decrease of EUR 49 million in the accrued actuarial losses relating to Grupo Santander's businesses in the Spain, due to the change in the discount rate (increase from 0.60% to 0.90%).
- Decrease of EUR 41 million in the accrued actuarial losses relating to Grupo Santander's businesses in Germany, due to the change in the discount rate (increase from 1.17% to 1.56%).
- Decrease of EUR 36 million in accumulated actuarial losses for the Group's businesses in Brazil, due to the change in the discount rate (increase from 3.46% to 4.20% for pension plans and from 3.77% to 4.31% for medical plans).

The remaining variation in the accrued actuarial gains and losses heading represents an increase of EUR 106 million, mainly as a result of the evolution of exchange rates, being the appreciation of the pound and the depreciation of the Brazilian Real the most significant.

e) Other comprehensive income - Items not reclassified to profit or loss – Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income

Includes the net amount of unrealised fair value changes in equity instruments at fair value with changes in other comprehensive income.

Below is a breakdown of the composition of the balance as of 30 June 2021 and 31 December 2020 under “Other comprehensive income - Items not reclassified to profit or loss - Changes in the fair value of equity instruments measured at fair value with changes in other global result depending on the geographical origin of the issuer”:

	EUR million							
	30-06-2021				31-12-2020			
	Revaluation gains	Revaluation losses	Net revaluation gains/(losses)	Fair value	Revaluation gains	Revaluation losses	Net revaluation gains/(losses)	Fair value
Equity instruments								
Domestic								
Spain	28	(1,102)	(1,074)	773	28	(849)	(821)	1,032
International								
Rest of Europe	118	(75)	43	410	65	(76)	(11)	314
United States	12	(4)	8	32	7	(4)	3	25
Latin America and rest	601	(6)	595	1,536	525	(4)	521	1,412
	759	(1,187)	(428)	2,751	625	(933)	(308)	2,783
Of which:								
Listed	606	(31)	575	1,571	525	(31)	494	1,424
Unlisted	153	(1,156)	(1,003)	1,180	100	(902)	(802)	1,359

f) Other comprehensive income - Items that may be reclassified to profit or loss – Hedges of net investments in foreign operations (effective portion) and exchange differences

Other comprehensive income - Items that may be reclassified to profit or loss - Hedges of net investments in foreign operations (effective portion) includes the net amount of the changes in value of hedging instruments in hedges of net investments in foreign operations, in respect of the portion of these changes considered to be effective hedges.

Other comprehensive income - Items that may be reclassified to profit or loss - Exchange differences includes the net amount of exchange differences arising on non-monetary items whose fair value is adjusted against equity and the differences arising on the translation to euros of the balances of the consolidated entities whose functional currency is not the euro.

The net variation of both headings recognised during the first semester of 2021, recorded in the statement of income and expenses reflects the impact of the currencies' evolution during the year, reflecting the appreciation of the Brazilian Real, pound sterling, US dollar, Chilean peso, Mexican peso, mainly (see note 1.e).

Of this variation, EUR 347 million correspond to the valuation at the closing exchange rate of goodwill for the first semester of the year (see note 8).

g) Other comprehensive income – Items that may be reclassified to profit or loss – Changes in the fair value of debt instruments measured at fair value through other comprehensive income

Includes the net amount of unrealised fair value changes in debt instruments at fair value through other comprehensive income.

Below is a breakdown of the composition of the balance as of 30 June 2021 and 31 December 2020 under Other comprehensive income - Items that may be reclassified to profit or loss - Changes in the fair value of debt instruments measured at fair value through other comprehensive income depending on the type of instrument and the geographical origin of the issuer:

	EUR million							
	30-06-2021				31-12-2020			
	Revaluation gains	Revaluation losses	Net revaluation gains/(losses)	Fair value	Revaluation gains	Revaluation losses	Net revaluation gains/(losses)	Fair value
Debt instruments								
Government and central banks debt instruments								
Spain	414	—	414	14,416	693	—	693	19,314
Rest of Europe	702	(38)	664	23,326	915	(69)	846	23,116
Latin America and rest of the world	420	(323)	97	50,308	785	(73)	712	51,026
Private-sector debt instruments	117	(42)	75	23,704	181	(21)	160	24,714
	1,653	(403)	1,250	111,754	2,574	(163)	2,411	118,170

12. Segment information (Primary segment)

Grupo Santander has aligned the information in this note with the underlying information used internally for management reporting and with that presented in Grupo Santander's other public documents.

Grupo Santander executive committee has been determined to be the chief operating decision maker. Grupo Santander's operating segments reflect its organizational and managerial structures. Grupo Santander's executive committee reviews internal reporting based on these segments to assess performance and allocate resources.

The segments are split by geographic area in which profits are earned and type of business. Grupo Santander prepares the information by aggregating the figures for Grupo Santander's various geographic areas and business units, relating it to both the accounting data of the units integrated in each segment and that provided by management information systems. The general principles applied are the same as those used in Grupo Santander.

On 9 April 2021, Grupo Santander has announced that, starting and effective with the financial information for the first quarter of 2021, a change was made to the reportable segments to reflect the new reporting structure.

For Grupo Santander management purposes, the primary level of segmentation, which is based on Grupo Santander's management structure, comprises five reportable segments: four operating areas plus the Corporate Centre. The operating areas are: Europe, North America, South America and Digital Consumer Bank. The operating areas of the main level segmentation are:

- Europe: which comprises all the business activities carried out in the region, except for the business included in Digital Consumer Bank. Mainly in Spain, the United Kingdom, Portugal and Poland.
- North America: which comprises all the business activities carried out in Mexico and the US, which includes the holding company (SHUSA) and the businesses of Santander Bank, Santander Consumer USA, the specialized unit Banco Santander International, Santander Investment Securities (SIS) and the New York branch.
- South America: includes all the financial activities carried out by Grupo Santander through its banks in the region, mainly in Brazil, Chile and Argentina.
- Digital Consumer Bank: includes Santander Consumer Finance, which incorporates the entire consumer finance business in Europe, Openbank and ODS.

Following is the breakdown of revenue that is deemed to be recognised under Dividend income, Commission income, Gain or losses on financial assets and liabilities not measured at fair value through profit or loss, net, Gain or losses on financial assets and liabilities held for trading, net, Gain or losses on non-trading financial assets and liabilities mandatorily at fair value through profit or loss, net, Gain or losses on financial assets and liabilities measured at fair value through profit or loss, net, Gain or losses from hedge accounting, net, Other operating income and Income from assets under insurance and reinsurance contracts in the accompanying consolidated income statements for the six-month period ended 30 June 2021 and 2020.

