SANTANDER CONSUMER FINANCE, S.A. AND SUBSIDIARIES

Auditor’s Report, Condensed interim consolidated financial statements and Interim Management Report as at 30 June 2018

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.

Audit Report on the Condensed Interim Consolidated Financial Statements issued by an independent auditor

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

Report on the Condensed Interim Consolidated Financial Statements

Opinion

We have audited the accompanying condensed interim consolidated financial statements of Santander Consumer Finance, S.A. (the Parent company) and subsidiaries (the Group), consisting of the consolidated balance sheet at 30 June 2018, the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated statement of changes in equity, the consolidated cash flow statement and the notes, all condensed and consolidated for the six-month period then ended.

In our opinion, the accompanying condensed interim consolidated financial statements of Santander Consumer Finance, S.A. and subsidiaries for the six months period ended 30 June 2018 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 condensed interim 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 condensed interim consolidated financial statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including independence, which are applicable to the audit of the condensed interim consolidated financial statements in Spain, as required by legislation governing the audit practice. In this respect, we have provided no services other than audit services and nor have we been involved in any situations or circumstances which, in accordance with such legislation, may affect the necessary independence such that it may have 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 which according to the auditor's professional judgement, are of most significance in the audit of the condensed interim consolidated financial statements for the current period. These matters were addressed in the context of our audit of the condensed interim consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers Auditores, S.L., Torre PwC, Pº de la Castellana 259 B, 28046 Madrid, España
Tel.: +34 915 684 400 / +34 902 021 111, Fax: +34 915 685 400, www.pwc.es

R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

Key audit matters	How the matter was handled in the course of the audit
Impairment of loans and advances to customers	
Estimating loan-loss impairment provisions is one of the most significant and complex estimation exercises performed in preparing the accompanying interim condensed consolidated financial statements. IFRS 9 took effect on 1 January 2018. The most significant change is the fact that the impairment model is now based on expected credit losses rather than incurred losses. Use of such models to determine expected credit loss entails a significant degree of judgement, specifically with respect to: • Classification of the various credit portfolios by risk and asset type. • Identification of impaired assets or assets presenting a significant increase in credit risk and sorting them into stages. • The use of concepts such as macroeconomic scenarios, expected lifetime, etc. • The construction of parameters for those models such as the probability of default (PD) and loss given default (LGD). The Group's business is concentrated on the provision of vehicle and consumer finance in nine key markets (Germany, Scandinavia [Norway, Sweden, Denmark and Finland], Spain, France, Italy and Austria). In this context, the Group has developed a general risk management framework which, nevertheless, takes into account the specific characteristics of each of its markets. Its internal models enable it to estimate loan-loss impairment provisions collectively and for significant individual exposures.	Our work in the area of the impairment of loans and advances to customers on account of credit risk focused on analysing, assessing and verifying the internal control environment and performing tests of details with respect to the provisions estimated collectively and individually; we also looked at the effects of first-time application of the new standard. As for the internal control environment, we arrived at a detailed understanding of the following stages of the process, testing the associated controls: • The calculation, recalibration and back-testing methodologies used by Management. • The Management-approved internal models (checking that they are compliant for regulatory purposes and working as intended). • The reliability of the sources of the data used for calculation purposes and the appropriateness of the models in light of the circumstances. • The periodic assessment of risks and monitoring policies used by the Group. • The process for periodically reviewing borrowers to check their classification and measurement. In addition, we carried out the following tests of details: • We checked the main models with respect to: i) calculation and segmentation methods; ii) methodology for estimating expected loss parameters; iii) historical data and estimates used; iv) criteria used to classify loans by stages; and v) scenario information and related assumptions. • We recalculated the loan-loss provisions estimated collectively.

Key audit matters	How the matter was handled in the course of the audit
Refer to notes 1.c and 5 of the accompanying interim condensed consolidated financial statements.	• We took a sample of individual borrower case files to check they were properly classified and that any corresponding impairment losses had been duly recognised, checking any discounted cash flow models used to this end. Any differences encountered as part of the above-listed tests fell within a reasonable range.
Goodwill testing	
The Group tests the recoverable amount of each of the cash-generating units (CGUs) to which it has allocated goodwill for impairment annually, to which end it uses quoted prices, when available, market references (multiples), internal estimates and valuations made by independent experts. For the purposes of the interim condensed consolidated financial statements, the parent's Directors assess any new evidence of impairment arising since the previous year-end that warrants re-performing the year-end impairment tests. Due to their relevance for the Group, the Directors and Management closely monitor the goodwill deriving from the businesses in Germany, Austria and Scandinavia (Norway, Sweden and Denmark). Refer to notes 1 and 8 of the accompanying interim condensed consolidated financial statements.	We documented, with the assistance of our valuation experts, our understanding and review of the estimation exercise undertaken by Management and of the internal control environment. Our procedures focused on the controls over indications of impairment carried out by the Group, including how the process is supervised and implicitly approved. In parallel, we also conducted tests to cross-check the Group's assessment of the indications of impairment, factoring in regulatory requirements, market practices and specific banking sector expectations. This work included an analysis of how the main CGUs are performing with respect to budget, checking the assumptions, growth rates and discount rates modelled and the impact of the variations observed with respect to budget and in the rates used by the Group's management in reaching their conclusions regarding the indications of potential impairment. As a result of the above procedures, we believe that the conclusions reached by Management, namely that there were no indications of impairment, are appropriate for the circumstances in which the interim condensed consolidated financial statements were prepared.

Key audit matters	How the matter was handled in the course of the audit
Measurement of pension obligations	
The regulations applicable to pension obligations are complex and the estimation of such obligations implies actuarial calculations which require the use of significant judgement, a high volume of data and estimates regarding various assumptions in multiple geographies. These estimates are particularly relevant in certain geographies, such as Spain and Germany. In making their estimates, Management take into account certain considerations in order to determine the amount of pension obligations to be recognised, most notable among which: • Guaranteeing compliance with legislation country by country. • Maintaining and validating calculations to ensure that the Group's pension obligations are properly measured and recognised. • Assessing the key assumptions and hypotheses used in the calculations and estimates made by the actuaries at the end of the prior year-end, checking for any new evidence at the interim reporting date that could affect those assumptions and hypotheses. Refer to notes 1 and 10 of the accompanying interim condensed consolidated financial statements.	With the assistance of our actuarial experts, we documented our understanding of the estimation exercise carried out by Management. As for the internal control environment, we focused on evaluating and validating the controls over the assumptions and hypotheses used to estimate the Group's pension obligations, including verification of same and an assessment of the evidence regarding any changes which may have affected them. We also carried out the following tests of details: • We checked with Management that there had been no significant changes in the key data used to estimate the provisions for each of the Group's pension obligations. • We secured confirmation letters from insurance companies that work with the Group to obtain an additional source of information regarding the savings policies written with these entities. Any differences encountered as a result of the above-listed procedures fell within a reasonable range.

Key audit matters	How the matter was handled in the course of the audit
IT systems	
The Group's financial information is highly dependent on information technology (IT) systems, such that adequate control of these systems is crucial to ensuring correct data processing. The IT environment was developed primarily by the Group, although a portion was developed by External Partners. In this context, it is vital to evaluate aspects such as the organisation of the Group's and the External Partners' IT and Operations Departments, software maintenance and development controls, physical and logical security and system operation.	With the help of our IT system specialists, our work consisted of evaluating and verifying the internal controls over the IT systems, databases and software that support the core business activity and have an impact on the Group's financial reporting effort. To this end, we carried out procedures in order to evaluate the design, implementation and effectiveness in practice of the controls in both the Group's and External Partners' environment related to: • The working of the IT governance regime. • Access control and logical security surrounding the software, operating systems and databases that underpin the Group's relevant financial information. • Management of software upgrades and developments. • IT maintenance. The results of the above procedures were satisfactory and did not bring to light any key observation with respect to this matter.

Emphasis of matters

We draw attention to note 1 of the condensed consolidated interim financial statements which states that the said financial statements have been formulated in accordance with International Accounting Standard 34, meaning that they do not have to contain all of the information that is required of a complete set of consolidated financial statements prepared in accordance with the International Financial Reporting Standards adopted by the European Union. Accordingly, for their adequate comprehension, the accompanying condensed consolidated interim financial statements should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2017. The matter does not modify our opinion.

Other disclosures: Interim Consolidated Management Report

Other information comprises only the interim consolidated management report for the six-month period ended 30 June 2018, the formulation of which is the responsibility of the Parent company´s Directors and does not form an integral part of the condensed interim consolidated financial statements.

Our opinion on the condensed interim consolidated financial statements does not cover the interim consolidated management report. Our responsibility regarding the interim consolidated management report, in accordance with legislation governing the audit practice, consists of assessing and reporting on whether the interim consolidated management report is consistent with the condensed interim consolidated financial statements based on our knowledge of the Group obtained in the audit of said financial statement and does not include information other than that obtained as audit evidence. Our responsibility also consists of evaluating and reporting on whether the content and presentation of the interim consolidated management report are in compliance with applicable legislation. If, based on the work we have performed, we conclude that there is a material misstatement, we are required to report that fact.

Based on the work performed, as described above, the information contained in the interim consolidated management report agrees with the condensed interim consolidated financial statements for the six-month period ended 30 June 2018 and its content and presentation are compliant with applicable legislation.

Directors' and Audit Commission's Responsibility for the condensed interim consolidated financial statements

The Parent company´s Directors are responsible for the preparation of the accompanying condensed interim 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 condensed interim financial information, as provided in Article 12 of Royal Decree 1362/2007, and for such internal control as Directors determine is necessary to enable the preparation of condensed interim consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the condensed interim consolidated financial statements, the Directors of the Parent company 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 directors either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

The Parent company's Audit Commission is responsible for supervising the preparation and presentation of the condensed interim consolidated financial statements.

Auditor’s responsibility for the audit of the condensed interim consolidated financial statements

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

Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with audit legislation in Spain will always detect 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 the condensed interim consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the condensed interim consolidated financial statements, whether due to fraud or error, 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 Directors.

- Conclude on the appropriateness of the Parent company 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 which 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 condensed interim 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.

- Evaluate the overall presentation, structure and content of the condensed interim consolidated financial statements, including the disclosures.

- Obtain sufficient and appropriate evidence for the financial reporting of the entities or business activities within the Group in order to express our opinion on the condensed interim consolidated financial statements. We are responsible for managing, supervising and carrying out the Group's audit. We have sole responsibility for the audit opinion expressed.

We communicate with the Parent company’s Audit Commission regarding, among other matters, the scope and timing of the planned 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 Commission with a declaration of our compliance with applicable ethical requirements, including independence, and we have informed said commission about the matters that may reasonably cause a threat to our independence and, where applicable, the corresponding safeguards.

From the matters communicated to the Parent company's Audit Commission, we determined those matters that were of most significance in the audit of the condensed interim consolidated financial statements for the current period and which are therefore 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

Contract period

The General Shareholders' Meeting on 31 March 2016 appointed us as the Group's auditors for a 3 year period, started on 1 January 2016.

Services rendered

The permitted services, other than audit services, which have been rendered to the Group, are detailed in Note 16 to the accompanying condensed interim consolidated financial statements.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by
José María Sanz Olmeda (05434)

27 July 2018

Santander Consumer Finance S.A. and its subsidiaries forming Santander Consumer Group (Consolidated)

Interim Condensed Consolidated Financial Statements and Interim Management Report for the six-month period ended 30 June 2018

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 Note 1). In the event of a discrepancy, the Spanish-language prevails.

SANTANDER CONSUMER FINANCE GROUP

CONDENSED CONSOLIDATED BALANCE SHEETS AS AT 30 JUNE 2018 AND 31 DECEMBER 2017
(Thousands of euros)

ASSETS (*)	Note	30/06/2018	31-12-2017 (**)
CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEPOSITS ON DEMAND		4,956,985	4,565,157
FINANCIAL ASSETS HELD FOR TRADING	5	16,476	34,064
Memorandum items: lent or delivered as guarantee with disposal or pledge rights		-	-
NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS	5	218	
Memorandum items: lent or delivered as guarantee with disposal or pledge rights		-	
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	5	-	-
Memorandum items: lent or delivered as guarantee with disposal or pledge rights		-	-
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	5	1,315,751	
Memorandum items: lent or delivered as guarantee with disposal or pledge rights		-	
FINANCIAL ASSETS AVAILABLE-FOR-SALE	5		2,617,771
Memorandum items: lent or delivered as guarantee with disposal or pledge rights			-
FINANCIAL ASSETS AT AMORTISED COST	5	89,844,676	
Memorandum items: lent or delivered as guarantee with disposal or pledge rights		-	
LOANS AND RECEIVABLES	5		86,930,859
Memorandum items: lent or delivered as guarantee with disposal or pledge rights			-
INVESTMENTS HELD-TO-MATURITY			-
Memorandum items: lent or delivered as guarantee with disposal or pledge rights			-
HEDGING DERIVATES	16	114,993	133,399
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RISK		36,282	47,823
INVESTMENTS		557,261	567,348
Investments in affiliates		168,124	147,183
Associated entities		389,137	420,165
ASSETS UNDER INSURANCE OR REINSURANCE CONTRACTS		-	-
TANGIBLE ASSETS	7	309,093	304,411
Property, plant and equipment		309,093	304,411
For own-use		*155,698*	*157,862*
Leased out under an operating lease		*153,395*	*146,549*
Investment property		-	-
Of which Leased out under an operating lease		-	-
Memorandum ítems:acquired in financial lease		*48,575*	*49,157*
INTANGIBLE ASSETS	8	2,096,229	2,114,230
Goodwill		1,856,152	1,870,036
Other intangible assets		240,077	244,194
TAX ASSETS		999,204	968,221
Current tax assets		393,635	340,466
Deferred tax assets		605,569	627,755
OTHER ASSETS		1,532,717	1,426,157
Insurance contracts linked to pensions		-	-
Inventories		99,592	99,746
Other		1,433,125	1,326,411
NON-CURRENT ASSETS HELD FOR SALE	6	7,011	6,872
TOTAL ASSETS		**101,786,896**	**99,716,312**

(*) See reconciliation of IAS 39 as at 31 December 2017 to IFRS 9 as at 1 January 2018 (Note 1.c).

(**) Presented for comparison purposes only (Note 1.f).

The accompanying explanatory Notes 1 to 17 are an integral part of the condensed consolidated balance sheet as at 30 June 2018.

SANTANDER CONSUMER FINANCE GROUP

CONDENSED CONSOLIDATED BALANCE SHEETS AS AT 30 JUNE 2018 AND 31 DECEMBER 2017

(Thousands of euros)

LIABILITIES (*)	Note	30/06/2018	31-12-2017 (**)
FINANCIAL LIABILITIES HELD FOR TRADING	9	15,664	28,851
FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS		-	-
Memorandum ítems: subordinated liabilities		-	-
FINANCIAL LIABILITIES AT AMORTISED COST	9	86,049,612	84,657,096
Memorandum ítems: subordinated liabilities		957,966	957,370
HEDGING DERIVATES	16	120,627	167,800
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK		-	-
LIABILITIES UNDER INSURANCE OR REINSURANCE CONTRACTS		-	-
PROVISIONS	10	834,563	826,519
Pensions and other post-retirement obligations		*479,637*	*491,729*
Other long term employee benefits		*59,289*	*66,330*
Taxes and other legal contingencies		*66,810*	*53,511*
Contingent liabilities and commitments		*40,225*	*6,338*
Other provisions		*188,602*	*208,611*
TAX LIABILITIES		944,791	823,679
Current tax liabilities		*314,540*	*179,538*
Deferred tax liabilities		*630,251*	*644,141*
OTHER LIABILITIES		1,542,240	1,452,163
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE		-	-
TOTAL LIABILITIES		**89,507,497**	**87,956,108**
SHAREHOLDERS´ EQUITY	11	11,233,058	10,724,814
CAPITAL		5,638,639	5,638,639
Called up paid capital		5,638,639	5,638,639
Unpaid capital which has been called up			
Memorandum ítems: uncalled up capital			
SHARE PREMIUM		1,139,990	1,139,990
EQUITY INSTRUMENTS ISSUED OTHER THAN CAPITAL		850,000	850,000
Equity component of the compound financial instrument		-	-
Other equity instruments issued		*850,000*	*850,000*
OTHER EQUITY		-	-
ACCUMULATED RETAINED EARNINGS		2,857,731	2,175,234
REVALUATION RESERVES		-	-
OTHER RESERVES		162,263	241,907
(-) OWN SHARES		-	-
PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		584,435	1,079,387
(-) INTERIM DIVIDENDS	3	-	(400,343)
OTHER COMPREHENSIVE INCOME		(426,852)	(413,350)
ITEMS NOT RECLASSIFIED TO PROFIT OR LOSS		(121,728)	(129,544)
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS		(305,124)	(283,806)
NON-CONTROLLING INTEREST		1,473,193	1,448,740
Other comprehensive income		*468*	*(247)*
Other elements		*1,472,725*	*1,448,987*
EQUITY (*)		**12,279,399**	**11,760,204**
TOTAL EQUITY AND LIABILITIES		**101,786,896**	**99,716,312**
MEMORANDUM ITEMS: OFF BALANCE SHEET AMOUNTS			
Loan commitments granted	14	23,890,406	22,683,974
Financial guarantees granted	14	549,511	524,961
Other commitments granted	14	412,598	631,185

(*) See reconciliation of IAS 39 as at 31 December 2017 to IFRS 9 as at 1 January 2018 (Note 1.c).

(**) Presented for comparison purposes only (Note 1.f).

The accompanying explanatory Notes 1 to 17 are an integral part of the condensed consolidated balance sheet as at 30 June 2018.

SANTANDER CONSUMER FINANCE GROUP

CONDENSED CONSOLIDATED INCOME STATEMENTS FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2018 AND 2017

(Thousands of euros)

(*)	Note	Incomes / (Expenses)	
		30/06/2018	**30-06-2017 (**)**
Interest income and other similar income	12	1,872,810	1,859,038
Interest expense		(231,219)	(268,741)
Net interest income		**1,641,591**	**1,590,297**
Dividend income	12	120	2
Share of results of entities accounted for using the equity method		50,182	49,449
Commission income		538,034	585,720
Commission expense		(156,264)	(149,725)
Gain or losses on financial assets and liabilities not measured at fair value through profit or loss, net	12	(1,176)	(3,949)
Gain or losses on financial assets and liabilities held for trading, net	12	(3,837)	(415)
Gains or losses on non-trading financial assets and liabilities mandatorily at fair value through profit or loss	12	184	
Gain or losses on financial assets and liabilities measured at fair value through profit or loss, net		-	-
Gain or losses from hedge accounting, net	12	13,117	9,515
Exchange differences, net		(3,007)	(4,601)
Other operating income	12	53,167	54,600
Other operating expenses		(88,324)	(85,665)
Income from assets under insurance and reinsurance contracts		-	-
Expenses from liabilities under insurance and reinsurance contracts		-	-
Gross income		**2,043,787**	**2,045,228**
Administrative expenses		(840,078)	(800,809)
Staff costs		*(374,980)*	*(363,377)*
Other general administrative expenses		*(465,098)*	*(437,432)*
Depreciation and amortisation cost		(63,887)	(84,073)
Provisions or reversal of provisions, net	10	(20,653)	(30,161)
Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss, net	5	(146,674)	(92,790)
Financial assets at fair value through other comprehensive income		-	-
Financial assets at amortized cost		*(146,674)*	-
Financial assets measured at cost			-
Financial assets available-for-sale			-
Loans and receivables	5		*(92,790)*
Held-to-maturity investments			-
Impairment of investments in subsidiaries, joint ventures and associates, net	2	-	(60,000)
Impairment on non-financial assets, net		(442)	(30,156)
Tangible assets		*(248)*	*(104)*
Intangible assets	8	*(863)*	*(26,878)*
Others		*669*	*(3,174)*
Gain or losses on non-financial assets and investments, net	7 and 8	(357)	820
Negative goodwill recognised in results		-	-
Gains or losses on non-current assets held for sale not classified as discontinued operations	6	(2,256)	4,625
Profit or loss before tax from continuing operations	12	**969,440**	**952,684**
Tax expense or income from continuing operations	12	(268,493)	(332,322)
Profit for the period from continuing operations		**700,947**	**620,362**
Profit or loss after tax from discontinued operations		-	-
Profit for the period		**700,947**	**620,362**
Profit attributable to non-controlling interests		*116,512*	*104,587*
Profit attributable to the parent		*584,435*	*515,775*
Earnings per share			
Basic	3	*0.3109*	*0.2744*
Diluted	3	0.3109	0.2744

(*) See further detail regarding the impacts of the entry into force of IFRS 9 as at 1 January 2018 (Note 1.c).

(**) Presented for comparison purposes only (Note 1.f).

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 2018.

SANTANDER CONSUMER FINANCE GROUP

CONDENSED CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2018 AND 2017

(Thousands of euros)

(*)	30/06/2018	30-06-2017 (**)
CONSOLIDATED PROFIT FOR THE PERIOD	**700,947**	**620,362**
OTHER RECOGNISED INCOME AND EXPENSE	**(11,779)**	**(55,242)**
Items that will not be reclassified to profit or loss	**6,503**	**795**
Actuarial gains and losses on defined benefit pension plans	7,133	1,842
Non-current assets held for sale	-	-
Other recognised income and expense of investments in subsidiaries, joint ventures and associates	26	1
Changes in the fair value of equity instruments measured at fair value through other comprehensive income	1,191	
Gains or losses resulting from the accounting for hedges of equity instruments measured at fair value through other comprehensive income, net	-	
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedged item)	-	
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedging instrument)	-	
Changes in the fair value of financial liabilities at fair value through profit or loss attributable to changes in credit risk	-	
Income tax relating to items that will not be reclassified	(1,847)	(1,048)
Items that may be reclassified to profit or loss	**(18,282)**	**(56,037)**
Hedges of net investments in foreign operations (effective portion)	(32,348)	25,865
Revaluation gains (losses)	*(32,348)*	*25,865*
Amounts transferred to income statement	-	-
Other reclassifications	-	-
Exchanges differences	39,440	(94,468)
Revaluation gains (losses)	*39,440*	*(94,468)*
Amounts transferred to income statement	-	-
Other reclassifications	-	-
Cash flow hedges (effective portion)	(2,623)	2,562
Revaluation gains (losses)	*(5,660)*	*(3,366)*
Amounts transferred to income statement	*3,037*	*5,928*
Transferred to initial carrying amount of hedged items	-	-
Other reclassifications	-	-
Financial assets available-for-sale		4,050
Revaluation gains (losses)		*431*
Amounts transferred to income statement		*3,619*
Other reclassifications		-
Hedging instruments (items not designated)	-	
Revaluation gains (losses)	-	
Amounts transferred to income statement	-	
Other reclassifications	-	
Debt instruments at fair value with changes in other comprehensive income	(7,098)	
Revaluation gains (losses)	*(6,910)*	
Amounts transferred to income statement	*(188)*	
Other reclassifications	-	
Non-current assets held for sale	-	-
Revaluation gains (losses)	-	-
Amounts transferred to income statement	-	-
Other reclassifications	-	-
Share of other recognised income and expense of investments	(18,371)	7,022
Income tax relating to items that may be reclassified to profit or loss	2,718	(1,068)
Total recognised income and expenses	**689,168**	**565,120**
Attributable to non-controlling interests	*117,227*	*104,673*
Attributable to the parent	*571,941*	*460,447*

(*) See further detail regarding the impacts of the entry into force of IFRS 9 as at 1 January 2018 (Note 1.c).

(**) Presented for comparison purposes only (Note 1.f).

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 2018.

SANTANDER CONSUMER FINANCE GROUP

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2018

(Thousands of euros)

(*)	Capital	Share premium	Other 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: Other comprehensive income	Non-Controlling interest: Others items	Total
Balance as at 31-12-17 (**)	**5,638,639**	**1,139,990**	**850,000**	**-**	**2,175,234**	**-**	**241,907**	**-**	**1,079,387**	**(400,343)**	**(413,350)**	**(247)**	**1,448,987**	**11,760,204**
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to changes in accounting policies	-	-	-	-	-	-	(63,070)	-	-	-	(1,008)	-	9,683	(54,395)
Opening balance as at 31-12-17 (**)	**5,638,639**	**1,139,990**	**850,000**	**-**	**2,175,234**	**-**	**178,837**	**-**	**1,079,387**	**(400,343)**	**(414,358)**	**(247)**	**1,458,670**	**11,705,809**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**584,435**	**-**	**(12,494)**	**715**	**116,512**	**689,168**
Other changes in equity	**-**	**-**	**-**	**-**	**682,497**	**-**	**(16,574)**	**-**	**(1,079,387)**	**400,343**	**-**	**-**	**(102,457)**	**(115,578)**
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	-	-	-	-	-	-	-	-	-	-	-	-	(100,858)	(100,858)
Purchase of equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Disposal of equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity items	-	-	-	-	682,497	-	(3,453)	-	(1,079,387)	400,343	-	-	-	-
Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Others increases or (-) decreases of the equity	-	-	-	-	-	-	(13,121)	-	-	-	-	-	(1,599)	(14,720)
Balance as at 30-06-18	**5,638,639**	**1,139,990**	**850,000**	**-**	**2,857,731**	**-**	**162,263**	**-**	**584,435**	**-**	**(426,852)**	**468**	**1,472,725**	**12,279,399**

(*) See reconciliation of IAS 39 as at 31 December 2017 to IFRS 9 as at 1 January 2018 (Note 1.c).

(**) Presented for comparison purposes only (Note 1.f).

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 2018.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2017

(Thousands of euros)

(*)	Capital	Share premium	Other 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: Other comprehensive income	Non-Controlling interest: Others items	Total
Balance as at 31-12-16 (*)	**5,638,639**	**1,139,990**	**-**	**-**	**1,887,666**	**-**	**218,443**	**-**	**1,055,253**	**(541,309)**	**(325,557)**	**1,609**	**1,322,553**	**10,397,287**
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Openning balance as at 31-12-16 (*)	**5,638,639**	**1,139,990**	**-**	**-**	**1,887,666**		**218,443**	**-**	**1,055,253**	**(541,309)**	**(325,557)**	**1,609**	**1,322,553**	**10,397,287**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**515,775**	**-**	**(55,328)**	**86**	**104,587**	**565,120**
Other changes in equity	**-**	**-**	**-**	**-**	**490,264**	**-**	**23,737**	**-**	**(1,055,253)**	**541,309**	**-**	**-**	**(112,702)**	**(112,645)**
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	-	-	-	-	-	-	-	-	-	-	-	-	(112,702)	(112,702)
Purchase of equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dispossal of equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity items	-	-	-	-	490,264	-	23,680	-	(1,055,253)	541,309	-	-	-	-
Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Others increases or (-) decreases of the equity	-	-	-	-	-	-	57	-	-	-	-	-	-	57
Balance as at 30-06-17 (*)	**5,638,639**	**1,139,990**	**-**	**-**	**2,377,930**	**-**	**242,180**	**-**	**515,775**	**-**	**(380,885)**	**1,695**	**1,314,438**	**10,849,762**

(*) See reconciliation of IAS 39 as at 31 December 2017 to IFRS 9 as at 1 January 2018 (Note 1.c).

(**) Presented for comparison purposes only (Note 1.f).

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 2018.

SANTANDER CONSUMER FINANCE GROUP

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2018 AND 2017

(Thousands of euros)

(*)	Note	30-06-2018	30-06-2017 (**)
A. CASH FLOWS FROM OPERATING ACTIVITIES		**577,739**	**29,553**
Profit for the period		**700,947**	**620,362**
Adjustments made to obtain the cash flows from operating activities		**697,032**	**786,306**
Depreciation and amortisation cost		*63,887*	*84,073*
Other adjustments		*633,145*	*702,233*
Net increase/(decrease) in operating assets		**(1,620,890)**	**(1,647,455)**
Financial assets held-for-trading		*18,262*	*1,192*
Non-trading financial assets mandatorily at fair value through profit or loss		*1,920*	
Financial assets at fair value through profit or loss		-	-
Financial assets at fair value through other comprehensive income		*27,976*	
Financial assets available-for-sale			*297,551*
Financial assets at amortized cost		*(1,550,666)*	
Loans and receivables			*(1,801,991)*
Other operating assets		*(118,382)*	*(144,207)*
Net increase/(decrease) in operating liabilities		**1,017,598**	**548,677**
Liabilities held-for-trading financial		*(13,672)*	*(5,650)*
Financial liabilities designated at fair value through profit or loss		*(817)*	-
Financial liabilities at amortised cost		*952,080*	*493,448*
Other operating liabilities		*80,007*	*60,879*
Income tax recovered/(paid)		**(216,948)**	**(278,337)**
B. CASH FLOWS FROM INVESTING ACTIVITIES		**(50,629)**	**(14,164)**
Payments		**(98,090)**	**(115,970)**
Tangible assets		*(63,064)*	*(87,571)*
Intangible assets		*(30,731)*	*(28,399)*
Investments		-	-
Subsidiaries and other business units		*(4,295)*	-
Non-current assets held for sale and associated liabilities		-	-
Held-to-maturity investments		-	-
Other payments related to investing activities		-	-
Proceeds		**47,461**	**101,806**
Tangible assets		*34,292*	*77,830*
Intangible assets		-	-
Investments		-	-
Subsidiaries and other business units		-	-
Non-current assets held for sale and associated liabilities		*13,169*	*23,976*
Held-to-maturity investments		-	-
Other payments related to investing activities		-	-
C. CASH FLOW FROM FINANCING ACTIVITIES		**(138,121)**	**(654,011)**
Payments		**(138,121)**	**(654,011)**
Dividends		-	*(541,309)*
Subordinated liabilities		*(37,263)*	-
Redemption of own equity instruments		-	-
Acquisition of own equity instruments		-	-
Other payments related to financing activities		*(100,858)*	*(112,702)*
Proceeds		-	-
Subordinated liabilities		-	-
Issuance of own equity instruments		-	-
Disposal of own equity instruments		-	-
Other proceeds related to financing activities		-	-
D. EFFECT OF FOREIGN EXCHANGE RATE DIFFERENCES		**2,839**	**(9,969)**
E. NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**391,828**	**(648,591)**
F. CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**4,565,157**	**4,837,901**
G. CASH AND CASH EQUIVALENTS AT END OF PERIOD		**4,956,985**	**4,189,310**
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF PERIOD			
Cash		*78,572*	*122,913*
Cash equivalents at central banks		*2,398,690*	*2,110,616*
Other financial assets		*2,479,723*	*1,955,781*
Less: Bank overdrafts refundable on demand		-	-
TOTAL CASH AND CASH EQUIVALENTS AT END OF PERIOD		**4,956,985**	**4,189,310**
In which: restricted cash			-

(*) See reconciliation of IAS 39 as at 31 December 2017 to IFRS 9 as at 1 January 2018 (Note 1.c).

(**) Presented for comparison purposes only (Note 1.f).

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 2018.

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.

Santander Consumer Finance, S.A. and Subsidiaries forming Santander Consumer Finance Group

Explanatory Notes to the Interim Condensed Consolidated Financial Statements for the six-month period ended 30 June 2018

1. Introduction, basis of presentation of the interim condensed consolidated financial statements and other information

a) Introduction

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

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

The Bank is part of the Santander Group, the parent entity of which (Banco Santander, S.A.) had a 100% direct and indirect ownership interest in the share capital of the Bank at 30 June 2018 (see Explanatory Note 11). Its activity should be considered in the context of the activity and global strategy of the Santander Group; the Bank carries out significant transactions with Santander Group companies (see Explanatory Note 13). The Bank has one branch (Madrid), is not listed and, in both 2017 and the first half of 2018, it carried on most of its direct business activities in Spain.