In addition to these operating units, which report by geographic area and businesses, Grupo Santander continues to maintain the area of Corporate Centre, that includes the centralized activities relating to equity stakes in financial companies, financial management of the structural exchange rate position, assumed within the sphere of Grupo Santander's assets and liabilities committee, as well as management of liquidity and of shareholders' equity via issuances.

This financial information ('underlying basis') is computed by adjusting reported results for the effects of certain gains and losses (e.g.: capital gains, write-downs, etc.). These gains and losses are items that management and investors ordinarily identify and consider separately to understand better the underlying trends in the business.

Following is the reconciliation between the adjusted profit and the statutory profit corresponding to the six-month period ended 30 June 2021 and 2020:

Segment	EUR million					
	Revenue from ordinary activities		Profit before taxes		Profit	
	30-06-2021	30-06-2020	30-06-2021	30-06-2020	30-06-2021	30-06-2020
Europe	10,862	10,866	2,151	800	1,426	529
North America	7,315	8,315	2,545	878	1,628	616
South America	10,580	12,902	3,113	2,460	1,645	1,382
Digital Consumer Bank	3,245	3,119	1,008	889	569	507
Corporate Centre	(168)	165	(1,188)	(1,185)	(1,063)	(1,125)
Underlying Profit	31,834	35,368	7,629	3,842	4,205	1,909
Adjustments	—	—	(715)	(10,252)	(530)	(12,707)
Statutory Profit	31,834	35,368	6,914	(6,410)	3,675	(10,798)

Explanation of adjustments:

In the first six months of 2021, the impact of restructuring costs of EUR -530 million was mainly in the United Kingdom and Portugal.

In the first six months of 2020, an adjustment to goodwill arising from the Group's acquisitions of EUR -10,100 million is included together with the valuation of tax assets adjustment of EUR -2,500 million, as well as restructuring and other costs of EUR -106 million: EUR -55 million in the United Kingdom, EUR -28 million in Santander Consumer Finance, EUR -10 million in Poland and EUR -13 million in Other Europe.

13. Related parties

The parties related to Grupo Santander are deemed to include, in addition to its subsidiaries, associates and jointly controlled entities, Banco Santander's key management personnel (the members of its board of directors and the executive vice presidents, together with their close family members) and the entities over which the key management personnel may exercise significant influence or control.

Following is a detail of the transactions performed by Grupo Santander with its related parties in the first six months of 2021 and 2020, distinguishing between significant shareholders, members of Banco Santander's board of directors, Banco Santander's executive vice presidents, Grupo Santander entities and other related parties. Related party transactions were made on terms equivalent to those that prevail in arm's-length transactions or, when this was not the case, the related compensation in kind was recognised:

EUR million					
30-06-2021					
Expenses and income	Significant shareholders	Directors and executives	Group companies or entities	Other related parties	Total
Expenses					
Finance costs	—	—	4	—	4
Leases	—	—	—	—	—
Services received	—	—	—	—	—
Purchases of stocks	—	—	—	—	—
Other expenses	—	—	44	—	44
	—	—	48	—	48
Income					
Finance income	—	—	44	1	45
Dividends received	—	—	—	—	—
Services rendered	—	—	—	—	—
Sale of stocks	—	—	—	—	—
Other income	—	—	613	—	613
	—	—	657	1	658

EUR million					
30-06-2021					
Other transactions	Significant shareholders	Directors and executives	Group companies or entities	Other related parties	Total
Financing agreements: loans and capital contributions (lender)	—	(1)	492	(32)	459
Financing agreements: loans and capital contributions (borrower)	—	3	(503)	81	(419)
Guarantees provided	—	—	—	—	—
Guarantees received	—	—	—	—	—
Commitments acquired	—	—	(38)	6	(32)
Dividends and other distributed profit	—	1	—	5	6
Other transactions	—	—	(7)	—	(7)

EUR million					
30-06-2021					
Balance closing period	Significant shareholders	Directors and executives	Group companies or entities	Other related parties	Total
Debt balances:					
Customers and commercial debtors	—	—	—	—	—
Loans and credits granted	—	20	7,988	21	8,029
Other collection rights	—	—	963	—	963
	—	20	8,951	21	8,992
Credit balances:					
Suppliers and creditors granted	—	—	—	—	—
Loans and credits received	—	19	2,998	237	3,254
Other payment obligations	—	—	85	—	85
	—	19	3,083	237	3,339

EUR million					
30-06-2020					
Expenses and income	Significant shareholders	Directors and executives	Group companies or entities	Other related parties	Total
Expenses					
Finance costs	—	—	4	—	4
Leases	—	—	—	—	—
Services received	—	—	—	—	—
Purchases of stocks	—	—	—	—	—
Other expenses	—	—	15	—	15
	—	—	19	—	19
Income					
Finance income	—	—	58	—	58
Dividends received	—	—	—	—	—
Services rendered	—	—	—	—	—
Sale of stocks	—	—	—	—	—
Other income	—	—	548	—	548
	—	—	606	—	606

EUR million					
30-06-2020					
Other transactions	Significant shareholders	Directors and executives	Group companies or entities	Other related parties	Total
Financing agreements: loans and capital contributions (lender)	—	(1)	(324)	(8)	(333)
Financing agreements: loans and capital contributions (borrower)	—	(14)	148	30	164
Guarantees provided	—	—	(1)	—	(1)
Guarantees received	—	—	—	—	—
Commitments acquired	—	(1)	(83)	5	(79)
Dividends and other distributed profit	—	—	—	—	—
Other transactions	—	—	(1,010)	—	(1,010)

EUR million					
31-12-2020					
Balance closing period	Significant shareholders	Directors and executives	Group companies or entities	Other related parties	Total
Debt balances:					
Customers and commercial debtors	—	—	—	—	—
Loans and credits granted	—	24	7,497	95	7,616
Other collection rights	—	—	976	—	976
	—	24	8,473	95	8,592
Credit balances:					
Suppliers and creditors granted	—	—	—	—	—
Loans and credits received	—	20	3,501	159	3,680
Other payment obligations	—	—	92	—	92
	—	20	3,593	159	3,772

14. Off-balance-sheet exposures

The off-balance-sheet exposures related to balances representing loans commitments, financial guarantees and other commitments granted (recoverables and non recoverables).

Financial guarantees granted include financial guarantees contracts such as financial bank guarantees, credit derivatives, and risks arising from derivatives granted to third parties; non-financial guarantees include other guarantees and irrevocable documentary credits.