The Group engages in finance leasing, financing of third-party purchases of consumer goods of any kind, full-service leasing ("renting") and other activities. Additionally, since December 2002, the Bank has been the head of a group of financial institutions which engage mainly in commercial banking, consumer finance, operating and finance leasing, full-service leasing and other activities mainly in Germany, Italy, Austria, Poland, the Netherlands, Norway, Finland, Sweden, France, Portugal, China, Denmark, Belgium and Switzerland.

b) Foreign currency transactions

i. Presentation currency

The Group's presentation currency is the euro. As a result, all balances and transactions denominated in currencies other than the euro are treated as foreign currency transactions for presentation purposes.

ii. Translation of foreign currency into the presentation currency

Transactions denominated in currencies other than the presentation currencies of each Group entity performed by the consolidated entities (including those consolidated using the equity method) are initially recognized by applying the spot exchange rate at the date of the transaction. Subsequently, assets and liabilities denominated in currencies other than the presentation currency are translated into these entities' respective functional currencies (the currency of the principal economic environment in which the consolidated entity operates) using the closing exchange rate, with the exception of:

- Non-monetary items that are measured in terms of historical cost, which are translated into the presentation currency using the exchange rate at the date of the transaction.

- Non-monetary items that are measured at fair value, which are translated using the exchange rates at the date when the fair value was determined.

- The forward purchase and sale of currencies against other currencies other than the euro and of currencies against euros that do not hedge asset or liability positions are translated, as warranted, using the exchange rates established by the forward market as of the reporting date for the corresponding delivery or settlement date.

iii. Translation of functional currencies into euros

The financial statement balances of the consolidated entities (including those consolidated using the equity method) whose functional currency is not the euro are translated into euros as follows:

- Asset and liability balances are translated using the official Spanish spot exchange rate at the end of the reporting period (the closing rate).

- Income and expenses are translated using the average exchange rate for the period for all transactions performed during the period.

- The items comprising equity are translated at historical exchange rates.

iv. Recognition of exchange differences

Exchange differences arising upon the translation, using the criteria outlined above, of foreign currency balances into the presentation currency of each Group entity are recognized, generally, at their net amount within “Exchange differences-net” in the consolidated income statement, with the exception of any exchange differences arising in respect of financial instruments classified at fair value through profit and loss, which are recognized in the income statement without differentiating them from the other changes arising in their fair value within “Gain or losses on financial assets and liabilities recognized at fair value through profit and loss, net”.

However, the exchange differences arising on non-monetary items for which changes in their fair value are recognized in equity are recognized within “Other accumulated results – Items that can be reclassified to profit and loss – Exchange differences” within equity on the consolidated balance sheet until such gains or losses are realized. Upon realization, the exchange differences deferred in Group equity are reclassified to the consolidated income statement.

Lastly, exchange differences arising upon consolidation from the translation into euros of the financial statements of consolidated entities whose presentation currency is not the euro are recognized with a balancing entry under “Other accumulated results – Items that may be reclassified to profit and loss – Exchange differences” within equity on the consolidated balance sheet.

c) *Basis of presentation of the interim condensed consolidated financial statements*

Under Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of July 19, 2002, all companies governed by the law of an EU Member State and whose securities are admitted to trading on a regulated market of any Member State must prepare their consolidated financial statements for the years beginning on or after 1 January 2005 in accordance with the International Financial Reporting Standards (“IFRSs”) as previously adopted by the European Union (“EU-IFRSs”). In order to adapt the accounting system of Spanish credit institutions these standards, the Bank of Spain issued Circular 4/2004, of December 22, on Public and Confidential Financial Reporting Rules and Formats.

The Group’s consolidated annual accounts for 2017 were authorised by the Bank's directors (at the board of directors meeting on 15 February 2018) in accordance with EU-IFRS, taking into account Bank of Spain Circular 4/2004, and International Financial Reporting Standards issued by the International Accounting Standards Board (IASB-IFRSs), 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 the Group’s consolidated equity and consolidated financial position at 31 December 2017 and the consolidated results of its operations, the consolidated recognised income and expense, the changes in consolidated equity and the consolidated cash flows in 2017.

These interim financial statements were prepared and are presented in accordance with 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 June 28, of the Spanish National Securities Market Commission (“CNMV”), that repealed Circular 1/2008, of January 30, and Circular 5/2015, of October 28, both of the CNMV. The aforementioned interim financial statements will be included in the half-year financial report for the first semester of 2018 to be presented by the Group, under Circular 5/2015 format, in accordance with the single transitory disposition of the Circular 3/2018.

In accordance with IAS 34, the interim financial report is intended only to provide an update on the content of the latest annual consolidated annual accounts authorised for issue, focusing on new activities, events and circumstances occurring during the six-month period, and does not duplicate information previously reported in those latest annual 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 IFRSs and, accordingly, for a proper comprehension of the information included in these interim financial statements, they should be read together with the Group’s consolidated annual accounts for the year ended 31 December 2017.

The accounting policies and methods used in preparing these interim financial statements are the same as those applied in the consolidated annual accounts for 2017, taking into account the standards and interpretations which came into effect for the Group in the six month period ended 30 June 2018, which are detailed below, and taking into consideration the Circular 4/2017, of November 27 of the Bank of Spain:

- IFRS 9 Financial Instruments – Classification and measurement, hedging and impairment

On 1 January 2018, IFRS 9 Financial instruments entered into force. IFRS 9 establishes the requirements for recognition and measurement of both financial instruments and certain types of non-financial-purchase contracts. The aforementioned requirements should be applied retrospectively, adjusting the opening balance at 1 January 2018, not requiring restatement of the comparative financial statements.

The adoption of IFRS 9 has resulted in changes in the Groups' accounting policies for the recognition, classification and measurement of financial assets and liabilities and financial assets impairment. IFRS 9 also significantly modifies other standards related to financial instruments such as IFRS 7 "Financial instruments: disclosure".

The main aspects contained in the new regulation are:

a) Classification of financial instruments: the classification criteria for financial assets depends on the business model for their management and the characteristics of their contractual flows. Depending on these factors, the asset can be measured at amortised cost, at fair value with changes reported in other comprehensive income, or at fair value with changes reported through profit and loss for the period. IFRS 9 also establishes an option to designate an instrument at fair value with changes in profit or loss, under certain conditions. Santander Group uses the following criteria for the classification of financial debt instruments:
   - Amortised cost: financial instruments under a business model whose objective is to collect principal and interest cash flows, over those where no significant unjustified sales exist and fair value is not a key factor in managing these financial assets. In this way, unjustified sales are those that are different from sales related with an increase in the asset´s credit risk, unanticipated funding needs (stress case scenario), even if such sales are significant in value, or from sales of assets that no longer met the credit criteria specified in the entity´s investment policy. Additionally, the contractual cash flow characteristics substantially represent a "basic financing agreement".

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

   - Fair value with changes recognised through profit or loss: financial instruments included in a business model whose objective is not obtained through the above mentioned models, where fair value is a key factor in managing of these assets, and financial instruments whose contractual cash flow characteristics do not substantially represent a "basic financing agreement".

   Santander Consumer Group's main activity revolves around retail and commercial banking operations, and its exposure does not focus on complex financial products. The main objective of the Group is to achieve consistent classification of financial instruments in the portfolios as established under IFRS 9. To this end, it has developed guidelines containing criteria to ensure consistent classification across all of its units. Additionally, the Group has analysed its portfolios under these criteria, in order to assign its financial instruments to the appropriate portfolio under IFRS 9. (See table of classification and measurement of financial instruments).

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

IAS 39 financial liabilities classification and measurement criteria remains substantially unchanged under IFRS 9. Nevertheless, in most cases, the changes in the fair value of financial liabilities designated at fair value with changes recognised through profit or loss for the year, due to the entity credit risk, are classified under other comprehensive income.

b) Credit risk impairment model: the most important new development compared with the previous model is that the new accounting standard introduces the concept of expected loss, whereas the previous model (IAS 39) is based on incurred loss:

- Scope of application: the IFRS 9 impairment model applies to financial assets valued at amortised cost, debt instruments valued at fair value with changes reported in other comprehensive income, lease receivables, and commitments and guarantees given not valued at fair value.

- Use of practical expedients: IFRS 9 includes a number of practical expedients that may be implemented by entities to facilitate implementation. However, in order to achieve full and high quality implementation of the standard, considering industry best practices, these practical expedients will not be widely used:

  - Rebuttable presumption that the credit risk has increased significantly when payments are more than 30 days past due: this threshold is used as an additional – but not primary - indicator of significant risk increase. Additionally, there may be cases in the Group where its use has been rebutted as a result of studies that show a low correlation of the significant risk increase with this past due threshold.

  - Assets with low credit risk at the reporting date: in general, the Group assesses the existence of significant risk increase in all its financial instruments.

- Impairment estimation methodology: the portfolio of financial instruments subject to impairment is divided into three categories, based on the stage of each instrument with regard to its level of credit risk:

    - Stage 1: financial instruments for which no significant increase in risk is identified since its initial recognition. In this case, the impairment provision reflects expected credit losses arising from defaults over the following 12 months from the reporting date.

    - Stage 2: if there has been a significant increase in risk since the date of initial recognition, but the impairment event has not materialised the financial instrument is classified as Stage 2. In this case, the impairment provision reflects the expected losses from defaults over the residual life of the financial instrument.

    - Stage 3: a financial instrument is catalogued in this stage when shows effective signs of impairment as a result of one or more events that have already occurred resulting in a loss. In this case, the amount of the impairment provision reflects the expected losses for credit risk over the expected residual life of the financial instrument.

Additionally, on the reporting date, the Group will only recognize the cumulative changes in expected credit losses over the life of the asset from the initial recognition as a value correction for losses for financial assets with credit impairment originated or purchased.

The methodology required for the quantification of expected loss due to credit events will be based on an unbiased and weighted consideration of the occurrence of up to five possible future scenarios that could impact the collection of contractual cash flows, taking into account the time-value of money, all available information relevant to past events, and current conditions and projections of macroeconomic factors deemed relevant to the estimation of this amount (e.g. Gross Domestic Product (GDP), house pricing, unemployment rate, etc.).

The estimation of expected losses requires a high component of expert judgement and it must be supported by past, present and future information. Therefore, these expected loss estimates take into consideration multiple macroeconomic scenarios for which the probability is measured considering past events, current situation and future trends and macroeconomic indicators, such as GDP or unemployment rate.

The Group already uses forward looking information in internal management and regulatory processes, considering several scenarios. In this sense, the Group has leveraged its experience in the management of such information, maintaining consistency with the information used in the other processes.

In estimating the parameters used for impairment provisions calculation (EAD (Exposure at Default), PD (Probability of Default), LGD (Loss Given Default) and discount rate), the Group leveraged on its experience developing internal models for calculating parameters for regulatory and management purposes. The Group is aware of the differences between such models and IFRS 9 requirements for impairment purposes. As a result, it has focused on adapting to such requirements to the development of its IFRS 9 impairment provision models.

- Determination of significant increase in risk: with the purpose of determine whether a financial instrument has increased its credit risk since initial recognition, proceeding with its classification into Stage 2, the Group considers the following criteria:

Quantitative criteria	Changes in the risk of a default occurring through the expected life of the financial instrument are analyzed and quantified with respect to its credit level in its initial recognition. With the purpose of determining if such changes are considered as significant, with the consequent classification into Stage 2, each Group unit has defined the quantitative thresholds to consider in each of its portfolios taking into account corporate guidelines ensuring a consistent interpretation in all geographies.
Qualitative criteria	In addition to the quantitative criteria mentioned above, the Group considers several indicators that are aligned with those used in ordinary credit risk management (e.g.: over 30 days past due, forbearances, etc.). Each unit has defined these qualitative criteria for each of its portfolios, according to its particularities and with the policies currently in force. The use of these qualitative criteria is complemented with the use of an expert judgement.

- Default definition: the definition considered for impairment provisioning purposes is consistent with that used in the development of advanced models for regulatory capital requirements calculations.

- Expected life of the financial instrument: with the purpose of its estimation all the contractual terms have been taken into account (e.g. prepayments, duration, purchase options, etc.), being the contractual period (including extension options) the maximum period considered to measure the expected credit losses. In the case of financial instruments with an uncertain maturity period and a component of undrawn commitment (e.g: credit cards), expected life is estimated considering the period for which the entity is exposed to credit risk and the effectiveness of management practices mitigates such exposure.

- Impairment recognition: the main change with respect to the current standard related to assets measured at fair value with changes recognised through other comprehensive income. The portion of the changes in fair value due to expected credit losses will be recorded at the current profit and loss account while the rest will be recorded in other comprehensive income.

c) Hedge accounting: IFRS 9 includes new hedge accounting requirements which have a twofold objective: to simplify current requirements, and to bring hedge accounting in line with risk management, allowing to be a greater variety of derivative financial instruments which may be considered to be hedging instruments. Furthermore, additional breakdowns are required providing useful information regarding the effect which hedge accounting has on financial statements and also on the entity's risk management strategy. The treatment of macro-hedges is being developed as a separate project under IFRS 9. Entities have the option of continuing to apply IAS 39 with respect to accounting hedges until the project has been completed. According to the analysis performed until now, the Group will continue to apply IAS 39 in hedge accounting.

For breakdowns of the notes, the amendments relating to IFRS 7 have only been applied to the current period. The breakdowns of the comparative information period notes maintain the breakdowns made in the previous period.

The following breakdowns relate to the impact of the adoption of IFRS 9 in the Group:

a) Classification and measurement of financial instruments

The following table shows a comparison between IAS 39 as of 31 December 2017 and IFRS 9 as of 1 January 2018 of the reclassified financial instruments in accordance with the new requirements of IFRS 9 regarding classification and measurement (without impairment), as well as its book value:

IAS 39			IFRS 9	
Balance	**Portfolio**	**Book value (Thousands of euros**	**Portfolio**	**Book value (Thousands of euros)**
Equity instruments	Financial assets available for sale	2.138	Non-trading financial assets mandatorily at fair value through profit or loss	2.138
Debt instruments	Financial assets available for sale	1.280.828	Financial assets at amortised cost	1.279.477

b) Reconciliation of impairment provisions from IAS 39 to IFRS 9

The following table shows a comparison between IAS 39 as of 31 December 2017 and IFRS 9 as of 1 January 2018 of the impairment provisions of the financial instruments in accordance with the new requirements of IFRS 9:

	Thousands of euros		
	IAS 39 12-31-2017	**Impairment impact**	**IFRS 9 01-01-2018**
Financial assets at amortised cost	**1.900.804**	**49.976**	**1.950.780**
Loans and advances	1.900.804	49.819	1.950.623
Debt instruments	-	157	157
Financial assets at fair value through other comprehensive income	**-**	**-**	**-**
Debt instruments	-	-	-
Commitments and guarantees granted	**6.338**	**18.733**	**25.071**
Total	**1.907.142**	**68.709**	**1.975.851**

Additionally, there is an impairment impact on Investments in joint ventures and associates of 2.096 thousands of euros.

c) Balance sheet reconciliation from IAS 39 to IFRS 9

The following table shows in detail the reconciliation the consolidated balance sheet under IAS 39 as at 31 December to IFRS 9 as at 1 January 2018 distinguishing between the impacts due to classification and measurement and due to impairment once adopted IFRS 9:

ASSETS (thousands of euros)	IAS 39 31-12-2017	Naming modifications (*)	Classification and measurement impact	Impairment impact	IFRS 9 01-01-2018
Cash, cash balances at central banks and other deposits on demand	**4.565.157**	**-**	**-**	**-**	**4.565.157**
Financial assets held for trading	**34.064**	**-**	**-**	**-**	**34.064**
Derivatives	34.064	-	-	-	34.064
Equity instruments	-	-	-	-	-
Debt instruments	-	-	-	-	-
Loans and advances	-	-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss		-	**2.138**	**-**	**2.138**
Equity instruments		-	2.138	-	2.138
Debt instruments		-	-	-	-
Loans and advances		-	-	-	-
Financial assets designated at fair value through profit or loss	-	-	-	-	-
Equity instruments	-	-	-	-	
Debt instruments	-	-	-	-	-
Loans and advances	-	-	-	-	-
Financial assets at fair value through other comprehensive income		**1.334.805**	-	-	**1.334.805**
Equity instruments		9.910	-	-	9.910
Debt instruments		1.324.895	-	-	1.324.895
Loans and advances		-	-	-	-
Financial assets available-for-sale	**2.617.771**	**(1.334.805) (b)**	**(1.282.966)(b)**	-	
Equity instruments	12.048	(9.910)	(2.138)	-	
Debt instruments	2.605.723	(1.324.895)	(1.280.828)	-	
Financial assets at amortised cost		**86.930.859**	**1.279.477**	**(49.976) (c)**	**88.160.360**
Debt instruments		-	1.279.477	(157)	1.279.320
Loans and advances		86.930.859	-	(49.819)	86.881.040
Loans and receivables	**86.930.859**	**(86.930.859)**	-	-	
Debt instruments	-	-	-	-	
Loans and advances	86.930.859	(86.930.859)	-	-	
Investments held to maturity	-	-	-	-	-
Investments	**567.348**	-	-	**(2.096)**	**565.252**
Other assets (**)	**5.001.113**	-	**50**	**13.348 (d)**	**5.014.511**
TOTAL ASSETS	**99.716.312**	**-**	**(1.301)**	**(38.724)**	**99.676.287**

(*) Due to the entry into force of Bank of Spain Circular 4/2017.

(**) Includes Hedging derivatives, Changes in the fair value of hedged items in portfolio hedges of interest risk, Reinsurance assets, Tangible assets, Intangible assets, Tax assets, Other assets and Non-current assets held for sale.

a) The amount of the item 'Loans and receivables' at 31 December 2017 is reclassified into 'Financial assets at amortised cost'.

b) Instruments classified as 'Financial assets available for sale' at 31 December 2017 amounting º.1.335 million of euros have been reclassified into 'Financial assets at fair value through other comprehensive income' because of naming modification of the portfolio under the first implementation of IFRS 9. Additionally, after the review of the business model of cash flow portfolio in different locations, the group has identified certain groups of assets classified at 31 December 2017 as 'Financial assets available-for-sale', which relate mainly to Santander Consumer Bank, A.S.(Norway) and Santander Consumer Bank Spa (Italy), whose management is orientated towards the maintenance of financial instruments in a portfolio until maturity end; because of that, this asset group has been reclassified as 'Financial assets at amortised cost'.

c) It corresponds to the increase in provisions for impairment of the value of the assets included in the item 'Financial assets at amortised cost' derived from the change in accounting policy.

d) This corresponds with increase on provisions for the tax effect referred in section c.

LIABILITIES (thousands of euros)	**IAS 39 31-12-2017**	**Naming modifications**	**Classification and measurement impact**	**Impairment impact**	**IFRS 9 01-01-2018**
Financial liabilities held for trading	**28.851**	**-**	**-**	**-**	**28.851**
Derivatives	28.851	-	-	-	28.851
Short positions	-	-	-	-	-
Deposits	-	-	-	-	-
Debt instruments issued	-	-	-	-	-
Other financial liabilities	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	**-**	**-**	**-**	**-**	**-**
Deposits	-	-	-	-	-
Debt instruments issued	-	-	-	-	-
Other financial liabilities	-	-	-	-	-
Financial liabilities at amortised cost	**84.657.096**	**-**	**-**	**-**	**84.657.096**
Deposits	55.383.466	-	-	-	55.383.466
Debt instruments issued	28.305.252	-	-	-	28.305.252
Other financial liabilities	968.378	-	-	-	968.378
Hedging derivatives	**167.800**	**-**	**-**	**-**	**167.800**
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	**-**	**-**	**-**	**-**	**-**
Provisions	**826.519**	**-**	**-**	**18.733**	**845.252**
Commitments and guarantees given	6.338	-	-	18.733	25.071
Other provisions (*)	820.181	-	-	-	820.181
Rest of liabilities (**)	**2.275.842**	**-**	**(315)**	**(4.048)**	**2.271.479**
TOTAL LIABILITIES	**87.956.108**	**-**	**(315)**	**14.685**	**87.970.478**

d) (*) Includes Pensions and other post-retirements obligations, Other long-term employee benefits, Taxes and other legal contingencies, Contingent liabilities and commitments and Other provisions.

e) (**) Includes Tax liabilities, Other liabilities and Liabilities associated with non- current assets held for sale.

EQUITY (Thousands of euros)	**IAS 39 31-12-2017**	**Naming modifications (*)**	**Classification and measurement impact**	**Impairment impact**	**IFRS 9 01-01-2018**
Shareholders' equity	**10.724.814**	**-**	**(1.371)**	**(61.699)**	**10.661.744**
Capital	**5.638.639**	**-**	**-**	**-**	**5.638.639**
Share premium	**1.139.990**	**-**	**-**	**-**	**1.139.990**
Equity instruments issued other than capital	**850.000**	**-**	**-**	**-**	**850.000**
Other equity	**-**	**-**	**-**	**-**	**-**
Accumulated retained earnings	**2.175.234**	**-**	**-**	**-**	**2.175.234**
Revaluation reserves	**-**	**-**	**-**	**-**	**-**
Other reserves	**241.907**	**-**	**(1.371)**	**(61.699)**	**178.837**
Own shares	**-**	**-**	**-**	**-**	**-**
Profit attributable to shareholders' of the parent	**1.079.387**	**-**	**-**	**-**	**1.079.387**
Interim dividends	**(400.343)**	**-**	**-**	**-**	**(400.343)**
					-
Other comprehensive income	**(413.350)**	**-**	**(1.008)**	**-**	**(414.358)**
Items not reclassified to profit or loss	**(129.544)**	**1.756**	**-**	**-**	**(127.788)**
Actuarial gains or losses on defined benefit pension plans	(129.567)	-	-	-	(129.567)
Non-current assets and disposable groups of items that have been classified as held for sale	-	-	-	-	-
Share in other recognised income and expenses of investments in joint ventures and associates	23	75	-	-	98
Other valuation adjustments	-	-	-	-	
Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income		1.681	-	-	1.681
Inefficacy of fair value hedges of equity instruments measured at fair value with changes in other comprehensive income		-	-	-	-
Changes in the fair value of financial liabilities at fair value through profit or loss attributable to changes in credit risk		-	-	-	-
Items that may be reclassified to profit or loss	**(283.806)**	**(1.756)**	**(1.008)**	**-**	**(286.570)**
Hedge of net investment in foreign operations (effective part)	13.048	-	-	-	13.048
Exchange differences	(303.344)	-	-	-	(303.344)
Hedging derivatives. Cash flow hedges (effective part)	(196)	-	-	-	(196)
Changes in the fair value of debt instruments measured at fair value with changes in other comprehensive income		3.877	(1.008)	-	2.869
Hedging instruments (items not designated)		-	-	-	-
Financial assets available for sale	5.558	(5.558)	-	-	
Debt instruments	*3.877*	*(3.877)*	-	-	
Equity instruments	*1.681*	*(1.681)*	-	-	
Non-current assets	-	-	-	-	-
Share in other income and expenses recognised in investments in joint ventures and associates	1.128	(75)	-	-	1.053
Non controlling interests	**1.448.740**	**-**	**1.393**	**8.290**	**1.458.423**
Other comprehensive income	(247)	-	-	-	(247)
Other elements	1.448.987	-	1.393	8.290	1.458.670
EQUITY	**11.760.204**	**-**	**(986)**	**(53.409)**	**11.705.809**
TOTAL EQUITY AND LIABILITIES	**99.716.312**	**-**	**(1.301)**	**(38.724)**	**99.676.287**

- IFRS 15 Revenue from Contracts with Customers (effective for annual reporting periods beginning on or after 1 January 2018) - the new standard on the recognition of revenue from contracts with customers. It supersedes the following standards and interpretations previous in force: IAS 18, Revenue; IAS 11, Construction Contracts; IFRIC 13, Customer Loyalty Programs; IFRIC 15, Agreements for the Construction of Real Estate; IFRIC 18, Transfers of Assets from Customers; and SIC-31, Revenue-Barter Transactions Involving Advertising Services. Under IFRS 15, an entity recognises revenue in accordance with the core principle of the standard by applying the following five steps: identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations identified in the contract; and recognise revenue when as the entity satisfies a performance obligation.

- Clarifications to IFRS 15 income coming from contracts with clients.

  The application of the aforementioned accounting Standard and its Clarifications do not have any material effects on the Group's consolidated annual accounts.

- Modification to IFRS 4 `Insurance contracts´ applying IFRS 9 "Financial Instruments" (effective for annual reporting periods beginning on or after 1 January 2018). The purpose of the amendment is to give all companies that issue insurance contracts the option to recognize in other comprehensive income, instead of profit or loss, the volatility that could arise when applying IFRS 9, for new contracts before the adoption of the insurance standard and give companies whose activities are mostly insurance-related an optional temporary exemption from the application of IFRS 9 until the year 2021. Entities that defer the application of IFRS 9 will continue to apply the existing norm of Financial Instruments IAS 39.

  The deferral of the aforementioned standard does not apply as the required conditions for this deferral are not met.

- Modification to the IFRS 2 Classification and measurement of share-based payment transactions – The amendments address the following areas: (a) Accounting for the effects that the requirements for the consolidation of the grant have in cash–settled share-based payment transactions, (b) Classification of share–based payment transactions with net settlement features for the tax withholding obligations; and (c) Accounting for modifications of share-based payment transactions terms and conditions from cash-settled to equity-settled payment transactions.

- Modification of IAS 40 Transfers of investment properties; Changes are made to the existing requirements or provide with some additional guidance on the implementation of such requirements.

- Improvements to IFRS Cycle 2014-2016 - introduce minor amendments to IFRS 1, referring to the elimination of short-term exemptions for entities that adopt IFRS for the first time, and IAS 28, on the valuation of an investment in an associated or a joint venture at fair value.

- Modification to the IFRS 9 Financial Instruments - a clarification has been published on the treatment of certain prepayment options in relation to the assessment of contractual cash flows of principal and interest on financial instruments.

- New interpretation to IFRIC 22 on Foreign currency transactions and advance considerations – When an entity reports a payment of advance consideration in order to recognise the profits associated to the income statement, it shall recognise both the consideration received as a non-monetary liability (deferred income or contract liabilities) in the statement of financial position at the exchange rate obtained according to the IAS 21 The Effects of changes in foreign exchange rates. When the deferred incomes are subsequently recognised in the income statement as incomes, the issue is raised on whether its measurement should reflect: the amount at which the deferred income was originally recognised, namely, when the consideration was originally received; or the consideration amount received is translated to the existing exchange rate on the date when the non-monetary element is generated as income in the income statement, generating an exchange gain or loss that reflects the difference between the amount of the consideration translated (i) to the exchange rate in force in the moment of its receipt and (ii) to the exchange rate in force when it is recognised in the income statement as a profit or loss.

The application of the aforementioned modifications and amendments to the accounting standards do not have any material effects on the Group's consolidated annual accounts.

Other standards

IFRS 16 (date of entry into force is for annual periods beginning on or after 1 January 2019, with the option of early adoption that the Group has not made use of) establishes the principles for the recognition, valuation, presentation and disclosure of the leases, in order to ensure that both tenant and landlord provide relevant information that presents a true image of these operations. IFRS 16 provides for a single accounting model for the lessee, according to which the lessee must recognize a right-of-use asset and a corresponding financial liability on the balance sheet for all leases, unless the term of the lease is 12 months or less or the value of the underlying asset is low.

The Group is carrying out a global and multidisciplinary project, whose objective is to identify the entire casuistry of lease contracts in the different countries, defining the different criteria to be considered in the transition, and evaluating the calculation of the possible impacts of first application.

The Group is also evaluating the requirements and implications of the new standard in relation to accounting policies, financial reporting, systems, processes, and internal control.

d) Use of estimates

The consolidated results and the determination of consolidated equity are sensitive to the accounting policies, measurement bases and estimates used by the Directors of the Bank in preparing the interim financial statements. The main accounting policies and measurement bases are set forth in Note 2 to the consolidated financial statements for 2017.

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

1. The income tax expense, which, in accordance with IAS 34, is recognized in interim periods based on the best estimate of the weighted average tax rate expected by the Group for the full financial year;

2. The impairment losses on certain assets –available-for-sale financial assets, loans and receivables, non-current assets held for sale, investments, 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 arising on consolidation;

6. The calculation of provisions and the consideration of contingent liabilities;

7. The fair value of certain unquoted assets and liabilities; and

8. The recoverability of deferred tax assets.

Although these estimates were made on the basis of the best information available at the reporting date, future events might make it necessary to change these estimates (upwards or downwards) in coming periods. If required, changes in accounting estimates would be applied in accordance with current legislation (prospectively, recognising the effects of any changes in estimates in the related consolidated income statements for the years in question).

In the six-month period ended 30 June 2018 there were no significant changes in the estimates made at the 2017 year-end.

e) Contingent assets and liabilities

Note 2.m to the Group's consolidated financial statements for the year ended 31 December 2017 includes information on the contingent assets and liabilities at that date. There were no significant changes in the Group's contingent assets and liabilities from 31 December 2017 to the date of formal preparation of these interim financial statements.

The Group did not have any material contingent assets at 31 December 2017 or 30 June 2018.

f) Comparative information

In July 2014, the IASB published IFRS 9, which was adopted with the subsequent amendments by the Group on 1 January 2018. As permitted by the regulation itself, the Group has chosen not to re-classify the comparative financial statements without having re-classified under these criteria the information relating to the six-month period ended 30 June 2017 and to the year ended 31 December 2017 so that it is not comparative. However, Note 1.c includes a reconciliation of balances as of 31 December 2017 under IAS 39 and the corresponding balances as of 1 January 2018 under IFRS 9.

Similarly, to adapt the accounting system of Spanish credit institutions to the changes related to IFRS 15 and IFRS 9, on December 6, 2017, Circular 4/2017, of November 27, of the Bank of Spain, was published, which repeals Circular 4/2004, of December 22, for those years beginning as at 1 January 2018. The adoption of this Circular has modified the breakdown and presentation of certain headings in the financial statements, to adapt them to the aforementioned IFRS 9. Information corresponding to the six-month period ended 30 June 2017 and the year ended 31 December 2017, has not been restated under this Circular.

During the six-month period ended 30 June 2018, the Group changed the accounting policy for recognition of non-controlling interests in equity stake reduction transactions without loss of control. In accordance with international financial reporting standards, the goodwill associated with these transactions must be kept on balance. The non-controlling interests resulting from the equity stake reduction can be accounted for by their participation in the identifiable net assets or by attributing the goodwill associated with the participation sold. In this sense, the Group has chosen to account for the non-controlling interests by its participation in net assets. The application of the accounting policy change, without impact on net equity, was made on 1 January 2018.

Therefore, the information for the year 2017 contained in these interim financial statements is only presented for comparison purposes with the information relating to the six-month period ended 30 June 2018 except what was mentioned above (see Note 1.c. in relation to the application of IFRS 9).