Loan and other commitments granted include all off-balance-sheet exposures, which are not classified as guarantees provided, including loans commitment granted.

	EUR million	
	30-06-2021	31-12-2020
Loan commitments granted	247,154	241,230
<i>Of which impaired</i>	249	274
Financial guarantees granted	12,121	12,377
<i>Of which impaired</i>	174	124
Bank sureties	12,079	12,358
Credit derivatives sold	42	19
Other commitments granted	81,277	64,538
<i>Of which impaired</i>	703	548
Other granted guarantees	38,250	33,526
Other	43,027	31,012

The breakdown of the off-balance sheet exposure and impairment on 30 June 2021 and 31 December 2020 by impairment stages is EUR 331,602 million and EUR 310,435 million of exposure and EUR 331 million and EUR 377 million of impairment in stage 1, EUR 7,824 million and EUR 6,764 million of exposure and EUR 177 million and EUR 182 million of impairment in stage 2, and EUR 1,126 million and EUR 946 million of exposure and EUR 153 million and EUR 141 million of impairment in stage 3, respectively.

15. Average headcount and number of branches

The average number of employees at Banco Santander and Grupo Santander, by gender, in the six-month periods ended 30 June 2021 and 2020 is as follows:

Average headcount

	Bank		Group	
	30-06-2021	30-06-2020	30-06-2021	30-06-2020
Men	12,682	13,942	87,382	88,763
Women	11,979	12,681	103,108	106,398
	24,661	26,623	190,490	195,161

The number of branches at 30 June 2021 and 31 December 2020 is as follow:

Number of branches

	Group	
	30-06-2021	31-12-2020
Spain	1,997	2,989
Group	8,076	8,247
	10,073	11,236

16. Other disclosures

a) Valuation techniques for financial assets and liabilities

The following table shows a summary of the fair values, at 30 June 2021 and 31 December 2020, of the financial assets and liabilities indicated below, classified on the basis of the various measurement methods used by Grupo Santander to determine their fair value:

	EUR million					
	30-06-2021			31-12-2020		
	Published price quotations in active markets (Level 1)	Internal models (Levels 2 and 3)	Total	Published price quotations in active markets (Level 1)	Internal models (Levels 2 and 3)	Total
Financial assets held for trading	46,807	55,985	102,792	46,379	68,566	114,945
Non-trading financial assets mandatorily at fair value through profit or loss	2,129	2,709	4,838	1,756	2,730	4,486
Financial assets at fair value through profit and loss	2,243	54,243	56,486	2,509	46,208	48,717
Financial assets at fair value through other comprehensive income	86,515	27,990	114,505	91,771	29,182	120,953
Hedging derivatives (assets)	—	5,430	5,430	—	8,325	8,325
Financial liabilities held for trading	12,862	56,120	68,982	9,863	71,304	81,167
Financial liabilities designated at fair value through profit or loss	3,451	50,680	54,131	2,118	45,920	48,038
Hedging derivatives (liabilities)	—	6,573	6,573	—	6,869	6,869
Liabilities under insurance contracts	—	1,014	1,014	—	910	910

Financial instruments at fair value, determined on the basis of published price quotations in active markets (level 1), include government debt instruments, private-sector debt instruments, derivatives traded in organised markets, securitised assets, shares, short positions and fixed-income securities issued. In cases where price quotations cannot be observed, management makes its best estimate of the price that the market would set, using its own internal models. In most cases, these internal models use data based on observable market parameters as significant inputs (level 2) and, in some cases, they use significant inputs not observable in market data (level 3).

In order to make these estimates, various techniques are employed, including the extrapolation of observable market data. The best evidence of the fair value of a financial instrument on initial recognition is the transaction price, unless the fair value of the instrument can be obtained from other market transactions performed with the same or similar instruments or can be measured by using a valuation technique in which the variables used include only observable market data, mainly interest rates.

During the first six months of 2020 and 2021, Grupo Santander did not make any material transfers of financial instruments between measurement levels other than the transfers included in level 3 table.

Grupo Santander has developed a formal process for the systematic valuation and management of financial instruments, which has been implemented worldwide across all Grupo Santander's units. The governance scheme for this process distributes responsibilities between two independent divisions: Treasury (development, marketing and daily management of financial products and market data) and Risk (on a periodic basis, validation of pricing models and market data, computation of risk metrics, new transaction approval policies, management of market risk and implementation of fair value adjustment policies). The approval of new products follows a sequence of steps (request, development, validation, integration in corporate systems and quality assurance) before the product is brought into production. This process ensures that pricing systems have been properly reviewed and are stable before they are used.

The most important products and families of derivatives, and the related valuation techniques and inputs, by asset class, are detailed in the consolidated annual accounts as at 31 December 2020.

As of 30 June 2021, the CVA (Credit Valuation Adjustment) accounted for was EUR 251.9 million (a reduction of 26.6% compared to 31 December 2020) and adjustments of DVA (Debt Valuation Adjustment) was EUR 169.9 million (a reduction of 13.4% compared to 31 December 2020). The movement is due to the fact that credit spread levels have been reduced by around 12% compared to year-end.

Currently the CVA and DVA are at similar levels compared to the beginning of the pandemic.

Set forth below are the financial instruments at fair value whose measurement was based on internal models (levels 2 and 3) at 30 June 2021 and 31 December 2020:

	EUR million		EUR million		Valuation techniques	Main inputs
	Fair values calculated using internal models at 30-06-2021(*)		Fair values calculated using internal models at 31-12-2020 (*)			
	Level 2	Level 3	Level 2	Level 3		
ASSETS	137,823	8,534	146,468	8,543		
Financial assets held for trading	55,374	611	67,826	740		
Credit institutions	—	—	3	—	Present value method	Yield curves, FX market prices
Customers (**)	265	—	296	—	Present value method	Yield curves, FX market prices
Debt instruments and equity instruments	1,214	22	1,453	10	Present value method	Yield curves, FX market prices
Derivatives	53,895	589	66,074	730		
<i>Swaps</i>	44,666	233	54,488	272	Present value method, Gaussian Copula (***)	Yield curves, FX market prices, HPI, Basis, Liquidity
<i>Exchange rate options</i>	451	33	696	22	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
<i>Interest rate options</i>	2,429	185	3,129	241	Black's Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX market prices, Liquidity
<i>Interest rate futures</i>	501	—	1,069	—	Present value method	Yield curves, FX market prices
<i>Index and securities options</i>	667	66	554	94	Black's Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Liquidity
<i>Other</i>	5,181	72	6,138	101	Present value method, Advanced stochastic volatility models and other	Yield curves, Volatility surfaces, FX and EQ market prices, Dividends, Liquidity, Dividends, Correlation, HPI, Credit, Others
Hedging derivatives	5,430	—	8,325	—		
<i>Swaps</i>	5,150	—	6,998	—	Present value method	Yield curves, FX market prices, Basis
<i>Interest rate options</i>	24	—	25	—	Black-Scholes Model	Yield curves, FX market prices, Volatility surfaces, Liquidity
<i>Other</i>	256	—	1,302	—	Present value method, Advanced stochastic volatility models and other	Yield curves, Volatility surfaces, FX market prices, Credit, Liquidity, Others
Non-trading financial assets mandatorily at fair value through profit or loss	1,240	1,469	1,796	934		
Equity instruments	428	1,053	984	505	Present value method	Market price, Interest rates curves, Dividends and Others
Debt instruments	657	150	555	134	Present value method	Yield curves
Loans and receivables (**)	155	266	257	295	Present value method, swap asset model & CDS	Yield curves and Credit curves
Financial assets designated at fair value through profit or loss	53,765	478	45,559	649		
Central banks	4,881	—	9,481	—	Present value method	Yield curves, FX market prices
Credit institutions	23,910	—	11,973	163	Present value method	Yield curves, FX market prices
Customers (****)	24,916	17	24,102	19	Present value method	Yield curves, FX market prices, HPI
Debt instruments	58	461	3	467	Present value method	Yield curves, FX market prices
Financial assets at fair value through other comprehensive income	22,014	5,976	22,962	6,220		
Equity instruments	74	1,064	75	1,223	Present value method	Market price, Interest rates curves, Dividends and Others
Debt instruments	18,403	244	18,410	206	Present value method	Yield curves, FX market prices
Loans and receivables	3,537	4,668	4,477	4,791	Present value method	Yield curves, FX market prices and Credit curves
LIABILITIES	113,764	623	124,098	905		
Financial liabilities held for trading	55,864	256	71,009	295		
Derivatives	51,846	256	63,920	295		
<i>Swaps</i>	42,360	57	51,584	81	Present value method, Gaussian Copula (***)	Yield curves, FX market prices, Basis, Liquidity, HPI
<i>Exchange rate options</i>	530	23	724	1	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
<i>Interest rate options</i>	3,050	36	4,226	49	Black-Scholes Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX market prices, Liquidity
<i>Index and securities options</i>	657	132	456	97	Black-Scholes Model	Yield curves, FX market prices
<i>Interest rate and equity futures</i>	242	—	1,054	2	Present value method	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends
<i>Other</i>	5,007	8	5,876	65	Present value method, Advanced stochastic volatility models	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Correlation, Liquidity, HPI, Credit, Others
Short positions	4,018	—	7,089	—	Present value method	Yield curves, FX & EQ market prices, Equity
Hedging derivatives	6,573	—	6,869	—		
<i>Swaps</i>	5,247	—	5,821	—	Present value method	Yield curves, FX & EQ market prices, Basis
<i>Interest rate options</i>	11	—	13	—	Black's Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
<i>Other</i>	1,315	—	1,035	—	Present value method, Advanced stochastic volatility models and other	Yield curves, Volatility surfaces, FX market prices, Credit, Liquidity, Other
Financial liabilities designated at fair value through profit or loss	50,313	367	45,310	610	Present value method	Yield curves, FX market prices
Liabilities under insurance contracts	1,014	—	910	—	Present Value Method with actuarial techniques	Mortality tables and interest rate curves

- (*) The internal models of level 2 implement figures based on the parameters observed in the market, while Level 3 internal models uses significant inputs that are not observable in market data.
- (**) Includes mainly short-term loans and reverse repurchase agreements with corporate customers (mainly brokerage and investment companies).
- (***) Includes credit risk derivatives with a negative net fair value of EUR -3 and EUR -4 million recognised in the interim condensed consolidated balance sheet 30 June 2021 and 31 December 2020. These assets and liabilities are measured using the Standard Gaussian Copula Model.
- (****) Includes residential mortgages to financial institutions in the United Kingdom (which are regulated and partly financed by the Government). The fair value of these loans has been obtained using observable market variables, including current market transactions of similar amount and guarantees provided by the UK Housing Association. Given that the Government is involved in these entities, credit risk spreads have remained stable and homogeneous in this sector. The results arising from the valuation model are contrasted against current market transactions.

The measurements obtained using the internal models might have been different had other methods or assumptions been used with respect to interest rate risk, to credit risk, market risk and foreign currency risk spreads, or to their related correlations and volatilities. Nevertheless, Banco Santander's directors consider that the fair value of the financial assets and liabilities recognised in the consolidated balance sheet and the gains and losses arising from these financial instruments are reasonable.

Level 3 financial instruments

Set forth below are Grupo Santander's main financial instruments measured using unobservable market data that constitute significant inputs of the internal models (level 3):

- Instruments in Santander UK's portfolio (loans, debt instruments and derivatives) linked to the House Price Index (HPI). Even if the valuation techniques used for these instruments may be the same as those used to value similar products (present value in the case of loans and debt instruments, and the Black-Scholes model for derivatives), the main factors used in the valuation of these instruments are the HPI spot rate, the growth rate of that rate, its volatility and mortality rates, which are not always observable in the market and, accordingly, these instruments are considered illiquid:
 - The HPI spot rate: for some instruments the NSA HPI spot rate, which is directly observable and published on a monthly basis, is used. For other instruments where regional HPI rates must be used (published quarterly), adjustments are made to reflect the different composition of the rates and adapt them to the regional composition of Santander UK's portfolio.
 - HPI growth rate: this is not always directly observable in the market, especially for long maturities, and is estimated in accordance with existing quoted prices. To reflect the uncertainty implicit in these estimates, adjustments are made based on an analysis of the historical volatility of the HPI, incorporating reversion to the mean.
 - HPI volatility: the long-term volatility is not directly observable in the market but is estimated on the basis of more short-term quoted prices and by making an adjustment to reflect the existing uncertainty, based on the standard deviation of historical volatility over various time periods.
 - Mortality rates: these are based on published official tables and adjusted to reflect the composition of the customer portfolio for this type of product at Santander UK.
- Callable interest rate trading derivatives (Bermudan style options) where the main unobservable input is mean reversion of interest rates.
- Derivatives of negotiation on interest rates, taking asset securitisations and with the redemption rate (CPR) as the main unobservable input as an underlying asset.
- Derivatives from trading on inflation in Spain, where volatility is not observable in the market.
- Derivatives on long-term interest rate volatility and FX where volatility is not observable in the market at the indicated term.
- Equity volatility derivatives, specifically indices and equities, where volatility is not observable in the long term.
- Derivatives on long-term interest rate and FX in some Latam units (mainly Brazil), where for certain underlyings it is not possible to demonstrate observability to these terms.
- Debt instruments in Latam units linked to certain illiquid interest rates, for which there is no reasonable market observability.
- Illiquid equity in non-trading portfolios, classified at fair value through profit or loss and at fair value through equity.
- Syndicated loans with the HTC&S business model (Hold to collect and sale) and classified in the fair value category with changes in other accumulated global result, is not directly observable in the market, as well as the prepayment option in favour of the borrower.