In order to interpret the changes in the balances with respect to 31 December 2017, 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 (see Note 45.a to the consolidated financial statements for the year ended 31 December 2017) and the impact of the appreciation/depreciation of the various currencies against the euro in the first six months of 2018, considering the exchange rates at the end of the first half of 2018: Polish Zloty (-4.49%), Norwegian kroner (-2.83%), Swedish krona (-5.06%), Danish krone (-0.12%), Swiss Franc (-5.06%) and Chinese renminbi Yuan (-1.09%); as well as the evolution between the same comparable periods: Polish Zloty (-3.37%), Norwegian kroner (+0.63%), Swedish krona (-7.78%), Danish krone (-0.21%), Swiss Franc (-5.52%) and Chinese renminbi Yuan (+0.28%).

g) *Seasonality of the Group's transactions*

In view of the business activities in which the Group companies engage, their transactions are not significantly cyclical or seasonal in nature. Therefore, no specific disclosures are included in these Explanatory Notes to the interim condensed consolidated financial statements for the six-month period ended 30 June 2018.

h) *Materiality*

In determining the note disclosures to be made on the various items composing the financial statements or other matters, the Bank's Directors and, accordingly, those of the Group, in accordance with IAS 34, took into account the materiality of each item with respect to the interim condensed consolidated financial statements corresponding to six month period ended 30 June 2018.

i) *Events after the reporting period*

From 1 July 2018 and until the draw-down of the interim condensed consolidated financial statements, there have been no significant subsequent events

j) *Individual disclosures relating to Santander Consumer Finance, S.A.*

The individual disclosures relating to Santander Consumer Finance, S.A. (the Parent of the Group) which were considered relevant for the purposes of the proper comprehension of the half-yearly condensed consolidated financial information were included in the related Explanatory Notes.

k) Condensed consolidated statements of cash flows

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

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

- The Group classifies as cash and cash equivalents the balances recognized under Cash, cash and balances with central banks and other deposits on demand in the condensed consolidated balance sheet.

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

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

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

l) Other events

As 30 June 2018 and the date of draw-down of the interim condensed consolidated financial statements, there have been no significant events which could have an impact on the financial situation of the Group.

2. Santander Consumer Finance Group

Appendices I and II to the Group's consolidated financial statements for 2017 provide relevant information on the Group companies that were consolidated at 2017 year-end and on those accounted for using the equity method.

Also, Note 3 to the aforementioned consolidated financial statements includes a description of the most significant acquisitions and disposals of companies performed by the Group in 2017 and 2016.

During 2018 there were not transactions or capital increases carried out, which affected the entities the Group and other companies in the consolidation perimeter.

Impairments of investments in subsidiaries, joint ventures and associates

As at 30 June 2018, there has not been registered impairments based on the value of investments in subsidiaries and affiliates. As at 30 June 2017, based on the performance and results of Bank of Beijing (China), the Group decided to impair this investment. The related impairment amounting to 60,000 thousands of euros was recognized under the heading "Impairment of investments in subsidiaries, joint ventures and associates, net" in the consolidated income statement.

Capital increases

During the first six months of 2018 and 2017, there have not been capital increases in the Group´s subsidiaries.

3. Dividends paid by the Bank and Earnings per share

a) Dividends paid by the Bank

In the first half of 2018 and 2017, the Bank's Board of Directors has not approved the distribution of an interim dividend out of 2018 and 2017 profit.

On 19 October 2017, the Bank's Board of Directors approved an interim dividend from profits for the year of 400,343 thousands of euros, paid on 29 November 2017 .

The distribution of the Bank’s net profit for 2017 that the Board of Directors proposed at its meeting held on 16 February 2017, which was included in Note 4 to the Group’s consolidated financial statements for 2017, was approved by the shareholders at the Annual General Meeting of the Bank on 5 April 2018.

The cash remuneration paid by the Bank to its shareholders in the first six months of 2018 and 2017 was as follows:

	First half of 2018			First half of 2017		
	% of par value	Euros per share	Amount (Millions of euros)	% of par value	Euros per share	Amount (Millions of euros)
Ordinary shares	-	-	-	100%	0.29	541
Other shares (non-voting, redeemable, etc.)				-	-	-
Total remuneration paid	-	-	-	100%	0.29	541
Remuneration charged against profit or loss	-	-	-	100%	0.29	541
Remuneration charged against reserves or the share premium account	-	-	-	-	-	-
In-kind remuneration	-	-	-	-	-	-

b) Earning per share

Basic earnings per share are calculated by dividing the net profit for the period attributable to the Parent by the weighted average number of ordinary shares outstanding during the period, excluding, as the case may be, the average number of treasury shares held in the period.

In calculating diluted earnings per share, the amount of profit attributable to ordinary shareholders and the weighted average number of shares outstanding, net of treasury shares, are adjusted to take into account all the dilutive effects inherent to potential ordinary shares (any share options, warrants and convertible debt instruments that might exist).

At 30 June 2018 and 2017, there were no share option plans on Bank shares or issues convertible into Bank shares conferring privileges or rights, which might, due to any contingency, make them convertible into shares (see Note 4). Therefore, there is no dilutive effect on net profit and diluted earnings per share coincide with basic earnings per share.

Accordingly, the detail of earnings per share at 30 June 2018 and 2017 is as follows:

	30-06-18	30-06-17
Net profit attributable to the Parent (thousands of euros)	584,435	515,775
Of which:		
Profit (Loss) from discontinued operations (thousands of euros)		-
Profit from continuing operations (thousands of euros)	*584,435*	*515,775*
Weighted average number of shares outstanding	1,879,546,172	1,879,546,172
Basic and diluted earnings per share (euros)	**0.3109**	**0.2744**
Of which: from discontinued operations (euros)	***0.0000***	***0.0000***
from continuing operations (euros)	***0.3109***	***0.2744***

4. Remuneration and other benefits paid to the Bank's Directors and senior managers

Note 5 to the Group's consolidated financial statements for the year ended 31 December 2017 includes the detail of the remuneration and other benefits paid to the Bank's Directors and senior managers in 2017.

The most salient data relating to the aforementioned remuneration and benefits for the six-month periods ended 30 June 2018 and 2017 are summarized as follows:

Remuneration paid to the Bank's Directors

The remuneration paid by the Bank directly to the Directors in the six-month periods ended 30 June 2018 and 2017 are as follows:

	Thousands of euros	
	30-06-18	30-06-17
Members of the Board of Directors:		
Type of remuneration-		
Fixed salary remuneration of executive Directors	-	-
Variable remuneration in cash of executive Directors	-	-
Attendance fees of Directors	-	-
Bylaw-stipulated annual Directors' emoluments	-	540
Other (except insurance premiums)	-	-
Sub-total	**-**	**540**
Transactions with shares and/or other financial instruments	**-**	**-**
	-	**540**

(1) The notes to the annual consolidated financial statements for 2018 will contain detailed and complete information on the remuneration paid to all the directors, including executive directors.

In the six-month period ended 30 June 2018 the members of the Bank's Board of Directors have not received any remuneration in the form of bylaw-stipulated emoluments and attendance fees (30 June 2017 they earned remuneration amounting to 540 thousands of euros), which related in full to four external (independent) Directors, the detail being as follows:

	Thousands of euros	
	30-06-18	30-06-17
Antonio Escámez Torres	-	264
Luis Alberto Salazar-Simpson Bos	-	112
Jean Pierre Fernand Landau	-	97
Juan Rodríguez Inciarte	-	67
	-	**540**

In the first half of 2018 the Bank's Directors received and accrued approximately 3,152 thousands of euros from Banco Santander, S.A. (first half of 2017: approximately 2,284 thousands of euros), basically in respect of fixed remuneration earned by certain Directors for discharging executive duties at Banco Santander, S.A. and in their capacity as members of the Boards of Directors of other Santander Group entities.

In the first half of 2018 and 2017, none of the rights (share options) granted under the incentive plans approved by the shareholders at the Annual General Meeting of Banco Santander, S.A. were exercised. The aforementioned incentive plans and rights granted are described in Notes 5 and 39 to the Group's consolidated financial statements for 2017.

Remuneration in kind paid by Banco Santander, S.A. to the Bank's Directors mainly in relation to life insurance amounted to approximately 283 thousands of euros in the first half of 2018 (first half of 2017: approximately 116 thousands of euros).

Other benefits paid to the Directors

In the six-month periods ended 30 June 2018 and 2017, the Bank and the other Group companies did not have any balances with or obligations to current or former Directors of the Bank and it did not make any payments or contributions in relation to advances, loans granted, contributions to pension funds or plans, obligations assumed in relation to pension funds or plans, life insurance premiums or guarantees provided to the Directors.

There are no obligations assumed by entities of the Santander Group, not included in the Santander Consumer Finance Group, in the area of defined benefit pensions obligations with the Bank's Directors for the first half of 2018 and 2017.

Contributions amounting to 427 thousands of euros were made to defined contribution pension plans for the Bank's Directors in the first half of 2018 (first half of 2017: 686 thousands of euros). These contributions were made by Santander Group entities not included in the Santander Consumer Finance Group.

The total sum insured under life and other insurance policies for the Bank's Directors amounted to 20,527 thousands of euros at 30 June 2018 (30 June 2017: 8,219 thousands of euros). The cost of these insurance policies is assumed by Santander Group entities not included in the Santander Consumer Finance Group.

Remuneration of senior managers

The annual bonuses received by the Directors and the senior managers in respect of 2017 were disclosed in the remuneration disclosures made in the Notes to the 2017 consolidated financial statements. Similarly, the details of the bonuses earned by these same individuals in respect of 2018, which shall be subject to Board approval in due course, will be duly disclosed in the 2018 annual consolidated financial statements.

The remuneration received in the first half of 2018 by the senior managers from other Santander Group entities that are not part of the Santander Consumer Finance Group in relation to both fixed employee benefits and benefits in kind (neither the Bank nor the Santander Consumer Finance Group companies paid any employee benefits to their senior managers in the six-month periods ended 30 June 2018 and 2017) amounted to 1,488 thousands of euros (first half of 2017: 1,407 thousands of euros).

In the first half of 2018 no significant agreements were entered into with respect to the remuneration and other benefits of the Directors and senior managers other than those indicated in the Group's consolidated financial statements for the year ended 31 December 2017.

5. *__Financial assets__*

a) a) Breakdown

The detail, by nature and category for measurement purposes, of the Group's financial assets other than the balances of “Cash, Cash Balances with Central Banks and other deposits on demand” and “Hedging Derivatives” in the accompanying condensed consolidated balance sheets as at 30 June 2018 (IFRS 9) and 31 December 2017 (IAS 39) is as follows:

	Thousands of euros				
	30-06-18 (*)				
	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 and loss	Financial assets designated at fair value through other comprehensive income	Financial assets at amortised cost
Derivatives	16,476	-	-	-	-
Equity instruments	-	218	-	-	-
Debt instruments	-	-	-	11,488	1,282,395
Loans and advances	-	-	-	1,304,263	88,562,281
Central Banks	-	-	-	-	16,962
Credit institutions	-	-	-	-	100,613
Customers	-	-	-	-	88,444,706
Total	16,476	218	-	1,315,751	89,844,676

(*) See reconciliation of IAS 39 to 31 December 2017 with IFRS 9 at 1 January 2018 (Note 1.c).

	Thousands of euros				
	31-12-17				
	Non-current assets held for sale	Financial assets measured at fair value through profit or loss	Financial assets available-for-sale financial assets	Loans and receivables	Investments held -to-maturity
		-	-	-	-
Derivatives	34,064	-	-	-	-
Equity instruments	-	-	12,048	-	-
Debt instruments	-	-	2,605,723	-	-
Loans and advances	-	-	-	86,930,859	-
Central Banks	-	-	-	12,566	-
Credit institutions	-	-	-	283,125	-
Customers	-	-	-	86,635,168	-
Total	34,064	-	2,617,771	86,930,859	-

Hereafter, excluding derivatives, equity instruments and debt instruments classified as "Financial assets at amortised cost", it is included the gross exposure of financial assets by stages of impairment as of 30 June 2018 (IRFS 9):

	Thousands of euros			
	30-06-18			
	GrossValue			
	Stage 1	Stage 2	Stage 3	Total
Financial assets at fair value through other comprehensive income	**1,304,263**	**-**	**-**	**1,304,263**
Debt instruments	1,304,263	-	-	1,304,263
Loans and advances	-	-	-	-
Central Banks	-	-	-	-
Credit institutions	-	-	-	-
Customers	-	-	-	-
Financial assets at amortised cost	**85,781,474**	**4,134,431**	**1,920,502**	**91,836,407**
Debt instruments	1,282,493	-	-	1,282,493
Loans and advances	84,498,981	4,134,431	1,920,502	90,553,914
Central Banks	16,962	-	-	16,962
Credit institutions	102,848	20	-	102,868
Customers	84,379,171	4,134,411	1,920,502	90,434,084
Total	**87,085,737**	**4,134,431**	**1,920,502**	**93,140,670**

Additionally, the Group has recorded an amount of 24,852,115 thousand euros in provision of commitments and financial guarantees granted subject to impairment under IFRS 9, of which an amount of 24,536,769 thousands of euros are in stage 1, an amount of 309,066 thousands of euros in stage 2 and an amount of 6,280 thousands of euros in stage 3.

b) Valuation adjustments for impairment of loans and advances

The changes in the balance of the allowances for impairment losses on these assets in the first half of 2018 (IFRS 9) and 2017 (IAS 39) were as follows:

	Thousands of euros	
	30-06-18 (*)	30-06-17
Balance at beginning of period	1,950,780	2.155,705
Net impairment losses charged to income for the period (*)	349,471	290,688
Of which:		
Impairment charges	*675,033*	*628,728*
Impairment losses reversed with a credit to income	*(325,562)*	*(338,040)*
Write-off of impaired balances against recorded impairment allowance	(298,767)	(435,046)
Exchange differences and other (**)	(9,753)	29,441
Balance at end of period	**1,991,731**	**2,040,788**
Of which:		
Depending of their determination:		
Impaired assets	*1,335,309*	*1,220,981*
Other assets	*656,422*	*819,807*
Of which:		
Calculated individually	*549,729*	*541,931*
Calculated collectively	*1,442,002*	*1,498,857*

(*) See reconciliation of IAS 39 at 31 Decembre 2017 to IFRS 9 at 1 January 2018 (Note 1.c).

(**) These net impairment losses are recognized under “Impairment or reversal of impairment of financial assets not measured at fair value through profit and loss, net - loans and receivables” in the accompanying half-yearly condensed consolidated income statements.

(***) Includes, for disclosure and comparison purposes only, the credit risk adjustments made during the six-month period to the estimate of the initial fair value of the financial assets acquired in business combinations included in this category.

Previously written-off assets recovered in the first six months of 2018, including sales of written-off portfolios, amounted to 202,797 thousands of euros (first six months of 2017: 197,898 thousands of euros) and are presented as a credit against the balance of “Impairment or reversal of impairment of financial assets not measured at fair value through profit and loss, net - loans and receivables” in the accompanying half-yearly condensed consolidated income statements.

The provision of financial assets by phases of impairment as of 30June 2018 (IFRS 9) is included below:

	Thousands of euros			
	30-06-18			
	Impairment value correction			
	Stage 1	Stage 2	Stage 3	Total
Financial assets at fair value through other comprehensive income	-	-	-	-
Debt instruments	-	-	-	-
Loans and advances	-	-	-	-
Central Banks	-	-	-	-
Credit institutions	-	-	-	-
Customers	-	-	-	-
Financial assets at amortised cost	**412,385**	**244,037**	**1,335,309**	**1,991,731**
Debt instruments	98	-	-	98
Loans and advances	412,287	244,037	1,335,309	1,991,633
Central Banks	-	-	-	-
Credit institutions	2,255	-	-	2,255
Customers	410,032	244,037	1,335,309	1,989,378
Total	**412,385**	**244,037**	**1,335,309**	**1,991,731**

Additionally, the Group has recorded an amount of 40,225 thousands of euros of provisions for commitments and financial guarantees granted subject to impairment under IFRS 9 (Note 10), of which an amount of 33,082 thousands of euros are in stage 1, an amount of 2,249 thousands of euros in stage 2 and an amount of 4,894 thousands of euros in stage 3.

In the first half of 2018 and 2017, the Group sold the following portfolios of written-off loans:

Company	Thousands of euros	
	30/06/2018	30/06/2017
	Nominal Value	Nominal Value
Santander Consumer Bank S.p.A. (Italy)	136	166,238
Santander Consumer Finance Benelux B.V. (Netherlands)	12,493	11,890
Santander Consumer Bank AS (Norway)	168,213	165,000
Santander Consumer Finance Oy (Finland)	14,006	9,350
Santander Consumer Bank GmbH (Austria)	20,547	36,800
Banco Santander Consumer Portugal S.A. (Portugal)	-	14,867
Financiera El Corte Inglés, E.F.C., S.A. (Spain)	-	113,300
Santander Consumer, E.F.C., S.A. (Spain)	148,254	-
Santander Consumer Finance, S.A. (Spain)	89,412	-
Transolver Finance E.F.C., S.A. (Spain)	9,361	-
Santander Consumer Bank Spolka Akcyjna (Poland)	94,137	-
	556,559	**517,445**

The sale price of the portfolios of bad loans realized in the first six-month period of 2018 was 139,340 thousand euros (30 June 2017: 137,125 thousands euros).

c) Non-performing assets

The detail of the changes in the six-month periods ended 30 June 2018 (IRFS 9) and 2017 (IAS 39) in the balance of financial assets classified as loans and receivables and considered to be doubtful due to credit risk is as follows:

	Thousands of euros	
	30-06-18	30-06-17
Balance as at beginning of period	1,934,478	2,006,326
Net additions	279,420	401,276
Written-off assets	(298,767)	(435,046)
Exchange differences and other (*)	5,371	(11,620)
Balance at the end of period	**1,920,502**	**1,960,936**

This amount, after deducting the related allowances, represents the Group's best estimate of the discounted value of the flows that are expected to be recovered from the impaired assets.

d) Guarantees received

The following is a breakdown of the movement, during the six-month period ended 30 June 2018 (IFRS 9) and 2017 (IAS 39), in the balance of financial assets classified as financial assets at amortized cost and considered as doubtful because of your credit risk:

	Thousands of euros	
	30-06-18 (*)	31-12-17
Real Guarantees value	18,890,115	5,801,243
Of which guarantee doubtful risk	*180,687*	*95,028*
Other guarantees value	60,322	56,414
Of which guarantee doubtful risk	*2,476*	*2,537*
Total value of the guarantees received (**)	**18,950,437**	**5,857,657**

(*) See reconciliation of IAS 39 at 31 December 2017 with IFRS 9 at 1 January 2018 (Note 1.c).
(**) Maximum amount of the guarantee which can be considered, not exceeding the gross amount of the debt, except non performing risk; in this case will be its fair value.

e) Fair value of financial assets not measured at fair value

Following is a comparison of the carrying amounts of the Group's financial assets measured at other than fair value and their respective fair values at 30 June 2018 (IFRS 9) and 31 December 2017 (IAS 39):

	Millions of euros		Millions of euros	
	30-06-18 (*)		31-12-17	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans and advances:				
Central banks	17	13	13	13
Loans and advances to credit institutions	101	101	284	284
Loans and advances to customers	88,445	89,182	86,634	87,063
Debt instruments	1,282	1,282	-	-
ACTIVO	**89,845**	**90,578**	**86,931**	**87,360**

(*) See reconciliation of IAS 39 at 31 December 2017 with IFRS 9 at 1 January 2018 (Note 1.c).

The main valuation methods and inputs used in the estimates of the fair values of the financial assets in the foregoing table are detailed in Note 44.c to the consolidated financial statements for 2017 and Note 16 of these financial statements.

6. ***Non-current assets held for sale classified elements***

The detail, by nature, of the Group's non-current assets held for sale at 30 June 2018 and 31 December 2017 is as follows:

	Thousands of euros	
	30-06-18	31-12-17
Tangible assets	5,635	5,682
Of which: Property assets in Spain	*2,904*	*3,843*
Other assets	1,376	1,190
	7,011	**6,872**

In the first half of 2018, the Group sold, for a net total of approximately 505 thousands of euros (30 June 2017: 9,063 thousands of euros), foreclosed properties with a gross carrying amount of 775 thousands of euros (30 June 2017: 45,730 thousands of euros), for which provisions totaling 11 thousands of euros (30 June 2017: 36,195 thousands of euros) had been recognized. These sales gave rise to losses of 259 thousands of euros (30 June 2017: 472 thousands of euros), which are recognized under Gains/(losses) on non-current assets held for sale not classified as discontinued operations in the condensed consolidated income statement for the first half of 2018.

Also in the first half of 2018, other tangible assets were sold for 12,664 thousands of euros (30 June 2017: 14,913 thousands of euros), incurring in losses of 137 thousands of euros (30 June 2017: rise to gain of 16 thousands of euros).

The following table shows the breakdown at 30 June 2018 and 31 December 2017 of the foreclosed assets for the Spanish business:

Thousands of euros	30-06-2018		31-12-2017	
	Gross carrying amount	Accumulated impairment charges	Gross carrying amount	Accumulated impairment charges
Real estate assets arising from financing provided to construction and property development companies	-	-	90	41
Of which:	-	-		
Completed Buildings	-	-	-	-
Residential	-	-	-	-
Other	-	-	-	-
Land	-	-	90	41
Developed Land	-	-	-	-
Other land	-	-	90	41
Real estate assets from home purchase mortgage loans to households	15,963	12,953	17,304	13,660
Other real estate assets foreclosed or received in lieu of debt repayment	3,002	2,118	606	456
Total property assets	**18,965**	**15,071**	**18,000**	**14,157**

At 30 June 2018, the allowance that covers the value of the foreclosed assets represents a coverage ratio of 78.50% (31 December 2017: 77.89%).

7. Tangible Assets

a) Changes in the period

In the first six months of 2018, tangible assets were acquired by the Group for 63,064 thousands of euros (first six months of 2017: 87,571 thousands of euros). Also, in the first six months of 2018, tangible asset items were disposed of with a carrying amount of 34,649 thousands of euros (first six months of 2017: 76,266 thousands of euros). Those sales has raised in the first half year of 2018 and 2017, losses of 357 thousands of euros and profits of 1,564 thousands of euros, respectively, that are included in “Gain or losses on non financial assets and investments, net” in the consolidated income statement for the six-month period ended.

Additionally, during the first six-month period of 2018 there was impairment losses of tangible assets for the amount of 248 thousand euros (30 June 2017: 104 thousand euros) that are included in "Impairment of value or reversal" Impairment of the value of non-financial assets - Tangible assets "

b) Property, plant and equipment purchase commitments

At 30 June 2018 and 2017, the Group did not have any significant commitments to purchase property, plant and equipment items.

8. Intangible assets

a) Goodwill

The detail of Intangible Assets - Goodwill at 30 June 2018 and 31 December 2017, based on the cash-generating units giving rise thereto, is as follows:

	Thousands of euros	
	30-06-18	31-12-17
Germany	1,186,315	1,186,315
Austria	98,074	98,074
Nordics	499,710	517,585
Netherlands	35,550	35,550
Spain / Portugal	36,503	32,512
	1,856,152	**1,870,036**

The changes arising in goodwill in the first half of 2018 relate to the exchange differences which, pursuant to current legislation, were recognized with a charge/credit to “Other accumulated comprehensive income – Items that may be reclassified to profit and loss- Exchange differences” in the condensed consolidated balance sheet as at 30 June 2018. The changes in the balance of "Goodwill" are recognized in the accompanying condensed consolidated statement of recognized income and expense at 30 June 2018.

In the case of the Spain / Portugal unit, an amount of 3,991 thousands of euros has been registered as a goodwill as a result of the acquisition of a part of the business of the Santander Group's service provision companies in the first semester of 2018 by the subsidiary of the Group, Santander Consumer Finance Global Services, SL

Note 15 to the consolidated financial statements for the year ended 31 December 2017 includes detailed information on the procedures followed by the Group to analyze the potential impairment of the goodwill recognized with respect to its recoverable amount and to recognize the related impairment losses, where appropriate.

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 indications of impairment, the Group's directors concluded that in the first half of 2018 there were no impairment losses which required recognition.

b) Other intangible assets

In the first half of 2018 and 2017, impairment losses due to obsolescence of intangible assets have been recognized amounting to 863 thousands of euros and 26,878 thousands of euros, respectively. These losses were recognized under "Impairment on non-financial assets, net – Intangible assets" in the condensed consolidated income statement of 30 June 2018.

9. Financial Liabilities

a) Breakdown

The detail, by nature and category for measurement purposes, of the Group's financial liabilities other than the balances of “Hedging Derivatives” in the accompanying condensed consolidated balance sheets at 30 June 2018 and 31 December 2017 is as follows:

	Thousands of euros			Thousands of euros		
	30-06-18			31-12-17		
	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	15,664	-	-	28,851	-	-
Short Positions	-	-	-	-	-	-
Deposits	-	-	56,877,705	-	-	55,383,466
Central banks	-	-	9,071,662	-	-	10,244,875
Credit institutions	-	-	12,926,649	-	-	11,598,898
Customer	-	-	34,879,394	-	-	33,539,693
Debt securities	-	-	28,226,069	-	-	28,305,252
Other financial liabilities	-	-	945,838	-	-	968,378
Total	**15,664**	**-**	**86,049,612**	**28,851**	**-**	**84,657,096**

b) Other issues guaranteed by the Group

At 30 June 2018 and 2017, there were no debt instruments issued by associates or non-Group third parties that had been guaranteed by the Bank or any other Group entity.

c) Fair value of financial liabilities not measured at fair value

Following is a comparison of the carrying amounts of the Group’s financial liabilities measured at other than fair value and their respective fair values at 30 June 2018 and 31 December 2017:

	Millions of euros			
	30-06-18		31-12-17	
	Carrying amount	Fair value	Carrying amount	Fair value
Short Positions				
Deposits	56,878	56,886	55,384	55,557
Central banks	9,072	9,065	10,245	10,236
Credit institutions	12,927	12,922	11,599	11,599
Customer	34,879	34,899	33,540	33,722
Debt securities	28,226	28,292	28,305	28,406
Other financial liabilities	946	946	968	951
LIABILITIES	**86,050**	**86,124**	**84,657**	**84,914**

The main valuation methods and inputs used to estimate the fair value of the Group's financial liabilities are detailed in Note 44.c of the 2017 consolidated financial statements and Note 16 of these interim financial statements.

d) Information on issues, repurchases or reimbursements of debt securities issued.

The structure of the balance of debt securities issued according to their nature is as follows:

	Thousands of euros	
	30-06-18	31-12-17
Bonds and obligations outstanding	22,289,747	21,890,933
Mortgage backed bonds	499,817	500,021
Notes and other securities	5,436,505	5,914,298
Total debt instruments issued	**28,226,069**	**28,305,252**

10. Provisions

The detail of "Provisions" in the accompanying condensed consolidated balance sheets as at 30 June 2018 and 31 December 2017 is as follows:

	Thousands of euros	
	30-06-18	31-12-17
Provisions for pensions and other post-retirement obligations	479,637	491,729
Provisions for other long-term employee remuneration	59,289	66,330
Provisions for taxes and other legal contingencies	66,810	53,511
Commitments assumed and guarantees conferred	40,225	6,338
Other provisions	188,602	208,611
	834,563	**826,519**

"Provisions for taxes and other legal contingencies" and "Other provisions" in the prior table, which include, inter alia, provisions for restructuring costs and tax-related and non-tax-related proceedings and those for claims of handling fees on consumer loan agreements in Germany, Spain, Italy and Norway were estimated using prudent calculation procedures in keeping with the uncertainty inherent to the obligations covered. The definitive date of the outflow of resources embodying economic benefits for the Group depends on each obligation. In certain cases, these obligations have no fixed settlement period and, in other cases, are based on the legal proceedings in progress. Also, as at 30 June 2018, under the heading "Other provisions", the amount of the provisions for the restructuring expenses of the Group's businesses, mainly in Germany, which are pending to be incurred, is included.

As at 30 June 2018, the balances recognized under the heading "Provisions" in the accompanying consolidated income statement, mainly include provisions recorded by Santander Consumer Bank, AG (Germany) amounting to 7,093 and Santander Consumer, E.F.C, S.A, (Spain) amounting to 4,470 thousands of euros (at 30 June 2017 mainly included provisions recorded by Santander Consumer Bank, S.p.A. (Italy) amounting to 15,678 thousands of euros).

Note 22 to the Group's consolidated financial statements for 2017 describes the main tax risks affecting the Group at that year-end.

There were no significant changes in these risks in the first half of 2018 and no litigation or tax audits were initiated against the Group that might have a material effect on the accompanying interim condensed consolidated financial statements for that period.

The amount of the payments made by the Group arising from other litigations in the first six months of 2018 and 2017 is not material with respect to these interim condensed consolidated financial statements.

11. Shareholder's equity

In the six-month periods ended 30 June 2018 and 2017 there were no other quantitative or qualitative changes in the Group's equity other than those indicated in the accompanying consolidated statements of changes in total equity.

a) Share Capital

At 30 June 2018 and 31 December 2017, the Bank's share capital consisted of 1,879,546,172 fully subscribed and paid registered shares of 3 euros par value each, all with the same voting and dividend rights.

The participation for shareholders at 30 June 2018 and 31 December 2017 is at follow:

	Ownership Interest
Banco Santander, S.A.	75.00%
Holneth, B.V. (*)	25.00%
	100.00%

(*) Santander Group Companies.

b) Items that may be reclassified to profit or loss – Actuarial gains or (-) losses on defined benefit pension plans

The movement in the balance included under this line item is shown in the statement of recognized income and expense and primarily includes the actuarial gains and losses generated during the reporting period on defined benefit pension commitments.

c) *Items that may be reclassified to profit or loss – Coverage of net investments in businesses abroad*

The balance of the consolidated equity caption includes the net amount of the variation in the derivatives signed by the Group and designed as effective hedging instruments in hedges of this type.

d) Items that may be reclassified to profit or loss - exchange differences

This heading presents the net amount of exchange differences arising from non-monetary items whose fair value is adjusted with a balancing entry in equity and from the translation into euros of the balances of consolidated entities whose functional currency is not the euro.

12. Segment information

This primary level of segmentation, which is based on the Group's management structure, comprises five segments relating to five operating areas. The operating areas, which include all the business activities carried on therein by the Group, are Spain and Portugal, Italy, Germany, Scandinavia and Other. Note 45 to the Group's consolidated financial statements for the year ended 31 December 2017 includes the corresponding segment information for 2017 and 2016.

As required by CNMV Circular 5/2015, the detail, by the geographical areas indicated in the aforementioned Circular, of the balance of Interest income for the six-month periods ended 30 June 2018 and 2017 is as follows:

Geographical area	Interest and Similar Income by Geographical Area (Thousands of euros)			
	Individual		Consolidated	
	30-06-18	30-06-17	30-06-18	30-06-17
Spain	**84,253**	**73,250**	**353,236**	**320,146**
Abroad:				
European Union	24,316	36,120	1,167,049	1,195,938
OCDE Crounties	4,621	17,852	352,525	342,954
Other countries	4,190	-	-	-
	33,127	**53,972**	**1,519,574**	**1,538,892**
Total	**117,380**	**127,222**	**1,872,810**	**1,859,038**

Following is the breakdown of revenue by the geographical segments used by the Group. For the purposes of the table below, revenue is deemed to be that recognized under Interest income, 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 financial assets and liabilities mesuared at fair value through profit or loss, net; Gain or losses from hedge accounting; net and Other operating income in the accompanying consolidated income statements for the six-month periods ended 30 June 2018 and 2017.