The net amount recorded in the results of the first six months of 2021 resulting from the aforementioned valuation models which main inputs are unobservable market data (Level 3) amounts to EUR 11 million loss approximately (EUR 56 million profit in the first six months of 2020).

The table below shows the effect, at 30 June 2021, on the fair value of the main financial instruments classified as Level 3 of a reasonable change in the assumptions used in the valuation. This effect was determined by applying the probable valuation ranges of the main unobservable inputs detailed in the following table:

Portfolio/Instrument					Impacts (EUR million)	
(Level 3)	Valuation technique	Main unobservable inputs	Range	Weighted average	Unfavourable scenario	Favourable scenario
Held for trading (Assets)						
Derivatives						
Cap&Floor	Volatility option model	Volatility	10% - 90%	34.73%	—	—
CCS	Discounted Cash Flows	Interest rate	-0.7%-0.7%	0.66%	(0.19)	0.19
CCS	Forward estimation	Interest rate	3bp - 4bp	0.83%	(0.05)	0.06
Convertibility curve - inputs: NDFs Offshore	Forward estimation	Price	0% - 2%	0.61%	(0.72)	0.31
EQ Options	EQ option pricing model	Volatility	0%- 90%	61.20%	(0.32)	0.67
EQ Options	Local volatility	Volatility	10% - 90%	40.00%	(2.11)	2.11
FRAAs	Asset Swap model	Interest rate	0% - 4%	1.78%	(0.83)	0.66
FX Options	FX option pricing model	Volatility	0% - 50%	32.14%	(0.36)	0.65
Inflation Derivatives	Asset Swap model	Inflation Swap Rate	-100%-50%	83.33%	(0.68)	0.34
Inflation Derivatives	Volatility option model	Volatility	0% - 40%	13.29%	(0.43)	0.22
IR Futures	Asset Swap model	Interest rate	0% - 15%	5.91%	(0.99)	0.64
IR Options	IR option pricing model	Volatility	0% - 100%	60.47%	(0.27)	0.41
IRS	Asset Swap model	Interest rate	0% - 15%	10.71%	(0.06)	0.16
IRS	Discounted Cash Flows	Swap Rate	7.4% - 7.9%	(2.64)%	(0.16)	0.07
IRS	Forward Estimation	Prepayment rate	6% - 12%	9.00%	—	—
IRS	Prepayment modelling	Prepayment rate	2.5% - 6.2%	0.50%	(0.13)	0.07
IRS	Others	Others	n.a.	n.a.	(1.40)	1.40
Property derivatives	Option pricing model	Growth rate	0% - 5%	2.50%	(9.55)	9.55
Swaptions	IR option pricing model	Volatility	0% - 40%	26.67%	(0.16)	0.31
At Fair Value through P&L						
Loans and advances to customers						
Mortgage portfolio	Black Scholes model	Growth rate	0% - 5%	2.50%	(2.33)	2.33
Loans	Discounted Cash Flows	Credit spreads	0.1% - 1.4%	0.67%	(0.26)	0.26
Debt securities						
Government debt	Discounted Cash Flows	Interest rate	0% - 10%	8.33%	(5.92)	29.58
Property securities	Probability weighting	Growth rate	0% - 5%	2.50%	(1.28)	1.28
Mandatorily Fair Value through OCI						
Loans and advances to customers						
Loans	Discounted Cash Flows	Margin of a reference portfolio	-1bp-1bp	1bp	(1.38)	3.09
Debt securities						
Corporate debt	Discounted Cash Flows	Margin of a reference portfolio	-1bp-1bp	1bp	(0.56)	0.60
Equity instruments						
Equities	Price Based	Price	90% - 110%	10.00%	(105.26)	105.26
At Fair Value through OCI						
Loans and advances to customers						
Loans	Discounted Cash Flows	Credit spread	n.a.	n.a.	(3.90)	—
Loans	Discounted Cash Flows	Interest rate curve	-0.1%-0.1%	0.12%	(0.14)	0.14

Portfolio/Instrument						Impacts (EUR million)	
(Level 3)	Valuation technique	Main unobservable inputs	Range	Weighted average	Unfavourable scenario	Favourable scenario	
Loans	Discounted Cash Flows	Credit spreads	0.1% - 1.4%	0.67%	(0.26)	0.26	
Debt securities							
Government debt	Discounted Cash Flows	Interest rate	1.2% - 1.4%	0.10%	—	—	
Equity instruments							
Equities	Price Based	Price	90% - 110%	10.00%	(106.40)	106.40	
Held for trading (Liabilities)							
Derivatives							
Cap&Floor	Volatility option model	Volatility	10% - 90%	34.73%	—	—	
EQ Options	Option pricing model	Correlations	(100)% - 100%	100.00%	(0.04)	0.04	
FX Options	FX option pricing model	Volatility	2Vegas - 13.4Vegas	12.26%	—	0.01	
Property derivatives	Option pricing model	Growth rate	0% - 5%	2.50%	(2.80)	2.80	
IRS	Forward estimation	Prepayment rate	6% - 12%	9.00%	—	—	

Lastly, the changes in the financial instruments classified as Level 3 in the first six months of 2021 were as follows:

EUR million	01-01-2021		Changes					30-06-2021	
	Fair value calculated using internal models (Level 3)	Purchases/Settlements	Sales/Amortisation	Changes in fair value recognized in profit or loss	Changes in fair value recognised in equity	Level reclassifications	Other	Fair value calculated using internal models (Level 3)	
Financial assets held for trading	740	67	(91)	(51)	—	(59)	5	611	
Debt instruments	7	17	(2)	(3)	—	—	—	19	
Equity instruments	3	—	(1)	1	—	—	—	3	
Trading derivatives	730	50	(88)	(49)	—	(59)	5	589	
<i>Swaps</i>	272	5	(12)	(29)	—	(1)	(2)	233	
<i>Exchange rate options</i>	22	14	(27)	24	—	—	—	33	
<i>Interest rate options</i>	241	7	(39)	(24)	—	—	—	185	
<i>Index and securities options</i>	94	11	(4)	20	—	(59)	4	66	
<i>Other</i>	101	13	(6)	(40)	—	1	3	72	
Trading financial assets at fair value through profit or loss	649	53	(127)	35	—	(163)	31	478	
Credit institutions	163	—	—	—	—	(163)	—	—	
Loans and advances to customers	19	—	(2)	—	—	—	—	17	
Debt instruments	467	53	(125)	35	—	—	31	461	
Non-trading financial assets mandatorily at fair value through profit or loss	934	97	(114)	7	—	515	30	1,469	
Loans and advances to customers	295	56	(71)	(18)	—	—	4	266	
Debt instruments	134	—	(11)	6	—	12	9	150	
Equity instruments	505	41	(32)	19	—	503	17	1,053	
Financial assets at fair value through other comprehensive income	6,220	2,941	(2,825)	—	(127)	(260)	27	5,976	
Loans and advances to customers	4,792	2,865	(2,782)	—	(18)	(192)	3	4,668	
Debt instruments	206	74	(25)	—	40	(68)	17	244	
Equity instruments	1,222	2	(18)	—	(149)	—	7	1,064	
TOTAL ASSETS	8,543	3,158	(3,157)	(9)	(127)	33	93	8,534	
Financial liabilities held for trading	295	27	(27)	(23)	—	(25)	9	256	
Trading derivatives	295	27	(27)	(23)	—	(25)	9	256	
<i>Swaps</i>	81	3	(3)	(19)	—	(4)	(1)	57	
<i>Exchange rate options</i>	1	—	—	21	—	—	1	23	
<i>Interest rate options</i>	49	6	(13)	(6)	—	—	—	36	
<i>Index and securities options</i>	97	16	(4)	34	—	(21)	10	132	
<i>Interest rate and equity futures</i>	2	—	(2)	—	—	—	—	—	
<i>Others</i>	65	2	(5)	(53)	—	—	(1)	8	
Financial liabilities designated at fair value through profit or loss	610	—	—	25	—	(289)	21	367	
TOTAL LIABILITIES	905	27	(27)	2	—	(314)	30	623	

b) Sovereign risk with peripheral European countries

The detail at 30 June 2021 and 31 December 2020, by type of financial instrument, of Grupo Santander credit institutions' sovereign risk exposure to Europe's peripheral countries and of the short positions exposed to them, taking into consideration the scope established by the European Banking Authority (EBA) in the analyses performed on the capital needs of European credit institutions (See Note 50 to the consolidated annual accounts for 2020), is as follows:

Sovereign risk by country of issuer/borrower at 30 June 2021 (*)

	EUR million								
	Debt instruments					MtM Derivatives (***)			
	Financial assets held for trading and Financial assets designated at fair value through profit or loss	Short positions	Financial assets at fair value through other comprehensive income	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets at amortised cost	Loans and advances to customers (**)	Total net direct exposure	Other than CDSs	CDSs
Spain	7,427	(5,146)	2,928	—	1,010	13,022	19,241	326	—
Portugal	243	(205)	2,299	—	547	4,231	7,115	—	—
Italy	1,765	(1,171)	3,882	—	51	17	4,544	1	(1)
Ireland	—	—	—	—	—	—	—	—	—

(*) Information prepared under EBA standards. Also, there are government debt instruments on insurance companies balance sheets amounting to EUR 13,450 million (of which EUR 11,804 million, EUR 1,164 million, EUR 470 million and EUR 12 million relate to Spain, Portugal, Italy and Ireland, respectively) and off-balance-sheet exposure other than derivatives – contingent liabilities and commitments – amounting to EUR 4,989 million (of which EUR 4,649 million, EUR 286 million and EUR 54 million to Spain, Portugal and Italy, respectively).

(**) Presented without taking into account the valuation adjustments recognised (EUR 17 million).

(***) "Other than CDSs" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. "CDSs" refers to the exposure to CDSs based on the location of the underlying.

Sovereign risk by country of issuer/borrower at 31 December 2020 (*)

	EUR million								
	Debt instruments					MtM Derivatives (***)			
	Financial assets held for trading and Financial assets designated at fair value through profit or loss	Short positions	Financial assets at fair value through other comprehensive income	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets at amortised cost	Loans and advances to customers (**)	Total net direct exposure	Other than CDSs	CDSs
Spain	9,765	(5,665)	7,048	—	993	12,104	24,245	546	—
Portugal	202	(582)	4,148	—	631	4,331	8,730	—	—
Italy	556	(307)	2,468	—	1,277	21	4,015	1	(1)
Ireland	—	—	—	—	—	—	—	—	—

(*) Information prepared under EBA standards. Also, there are government debt instruments on insurance companies balance sheets amounting to EUR 14,241 million (of which EUR 12,571 million, EUR 1,281 million, EUR 387 million and EUR 2 million relate to Spain, Portugal, Italy and Ireland, respectively) and off-balance-sheet exposure different to derivatives – contingent liabilities and commitments – amounting to EUR 6,134 million (EUR 5,509 million, EUR 345 million and EUR 280 million to Spain, Portugal and Italy, respectively).

(**) Presented without taking into account the valuation adjustments recognised (EUR 23 million).

(***) "Other than CDSs" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. "CDSs" refers to the exposure to CDSs based on the location of the underlying.

The detail of Grupo Santander's other exposure to other counterparties (private sector, central banks and other public entities that are not considered to be sovereign risks) in the aforementioned countries at 30 June 2021 and 31 December 2020 is as follows:

Exposure to other counterparties by country of issuer/borrower at 30 June 2021 (*)

	EUR million									
	Debt instruments							Derivatives (***)		
	Balances with central banks	Reverse repurchase agreements	Financial assets held for trading and Financial assets designated at FVTPL	Financial assets at fair value through other comprehensive income	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets at amortised cost	Loans and advances to customers (**)	Total net direct exposure	Other than CDSs	CDSs
Spain	68,708	3,574	456	903	82	490	202,824	277,037	1,213	(2)
Portugal	6,922	0	187	29	—	2,955	35,647	45,740	520	—
Italy	321	7,340	342	553	—	147	14,794	23,497	510	(4)
Greece	—	—	—	—	—	—	18	18	—	—
Ireland	—	176	68	2,756	591	734	11,556	15,881	127	—

(*) Also, Grupo Santander has off-balance-sheet exposure other than derivatives -contingent liabilities and commitments- amounting to EUR 77,418 million, EUR 8,392 million, EUR 6,318 million and EUR 975 million to counterparties in Spain, Portugal, Italy and Ireland, respectively.