Segments	Revenue (Thousands of euros)					
	Revenue from External Customers		Inter-segment Revenue		Total Revenue	
	30/06/2018	30/06/2017	30/06/2018	30/06/2017	30/06/2018	30/06/2017
Spain and Portugal	479,700	440,201	114,157	131,986	593,857	572,187
Italy	252,815	245,930	795	1,158	253,610	247,088
Germany	813,855	906,583	128,388	133,246	942,243	1,039,829
Scandinavia	422,324	411,054	37,367	45,617	459,691	456,671
France	276,185	260,493	201,147	226,051	477,332	486,544
Other (*)	227,540	240,250	40,920	44,540	268,460	284,790
Inter-segment revenue adjustments and eliminations	-	-	(522,774)	(582,598)	(522,774)	(582,598)
Total	2,472,419	2,504,511	-	-	2,472,419	2,504,511

Also, following is the reconciliation of the Group's consolidated profit before tax for the six-month periods ended 30 June 2018 and 2017, broken down by business segment, to the profit before tax per the condensed consolidated income statements for these periods:

Segments	Consolidated profit (Thousands of euros)	
	30-06-18	30-06-17
Spain and Portugal	116,036	51,943
France	100,239	80,308
Italy	64,810	82,557
Germany	146,955	165,677
Scandinavia	135,559	149,066
Other (*)	137,348	90,811
Total profit (loss) of the segments reported	700,947	620,362
(+/-) Unallocated profit/loss	-	-
(+/-) Elimination of inter-segment profit/loss	-	-
(+/-) Other profit/loss	-	-
(+/-) Income tax and/or profit from discontinued operations	268,493	332,322
Profit before tax	**969,440**	**952,684**

(*) As of 30 June 2017, the heading "Other" includes impairments of the investments in joint ventures and associates (Note 2).

13. Related parties

The Group's related parties are deemed to include, in addition to its subsidiaries, associates and jointly controlled entities, the Bank's "key management personnel" (the members of its Board of Directors and its senior managers, 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 the Group with its related parties in the first six months of 2018 and 2017, distinguishing between significant shareholders, members of the Bank's Board of Directors, the Bank's executive vice presidents, Group 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 recognized:

	Thousands of euros				
	30-06-18				
Expenses and income	Significant shareholders	Directors and executives	Group companies or entities	Other related parties (*)	Total
Expenses:					
Finance costs	15,585	-	164	1,893	17,642
Management or cooperation agreements	-	-	-	-	-
R&D transfers and licensing agreements	-	-	-	-	-
Leases	-	-	-	2,146	2,146
Services received	-	-	-	40,894	40,894
Purchases of goods (finished or in progress)	-	-	-	-	-
Valuation adjustments for uncollectible or doubtful debts	-	-	-	-	-
Losses on derecognition or disposal of assets	-	-	-	440	440
Other expenses	1,291	-	799	61,694	63,784
	16,876	**-**	**963**	**107,067**	**124,906**
Income:					
Finance income	6,700	-	-	4,191	10,891
Management or cooperation agreements	-	-	-	-	-
R&D transfers and licensing agreements	-	-	-	-	-
Dividends received	-	-	-	-	-
Leases	-	-	-	-	-
Services rendered	-	-	-	-	-
Sale of goods (finished or in progress)	-	-	-	-	-
Gains on derecognition or disposal of assets	-	-	-	-	-
Other income	11,103	-	487	25	11,615
	17,803	**-**	**487**	**4,216**	**22,506**

(*) This includes basically the income and expenses relating to Santander Group companies that do not belong to the Santander Consumer Finance Group and to other related parties

Other transactions	Thousands of euros				
	30-06-18				
	Significant Shareholders	Directors and executives	, Group Employees Companies or Entities	Other related parties (*)	Total
Purchases of tangible, intangible or other assets	-	-	-	-	-
Financing agreements: loans and capital contributions (lender)	5,828	-	33,428	10,193	49,449
Finance leases (lessor)	-	-	-	-	-
Repayment or termination of loans and leases (lessor)	8,477	-	69,111	9,030	86,618
Sales of tangible, intangible or other assets	-	-	-	-	-
Financing agreements: loans and capital contributions (borrower)	2,660,357	3	9,542	79,831	2,749,733
Finance leases (lessee)	-	-	-	-	-
Repayment or termination of loans and leases (lessee)	2,822	-	3,271	109,398	115,491
Guarantees provided	15,270	-	41,793	-	57,063
Guarantees received	3,657	-	-	-	3,657
Obligations acquired	-	-	-	25,903	25,903
Obligations/guarantees cancelled	15,300	-	74,015	-	89,315
Dividends and other distributed profit	-	-	-	-	-
Other transactions	8,143	(715)	-	(7,666)	(238)

(*) This includes basically the transactions performed with Santander Group companies that do not belong to the Santander Consumer Finance Group and with other related parties.

	Thousands of euros				
	30-06-17				
Expenses and income	Significant shareholders	Directors and executives	Group companies or entities	Other related parties (*)	Total
Expenses:					
Finance costs	21,304	-	-	2,302	23,606
Management or cooperation agreements	-	-	-	-	-
R&D transfers and licensing agreements	-	-	-	-	-
Leases	-	-	-	1,843	1,843
Services received	-	-	744	42,466	43,210
Purchases of goods (finished or in progress)	-	-	-	-	-
Valuation adjustments for uncollectible or doubtful debts					
Losses on derecognition or disposal of assets	-	-	-	3,425	3,425
Other expenses	-	-	-	8,033	8,033
Finance costs	465	-	-	68,954	69,419
	21,769	**-**	**744**	**127,023**	**149,536**
Income:					
Finance income	993	-	691	2,670	4,354
Management or cooperation agreements	-	-	-	-	-
R&D transfers and licensing agreements	-	-	-	-	-
Dividends received	-	-	-	-	-
Leases	-	-	-	-	-
Services rendered	-	-	-	-	-
Sale of goods (finished or in progress)	-	-	-	-	-
Gains on derecognition or disposal of assets	89,075	-	-	-	89,075
Other income	15	-	115	24	154
	90,083	**-**	**806**	**2,694**	**93,583**

(*) This includes basically the income and expenses relating to Santander Group companies that do not belong to the Santander Consumer Finance Group and to other related parties.

	Thousands of euros				
	30-06-17				
Other transactions	Significant Shareholders	Directors and executives	Group Employees Companies or Entities	Other related parties (*)	Total
Purchases of tangible, intangible or other assets	-	-	-	-	-
Financing agreements: loans and capital contributions (lender)	-	-	56.445	252.270	308.715
Finance leases (lessor)	-	-	-	-	-
Repayment or termination of loans and leases (lessor)	-	-	301.612	181.070	482.682
Sales of tangible, intangible or other assets	-	-	-	-	-
Financing agreements: loans and capital contributions (borrower)	76.203	1.971	17.114	12.768	108.056
Finance leases (lessee)	-	-	-	-	-
Repayment or termination of loans and leases (lessee)	56.961	-	13.050	109.729	179.740
Guarantees provided	202.448	-	14.416	-	216.864
Guarantees received	205	-	-	-	205
Obligations acquired	560.998	-	15.267	-	576.265
Obligations/guarantees cancelled	-	-	-	-	-
Dividends and other distributed profit	-	-	-	-	-
Other transactions	(49.171)	(349)	-	19.591	(29.929)

(*) This includes basically the transactions performed with Santander Group companies that do not belong to the Santander Consumer Finance Group and with other related parties.

14. Off-balance-sheet exposures

The off-balance-sheet exposures related to balances representing financial guarantees and other commitment provided (recovables and non recovables).

Granted guarantees includes 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.

Contingent commitments provided includes all off-balance-sheet exposures, which are not classified as guarantees provided, including drawable by third parties.

	Thousands of euros	
	30/06/2018	31/12/2017
Loan commitments granted	**23,890,406**	**22,683,974**
Of which doubtful:	674	684
Financial guarantees granted	**549,111**	**524,961**
Doubtful	-	-
Financial guarantees	549,111	524,961
Guarantees and other loaned bonds	-	-
Other commitments granted	**412,598**	**631,185**
Other guarantees granted	288,435	246,590
Of which doubtful	-	-
Other commitments	124,163	384,595
	24,852,115	**23,840,120**

15. Average headcount and number of offices

The average number of employees at the Group and at the Bank, by gender, in the six-month periods ended 30 June 2018 and 2017 is as follows:

	Bank		Group	
	30-06-18	30-06-17	30-06-18	30-06-17
Men	2	3	4,772	4,680
Women	1	3	4,986	5,032
	3	**6**	**9,758**	**9,712**

El número medio de oficinas al 30 de junio de 2018 y 2017 es el siguiente:

Number of offices	Group	
	30-06-18	30-06-17
Spain	63	65
Group	224	362
	287	**427**

16. Other disclosures:

a) Valuation techniques for financial assets and liabilities

The following table shows a summary of the fair values, at 30 June 2018 and 31 December 2017, of the financial assets and liabilities indicated below, classified on the basis of the various measurement methods used by the Group to determine their fair value:

	Thousands of euros					
	30-06-18 (*)			31-12-17		
	Published price quotations in active markets (Level 1)	Internal Models (**)	Total	Published price quotations in active markets (Level 1)	Modelos Internos (*)	Total
Financial assets held for trading	-	16,476	16,476	474	33,590	34,064
Non-trading financial assets mandatorily at fair value through profit or loss	-	218	218			
Financial assets at fair value through other comprehensive income	1,229,171	86,580	1,315,751			
Financial assets available-for-sale				2,555,462	62,309	2,617,771
Hedging derivatives (assets)	-	114,993	114,993	1,142	132,257	133,399
Financial liabilities held for trading	-	15,664	15,664	7,527	21,324	28,851
Hedging derivatives (liabilities)	167	120,460	120,627	72	167,728	167,800

(*) See reconciliation of IAS 39 at 31 Decembre 2017 to IFRS 9 at 1 January 2018 (Note 1.c)
(**) Substantially all of the main variables (inputs) used by the models are obtained from observable market data (Level 2, pursuant to IFRS 13, Fair Value Measurement).

Financial instruments at fair value, determined on the basis of published price quotations in active markets (Level 1), include government debt securities, private-sector debt securities, 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 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.

Most of the instruments recognized at fair value in the consolidated balance sheet, calculated using internal models, are interest rate swaps (IRSs) and cross currency swaps, which are measured using the present value method. This valuation method is also used to calculate the fair value of financial instruments measured at amortised cost in the consolidated balance sheet (see Note 44 of the consolidated annual accounts at 31 December 2017). Expected future cash flows are discounted using the yield curves of the related currencies. In general, the yield curves are observable market data and, therefore, this valuation method does not include the use of assumptions that could have a significant effect on the calculation of the fair value of these financial instruments.

The Group did not make any material transfers of financial instruments between one measurement method and another in the first half of 2018. Also, there were no changes in the valuation technique used to measure financial instruments.

Santander Group (which the Group belongs) has developed a formal process for the systematic valuation and management of financial instruments, which has been implemented worldwide across all the Group'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:

Fixed income

The range of fixed income assets includes simple instruments, such as interest rate and cross-currency swaps, which are measured using estimated cash flow projections that are then discounted to present value by factoring in the basis spread (swap and cross currency), depending on the frequency of the payments and currency in which each leg of the dividend is denominated.

The inputs used in these valuation models are market-observable data such as deposit rates, futures, cross-currency swap rates and basis spreads. These inputs can be used to calculate different interest rate curves, depending on the frequency of the related payments, as well as discount curves for each currency.

Exchange rates

The most important products within this asset class are forward and futures contracts and include vanilla and over-the-counter (OTC) derivatives written over exchange rates.

The inputs used in the exchange rate valuation models include interest rate curves for each currency and spot exchange rates.

Valuation adjustment for counterparty or default risk

The *Credit Valuation Adjustment* (CVA) is a haircut applied to OTC derivatives to factor in the risk associated with the credit exposure assumed by each counterparty.

The CVA is calculated by factoring in the potential future exposure to each counterparty at each delivery or settlement date. The CVA for a given counterparty is equal to the sum of CVAs for all term dates. The following inputs are used for calculation purposes:

- Expected future exposure: including, for each transaction, the current market value (MtM) as well as the potential future exposure (add-on profile) for each term. The calculation also takes into consideration credit mitigation arrangements such as collateral and netting agreements as well as a time decay factor for derivatives with interim payments.

- Severity: final loss assumed in the event of a credit event/default by the counterparty expressed in percentage terms.

- Probability of default: when market data are not available (listed spread curve derived from CDSs, etc.), ratings-based probabilities are used (preferably internal ratings models).

- Discount factor curve.

The Debt Valuation Adjustment (DVA) is similar to the CVA but reflects the Group's own credit risk, assumed by its counterparties in respect of OTC derivatives.

Fair value of financial instruments valued using internal models

The fair value of financial instruments derived from previous internal models, takes, between other issues, the contract terms and the market data, including interest rates, credit risk, exchange rates and prepayments. The valuation models are not significantly subjective, because these methodologies can be adjusted and calibrated, if, through the internal calculation of fair value and subsequent comparison with the related actively traded price.

Set forth below are the financial instruments at fair value whose measurement was based on internal models (Level 2) at 30 June 2018 (IFRS 9) and 31 December 2017 (IAS 39):

	Thousands of euros		
	Fair Values Calculated Using Internal Models at al 30-06-18 (Nivel 2)	Valuation Techniques	Main assumptions
ASSETS:			
Non-current assets held for sale	**16,476**		
Trading Derivatives	16,476		
Swaps	*15,719*	Present Value Method	Interest rate curves, Market prices Fx, Basis, Liquidity
Others	*757*		Interest rate curves, Market prices Fx, Basis, Volatility surface
Hedging derivatives	**114,993**		
Swaps	*99,692*	Present Value Method	Interest rate curves, Market prices Fx, Basis, Liquidity
Others	*15,301*	Present Value Method	Interest rate curves, Market prices Fx, Basis, Volatility surface.
Non-trading Financial assets mandatorily at fair value through profit and loss	**218**		
Equity instruments	*218*		
Debt securities	-		
Loans and advances	-		
Financial assets at fair value through other comprehensive income	**86,580**		
Equity instruments	10,867	Present Value Method	
Debt securities	75,713		
Loans and advances	-		
LIABILITIES:			
Financial liabilities held for trading	**15,664**		
Trading Derivatives	15,664		
Swaps	*15,020*	Present Value Method	Interest rate curves, Market prices Fx, Basis, Liquidity
Others	*644*	Present Value Method	Interest rate curves, Market prices Fx, Basis, Volatility surface.
Hedging derivatives	**120,460**		
Swaps	*111,592*	Present Value Method	Interest rate curves, Market prices Fx, Basis, Liquidity
Others	*8,868*	Present Value Method	Interest rate curves, Market prices Fx, Basis, Volatility surface.