(**) Presented without taking into account valuation adjustments or impairment corrections (EUR 8,084 million).

(***) "Other than CDSs" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. "CDSs" refers to the exposure to CDSs based on the location of the underlying.

Exposure to other counterparties by country of issuer/borrower at 31 December 2020 (*)

	EUR million									
	Debt instruments							Derivatives (***)		
	Balances with central banks	Reverse repurchase agreements	Financial assets held for trading and Financial assets designated at FVTPL	Financial assets at fair value through other comprehensive income	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets at amortised cost	Loans and advances to customers (**)	Total net direct exposure	Other than CDSs	CDSs
Spain	62,023	3,837	619	943	2	24	203,226	270,674	2,581	(4)
Portugal	3,937	—	140	22	—	2,933	34,935	41,967	685	—
Italy	10	7,098	425	493	—	129	13,437	21,592	1,001	(4)
Greece	—	—	—	—	—	—	14	14	—	—
Ireland	—	—	22	2,337	556	9	10,523	13,447	153	—

(*) Also, Grupo Santander has off-balance-sheet exposure other than derivatives - contingent liabilities and commitments- amounting to EUR 76,377 million, EUR 8,591 million, EUR 4,173 million, EUR 200 million and EUR 797 million to counterparties in Spain, Portugal, Italy, Greece and Ireland, respectively.

(**) They are presented without taking into account valuation adjustments or impairment corrections (EUR 8,129 million).

(***) "Other than CDSs" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. "CDSs" refers to the exposure to CDSs based on the location of the underlying.

Following is certain information on the notional amounts of the CDSs detailed in the foregoing tables at 30 June 2021 and 31 December 2020:

30-06-2021

EUR million

		Notional amount			Fair value		
		Bought	Sold	Net	Bought	Sold	Net
Spain	Sovereign	—	—	—	—	—	—
	Other	611	315	296	(14)	12	(2)
Portugal	Sovereign	—	—	—	—	—	—
	Other	52	—	52	—	—	—
Italy	Sovereign	327	205	122	(2)	1	(1)
	Other	220	110	110	(5)	1	(4)
Greece	Sovereign	—	—	—	—	—	—
	Other	—	—	—	—	—	—
Ireland	Sovereign	—	—	—	—	—	—
	Other	—	6	(6)	—	—	—

31-12-2020

EUR million

		Notional amount			Fair value		
		Bought	Sold	Net	Bought	Sold	Net
Spain	Sovereign	—	—	—	—	—	—
	Other	546	273	273	(13)	9	(4)
Portugal	Sovereign	—	—	—	—	—	—
	Other	52	—	52	—	—	—
Italy	Sovereign	326	206	120	(3)	2	(1)
	Other	220	11	209	(4)	—	(4)

c) Refinancing and restructured transactions

The following terms are used with the meanings specified below:

- Refinancing transaction: transaction that is granted or used, for reasons relating to current or foreseeable financial difficulties of the borrower, to repay one or more of the transactions granted to it, or through which the payments on such transactions are brought fully or partially up to date, in order to enable the borrowers of the cancelled or refinanced transactions to repay their debt (principal and interest) because they are unable, or might foreseeably become unable, to comply with the conditions thereof in due time and form.
- Restructured transaction: transaction with respect to which, for economic or legal reasons relating to current or foreseeable financial difficulties of the borrower, the financial terms and conditions are modified in order to facilitate the payment of the debt (principal and interest) because the borrower is unable, or might foreseeably become unable, to comply with the aforementioned terms and conditions in due time and form, even if such modification is envisaged in the agreement.

For maximum guarantees amount, we will consider as follows:

- Real guarantees: the appraisal amount or valuation amount of the real guarantees received; for each transaction it cannot be higher than the covered amount of exposure.

30-06-2021

	Total							Of which: Impaired						
	Without real guarantee			With real guarantee				Without real guarantee			With real guarantee			
					Maximum amount of the actual collateral that can be considered						Maximum amount of the actual collateral that can be considered			
Amounts in million euros, except number of transactions in units	Number of transactions	Gross amount	Number of operations	Gross amount	Mortgage guarantee	Other guarantees	Impairment of accumulated value or accumulated losses in fair value due to credit risk	Number of transactions	Gross amount	Number of operations	Gross amount	Mortgage guarantee	Other guarantees	Impairment of accumulated value or accumulated losses in fair value due to credit risk
Credit entities	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Public sector	27	20	17	6	4	—	1	7	1	11	2	2	—	1
Other financial institutions and: individual shareholder	797	37	599	211	100	87	27	325	18	393	72	57	11	24
Non financial institutions and individual shareholder	221,539	10,579	49,625	10,036	6,320	1,217	4,668	100,297	3,737	34,456	6,367	3,997	425	4,188
<i>Of which: Financing for constructions and property development</i>	7,543	133	1,276	621	408	35	222	3,901	45	811	411	218	31	201
Other warehouses	2,902,894	4,397	433,415	10,825	6,335	2,925	3,668	1,420,116	1,825	135,971	3,812	2,703	311	2,263
Total	3,125,257	15,033	483,656	21,078	12,759	4,229	8,364	1,520,745	5,581	170,831	10,253	6,759	747	6,476
Financing classified as non-current assets and disposable groups of items that have been classified as held for sale	—	—	—	—	—	—	—	—	—	—	—	—	—	—

The table below shows the changes of these balances during the first six months of 2021:

Carrying amount	Million euros
	30-06-2021
Beginning balances	20,997
Refinancing and restructuring of the period	10,543
<i>Memorandum items: impact recorded in the income statement for the period</i>	1,078
Debt repayment	(2,659)
Foreclosures	(161)
Derecognised from the consolidated balance sheet	(537)
Other variations	(436)
Balances at end of year	27,747

d) Real estate business – Spain

i) Portfolio of home purchase loans to families

Home purchase loans granted to families in Spain on 30 June 2021 amounted to EUR 60,462 million (EUR 59,605 million at 31 December 2020). Of which mortgage guarantees are 99.35%.

	Million euros			
	30-06-2021		31-12-2020	
	Gross Amount	Of which: Impaired	Gross Amount	Of which: Impaired
Home purchase loans to families	60,462	1,827	59,605	1,850
- Without mortgage guarantee	396	82	387	75
- With mortgage guarantee	60,066	1,745	59,218	1,775

The risk profile of the home purchase mortgage loan portfolio in Spain remained at a medium-low level, with limited prospects of additional impairment:

- Principal is repaid on all mortgages from the start.
- Early repayment is common so the average life of the transaction is well below that of the contract.
- High quality of collateral concentrated almost exclusively in financing the first home.
- Average affordability rate at the end of June stood at 26.38%.
- 87.49% of the portfolio has a LTV below 80%, calculated as total risk/latest available house appraisal.

30-06-2021

Gross amount in books on the amount of the last appraisal (loan to value)

Million euros	Less than or equal to 40%	More than 40% or less than 60%	More than 60% and less than 80%	More than 80% and less or equal to 100%	More than 100%	TOTAL
Gross amount	15,759	18,383	18,408	4,920	2,596	60,066
<i>Of which: watchlist /impaired</i>	170	218	304	307	746	1,745

31-12-2020

Gross amount in books on the amount of the last appraisal (loan to value)

Million euros	Less than or equal to 40%	More than 40% or less than 60%	More than 60% and less than 80%	More than 80% and less or equal to 100%	More than 100%	TOTAL
Gross amount	15,570	18,028	17,585	5,205	2,830	59,218
<i>Of which: watchlist /impaired</i>	170	222	318	305	760	1,775

ii) *Financing construction and property development*

At 30 June 2021 and 31 December 2020 the financing amount related to construction and real estate business in Spain amounted to EUR 2,701 million and EUR 2,801 million net of allowances, respectively.

Million euros	30-06-2021		
	Gross Amount	Excess over collateral value	Specific allowance
Financing for construction and property development recognised by the Group's credit institutions (including land) (business in Spain)	2,772	386	71
<i>Of which: watchlist/ impaired</i>	189	38	54
Memorandum items: Written-off assets	844		

Million euros	31-12-2020		
	Gross Amount	Excess over collateral value	Specific allowance
Financing for construction and property development recognised by the Group's credit institutions (including land) (business in Spain)	2,871	397	70
<i>Of which: watchlist/ impaired</i>	176	20	58
Memorandum items: Written-off assets	924		

Million euros	30-06-2021	31-12-2020
	Carrying amount	
Memorandum items:		
Total loans and advances to customers excluding the public sector (business in Spain) (book value)	239,941	237,165
Total consolidated assets (Total business) (book value)	1,568,636	1,508,250
Impairment losses and provision for exposure classified as normal (business in Spain)	1,560	1,591

At the end 30 June 2021 and 31 December 2020 the concentration of this portfolio was as follows:

Million euros	Loans: gross amount	
	30-06-2021	31-12-2020
1. Without mortgage guarantee	183	164
2. With mortgage guarantee	2,589	2,707
2.1 Completed buildings	1,445	1,454
2.1.1 Residential	866	844
2.1.2 Other	579	610
2.2 Buildings and other constructions under construction	1,082	1,185
2.2.1 Residential	1,038	1,124
2.2.2 Other	44	61
2.3 Land	62	68
2.3.1 Developed consolidated land	41	44
2.3.2 Other land	21	24
Total	2,772	2,871

e) **Foreclosed real estate assets**

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

Million euros	30-06-2021			
	Gross carrying amount	Valuation Adjustments	Of which: Impairment losses since time of the foreclosure	Carrying amount
Property assets arising from financing provided to construction and property development companies	6,649	3,490	2,517	3,159
<i>Of which:</i>				
Completed Buildings	2,075	823	625	1,252
Residential	554	182	131	372
Other	1,521	641	494	880
Buildings under construction	90	26	17	64
Residential	90	26	17	64
Other	—	—	—	—
Land	4,484	2,641	1,875	1,843
Developed Land	1,578	850	522	728
Other land	2,906	1,791	1,353	1,115
Property assets from home purchase mortgage loans to households	884	304	201	580
Other foreclosed property assets	221	95	69	126
Total property assets	7,754	3,889	2,787	3,865

Million euros	31-12-2020			
	Gross carrying amount	Valuation Adjustments	Of which: Impairment losses since time of the foreclosure	Carrying amount
Property assets arising from financing provided to construction and property development companies	6,810	3,568	2,563	3,242
<i>Of which:</i>				
Completed Buildings	2,140	846	644	1,294
Residential	527	171	130	356
Other	1,613	675	514	938
Buildings under construction	178	70	36	108
Residential	178	70	36	108
Other	—	—	—	—
Land	4,492	2,652	1,883	1,840
Developed Land	1,656	888	559	768
Other land	2,836	1,764	1,324	1,072
Property assets from home purchase mortgage loans to households	892	305	200	587
Other foreclosed property assets	235	102	71	133
Total property assets	7,937	3,975	2,834	3,962

In addition, the Group holds an ownership interest in entities holding property assets foreclosed or received in payment of debts amounting to EUR 707 million, mainly in Project Quasar Investments 2017, S.L., and equity instruments foreclosed or received in payment of debts amounting to EUR 38 million.

f) Solvency information

The Group commands a solvency position above the levels required by regulators and by the European Central bank. At 30 June 2021, at a consolidated level, the Group must maintain a minimum capital ratio of 8.86% of CET1 fully loaded (4.5% being the requirement for Pillar I, 0.84% being the requirement for Pillar II, 2.5% being the requirement for capital conservation buffer, 1% being the requirement for G-SIB and 0.01% being the requirement for anti-cyclical capital buffer). Santander Group must also maintain a minimum capital ratio of 10.64% of Tier 1 fully loaded and a minimum total ratio of 13.01% fully loaded.

At 30 June 2021, the Group has a capital ratio regulatory CET1 of 12.11% and a total ratio of 15.82%.

Capital ratio

	30-06-2021	31-12-2020
Capital coefficients		
Level 1 ordinary eligible capital (million euros)	70,864	69,399
Level 1 additional eligible capital (million euros)	9,109	9,102
Level 2 eligible capital (million euros)	12,567	12,514
Risk-weighted assets (million euros)	584,999	562,580
Level 1 ordinary capital coefficient (CET 1)	12.11%	12.34%
Level 1 additional capital coefficient (AT1)	1.56%	1.61%
Level 1 capital coefficient (TIER1)	13.67%	13.95%
Level 2 capital coefficient (TIER 2)	2.15%	2.23%
Total capital coefficient	15.82%	16.18%

Leverage

	30-06-2021	31-12-2020
Leverage		
Tier 1 capital (million euros)	79,973	78,501
Exposure (million euros)	1,545,183	1,471,480
Leverage ratio	5.18%	5.33%

17. Explanation added for translation to English

These interim condensed consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to Grupo Santander in Spain (see note 1.b).