(*) See reconciliation of IAS 39 at 31 December 2017 to IFRS 9 at 1 January 2018 (Note 1.c)

	Thousands of euros		
	Fair Values Calculated Using Internal Models at 31-12-17 (Level 2)	Valuation Techniques	Principals assumptions
ASSETS:			
Non-current assets held for tradind	**33,590**		
Trading derivatives	33,590		
Swaps	*31,965*	Present Value Method	Interest rate curves, Market prices Fx, Basis.
Others	*1,625*	Present Value Method	Interes rate curves,Volatility surface.
Available-for-sale financial assets	**62,309**		
Debt and equity instruments.	*62,309*	Present Value Method	Interest rate curves, HPI, Market prices Fx, Basis.
Hedging derivatives	**132,257**	Present Value Method	
Swaps	*111,503*	Present Value Method	Interest rate curves, Market prices Fx, Basis.
Others	*20,754*		Interest rate curves, Volatility surface, Market prices Fx
LIABILITIES:			
Financial liabilities held for trading	**21,324**	Present Value Method	
Trading derivatives	21,324	Present Value Method	
Swaps	*21,007*		Interest rate curves, Market prices Fx, Basis.
Others	*317*		Interest rate curves, Volatility surface, Market prices Fx
Hedging derivatives	**167,728**	Present Value Method	
Swaps	*167,115*	Present Value Method	Interest rate curves, Market prices Fx, Basis.
Others	*613*	Present Value Method	Interest rate curves, Volatility surface, Market prices Fx

a) Sovereign risk with peripheral European countries

The detail at 30 June 2018 (IFRS 9) and 31 December 2017 (IAS 39), by type of financial instrument, of the Group credit institutions' sovereign risk exposure to Europe's peripheral countries and of the short positions held with 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 47 to the consolidated financial statements for 2017), is as follows:

Sovereign risk by country of issuer/borrower at 30 June 2018 (**)									
	Thousands of euros (*)								
	Debt instruments							MtM Derivatives (****)	
	Non-current assets held for sale 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	Direct risk	Indirect risk (CDS)s
Spain	-	-	1,051,143	-	-	7	1,051,150	-	-
Portugal	-	-	-	-	-	4	4	-	-
Italy	-	-	-	-	438,794	18,164	456,958	-	-
Greece	-	-	-	-	-	-	-	-	-
Ireland	-	-	-	-	-	5	5	-	-

(*) See reconciliation of IAS 39 at 31 December 2017 to IFRS 9 to 1 January 2018 (Note 1.c).
(**) Information prepared using EBA criteria. There are other off-balance sheet exposures other than derivatives - contingent commitments and exposures - in the amount of 8 thousands of euros with Spain.
(***) Presented without taking into account the valuation adjustments recognized (624 thousands of euros).
(****) "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 de 2017 (*)								
	Thousands of euros							
	Debt instruments						Derivatives (***)	
	Non-current assets held for sale and Financial assets designated at fair value through profit or loss	Short positions	Available-for-sale financial assets	Loans and receivables	Loans and advances to customers (**)	Total net direct exposure	Other than CDSs	CDSs
Spain	-	-	1,002,461	-	250	1,002,711	-	-
Portugal	-	-	-	-	376	376	-	-
Italy	-	-	467,055	-	16,448	483,503	-	-
Greece	-	-	-	-	-	-	-	-
Ireland	-	-	-	-	-	-	-	-

(*) Information prepared using EBA criteria. There are other off-balance sheet exposures other than derivatives - contingent commitments and exposures - in the amount of 20 thousands of euros with Spain.
(**) Presented without taking into account the valuation adjustments recognized (2.780 thousands of euros).
(***) "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 the Group’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 2018 (IFRS 9) and 31 December 2017 (IAS 39) is as follows:

Exposure to other counterparties by country of issuer/borrower at 30 June 2018 (*)										
	Thousands of euros (**)									
			Debt Securities						MtM 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	23,591	-	-	1,100	-	-	14,183,793	14,208,484	(2,473)	-
Portugal	-	-	-	-	-	-	1,403,755	1,403,755	-	-
Italy	19,378	-	-	-	-	-	8,135,268	8,154,646	-	-
Greece	-	-	-	-	-	-	-	-	-	-
Ireland	-	-	-	-	-	-	52	52	-	-

(*) See reconciliation of IAS 39 at 31 December 2017 to IFRS 9 to 1 January 2018 (Note 1.c).

(**) Also, the Group has off-balance-sheet exposure other than derivatives -contingent liabilities and commitments- amounting to 12,557,974 thousands of euros, 359,613 thousands of euros and 525,984 thousands of euros to counterparties in Spain, Portugal and Italy respectively.

(***) Presented excluding valuation adjustments and impairment losses recognized (597,202 thousands of euros).

(****) 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 2017 (*)									
	Thousands of euros								
			Debt Securities					Derivatives (***)	
	Balances with central banks	Reverse repurchase agreements	Non-current assets held for sale and Financial assets designated at FVTPL	Available-for-sale financial assets	Loans and receivables	Loans and advances to customers (**)	Total net direct exposure	Other than CDSs	CDSs
Spain	77,687	-	-	8,797	-	14,071,580	14,158,064	(346)	-
Portugal	-	-	-	-	-	1,413,874	1,413,874	-	-
Italy	12,335	-	-	-	-	7,931,761	7,944,096	(159)	-
Greece	-	-	-	-	-	1,276	1,276	-	-
Ireland	-	-	-	-	-	9,086	9,086	-	-

(*) Also, the Group has off-balance-sheet exposure other than derivatives -contingent liabilities and commitments- amounting to 17,613,738 thousands of euros, 351,954 y 675,972 thousands of euros to counterparties in Spain, Portugal and Italy respectively.

(**) Presented excluding valuation adjustments and impairment losses recognized (588,340 thousands of euros).

(***) “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 Group was not party to any credit default swaps (CDSs) at either 30 June 2018 or 31 December 2017.

b) <u>Forbearance and restructured transactions</u>

The following forms are use with the meanings specified below:

- Forbearance transaction: transaction granted or used for reasons relating to -current or foreseeable- financial difficulties the borrower may have in repaying 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 cancelled or refinanced transactions to repay the debt (principal and interest) because the borrower is 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 transantions will be as maximum the covered amount of exposure.

- Personal guarantees, maximun amount guarantors will have to pay if the guarantee is implemented.

	30-06-2018 (in thousands of euros)													
	Total							Of which: doubtful						
	Without collateral		With collateral				Accumulated Impairment or losses at fair value due to credit risk	Without collateral		With collateral				Accumulated Impairment or losses at fair value due to credit risk
					Maximum amount of the actual collateral that can be considered							Maximum amount of the actual collateral that can be considered		
	Number of operations	Gross amount	Number of operations	Gross amount	Mortgage guarantee	Other guarantees		Number of operations	Gross amount	Number of operations	Gross amount	Mortgage guarantee	Other guarantees	
Credit entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public sector	3	24	-	-	-	-	6	3	24	-	-	-	-	6
Other financial institutions and: individual shareholder)	3	43	-	-	-	-	18	1	17	-	-	-	-	16
Non financial institutions and individual shareholders	11,072	47,628	116	19,212	8,363	19	22,190	2,826	21,670	64	12,921	2,807	3	20,412
Of which: Financing for constructions and property development	*30*	*198*	-	-	-	-	*122*	*21*	*149*	-	-	-	-	*116*
Rest of households	101,963	465,222	1,111	121,057	87,509	42	223,273	54,782	222,675	462	40,388	16,726	-	188,776
Total	**113,041**	**512,917**	**1,227**	**140,269**	**95,872**	**61**	**245,487**	**57,612**	**244,386**	**526**	**53,309**	**19,533**	**3**	**209,210**
ADDITIONAL INFORMATION														
Financing classified as non-current assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-

	30-06-2017 (in thousands of euros)													
	Total							Of which: doubtful						
	Without collateral		With collateral				Accumulated Impairment or losses at fair value due to credit risk	Without collateral		With collateral				Accumulated Impairment or losses at fair value due to credit risk
					Maximum amount of the actual collateral that can be considered							Maximum amount of the actual collateral that can be considered		
	Number of operations	Gross amount	Number of operations	Gross amount	Mortgage guarantee	Other guarantees		Number of operations	Gross amount	Number of operations	Gross amount	Mortgage guarantee	Other guarantees	
Credit entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public sector	-	139	-	-	-	-	1	-	14	-	-	-	-	1
Other financial institutions and: individual shareholder)	6	51	-	-	-	-	13	3	34	-	-	-	-	13
Non financial institutions and individual shareholders	10,882	38,654	174	28,386	12,058	31	15,730	1,425	11,669	119	21,958	6,716	-	13,959
Of which: Financing for constructions and property development	*25*	*151*	-	-	-	-	*55*	*14*	*71*	-	-	-	-	*49*
Rest of households	115,542	638,290	1,283	143,121	118,427	19	200,440	62,727	299,643	596	56,911	44,247	-	177,635
Total	**126,430**	**677,134**	**1,457**	**171,507**	**130,485**	**50**	**216,184**	**64,155**	**311,360**	**715**	**78,869**	**50,963**	**-**	**191,608**
ADDITIONAL INFORMATION	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financing classified as non-current assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-

The transactions presented in the table above are classified at 30 June 2018 in keeping with their characteristics, as follows:

- Doubtful: transactions that are originally classified as doubtful exposures as per policy criteria (in keeping with Bank of Spain Circular 4/2004, as amended by Circular 4/2016 and Circular 4/2017) and are still in the process of requalifying as standard or performing and those that while classified as standard exposures or standard exposures under special monitoring have presented fresh financial difficulties during the life of the transaction. More specifically, refinancing, refinanced and restructured transactions are classified as doubtful exposures when they are underpinned by a payment schedule considered inadequate, include contractual terms that have the effect of delaying the transaction's repayment or present amounts that have been written off based on the consideration that they will not be recovered.

- Performing exposures under special monitoring: those that are recognized initially in this category as per policy criteria (in keeping with Bank of Spain Circular 4/2004, as amended by Circular 4/2016 and Circular 4/2017) and those reclassified from doubtful exposures having met the following criteria: (i) one year has elapsed since the date of refinancing/restructuring; (ii) the borrower is current on all accrued principal and interest payments; and (iii) the Group does have other exposures to the same borrower with amounts in arrears by more than 90 days at the date of reclassification to standard exposures under special monitoring.

- Normal (performing): those that are recognized initially in this category as per policy criteria (in keeping with Bank of Spain Circular 4/2004, as amended by Circular 4/2016 and Circular 4/2017) and those reclassified from doubtful or standard under special monitoring for which the probation period has elapsed and all of the following conditions have been met: (i) it is considered highly probable that the borrower will uphold its obligations in time and manner; (ii) at least two years have elapsed since the date on which the refinancing/restructuring transaction closed; (iii) the borrower has paid all principal and interest instalments accrued since the date on which the refinancing/restructuring transaction closed; and (iv) at the end of probation period, the Group has no other exposures to the borrower with amounts in arrears by more than 30 days.

The transactions presented in the table above are classified at 30 June 2017 in keeping with their characteristics, as follows:

- Doubtful: transactions that are originally classified as doubtful exposures as per policy criteria (in keeping with Bank of Spain Circular 4/2004, as amended by Circular 4/2016) and are still in the process of requalifying as standard or performing and those that while classified as standard exposures or standard exposures under special monitoring have presented fresh financial difficulties during the life of the transaction. More specifically, refinancing, refinanced and restructured transactions are classified as doubtful exposures when they are underpinned by a payment schedule considered inadequate, include contractual terms that have the effect of delaying the transaction's repayment or present amounts that have been written off based on the consideration that they will not be recovered.

- Performing exposures under special monitoring: those that are recognized initially in this category as per policy criteria (in keeping with Bank of Spain Circular 4/2004, as amended by Circular 4/2016) and those reclassified from doubtful exposures having met the following criteria: (i) one year has elapsed since the date of refinancing/restructuring; (ii) the borrower is current on all accrued principal and interest payments; and (iii) the Group does have other exposures to the same borrower with amounts in arrears by more than 90 days at the date of reclassification to standard exposures under special monitoring.

- Normal (performing): those that are recognized initially in this category as per policy criteria (in keeping with Bank of Spain Circular 4/2004, as amended by Circular 4/2016) and those reclassified from doubtful or standard under special monitoring for which the probation period has elapsed and all of the following conditions have been met: (i) it is considered highly probable that the borrower will uphold its obligations in time and manner; (ii) at least two years have elapsed since the date on which the refinancing/restructuring transaction closed; (iii) the borrower has paid all principal and interest instalments accrued since the date on which the refinancing/restructuring transaction closed; and (iv) at the end of probation period, the Group has no other exposures to the borrower with amounts in arrears by more than 30 days.

The table below shows the changes of these balances during the first semester of 2018 and 2017:

	Thousands of euros	
Carrying amount	30-06-18	30-06-17
Opening balances	473,583	702,750
(+) Refinancing and Restructured balances	88,248	166,008
Memorandum items: Amount registered in the income statements	25,115	29,939
(-) Debt repayment	(107,308)	(150,922)
(-) Foreclosures	-	-
(-) Balance derecognition (Written-off reclassification)	(5,901)	(13,944)
(+)/(-) Other changes	(40,923)	(71,435)
Final Balances	**407,699**	**632,457**

c) Real state business– Spain

Portfolio of home purchase loans to families

On 30 June, 2018 and on 31 December, 2017 no home purchase loans in Spain have been granted to families. The breakdown of the book at 30 June 2018 and 31 December 2017 is as follows:

	Thousands of euros			
	30-06-2018		31-12-2017	
	Gross Amount	*Of which: Non performing*	Gross Amount	*Of which: Non performing*
Home purchase loans to families				
- *Without mortgage guarantee*	-	-	-	-
- *With mortgage guarantee*	1,922,598	74,051	2,012,009	82,963
	1,922,598	**74,051**	**2,012,009**	**82,963**

The risk profile of the home purchase mortgage loan portfolio in Spain remained at a medium-low level, with limited prospects of additional impairment:

- All mortgage transactions include principal repayments from the very first day.

- Early repayment is common practice and, accordingly, the average life of the transactions is far shorter than their contractual term.

- Debtors provide all their assets as security, not just the home.
- High quality of collateral, since the portfolio consists almost exclusively of principal-residence loans.

On 30 June 2018, 60.94% of the portfolio has an LTV of less than 80% (calculated as the ratio of total exposure to the amount of the latest available appraisal). On 31 December 2017, 60.33% of the portfolio has an LTV of less than 80% (calculated as the ratio of total exposure to the amount of the latest available appraisal).

	30-06-2018					
	Exposure as a percentage of last available appraisal (Loan to value ratio)					
In millions of 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	305	389	478	208	543	**1,923**
- Of which: Non Performing	3	7	15	10	39	**74**

	31-12-2017					
	Exposure as a percentage of last available appraisal (Loan to value ratio)					
In millions of 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	290	396	528	218	580	**2,012**
- Of which: Non Performing	4	9	19	9	42	**83**

d) <u>Non-audit services</u>

Between 1 January and 30 June 2018, the Group's auditor, PricewaterhouseCoopers Auditores, S.L., provided the Group with certain non-audit services, specifically assurance services and other reviews required to auditor and review services for the purpose of issuing comfort letters in the amount of 189 thousands of euros.

17. Solvency information

The breakdown of the Group's capital and leverage ratios at 30 June 2018 and 31 December 2017 is provided below:

Capital ratio

	Millions of euros	
	30-06-2018	**31-12-2017**
Capital ratio		
Ordinary common equity tier 1 (Millions of euros)	8,138	8,588
Additional capital common equity tier 1 (Millions of euros)	911	487
Ordinary common equity tier 2 (Millions of euros)	591	1,033
Assets (Millions of euros)	67,701	66,323
Ordinary common equity tier 1 ratio (CET 1)	12.02%	12.95%
Additional capital tier 1 ratio (AT 1)	1.35%	0.73%
Capital Tier 1 ratio (TIER 1)	13.37%	13.68%
Capital Tier 2 ratio (TIER 2)	0.87%	1.56%
Total Capital Ratio	**14.24%**	**15.24%**

Leverage

	Millions of euros	
	30-06-2018	31-12-2017
Leverage		
Tier 1 capital (Millions of euros)	9,049	9,075
Exposure (Millions of euros)	107,119	101,814
Leverage ratio	**8.45%**	**8.91%**

Interim Consolidated Management Report
for the six month-period ended 30 June 2018

GENERAL BACKDROP

The Santander Consumer Finance Group has conducted its operations in an economic environment marked by the appearance of global risks that have increased market volatility and led to a downward revision of the growth forecasts in certain countries.

The tilt towards greater protectionism and the tightening of monetary policy in the United States are the main factors underlying this greater uncertainty, which is causing higher risk premiums in both Mediterranean Europe and Latin America.

The trends in the main macroeconomic variables are summarised below at country level:

- Euro area (GDP: +2.5% year on year in the first quarter of 2018). GDP growth slowed down in the first quarter of the year, returning to more normal levels after the sharp increases registered in the second half of 2017 and also due to transitory factors. Inflation remained low in the first quarter but climbed to 2% in June following the hike in oil prices.

- Spain (GDP: +3.0% year on year in the first quarter of 2018). GDP expansion remained resilient in spite of the slowdown in the eurozone. Jobs are still being created at an intense if slightly slower pace than in previous quarters. Inflation climbed to 2.3% in June due to the impact of oil prices, while the underlying rate remains low (1.1%).

- Poland (GDP: +5.2% year on year in the first quarter of 2018). GDP took a surprising upturn in the first quarter of the year, while unemployment remains at a record low (4.2% in the first quarter). Inflation continues to be lower than expected (2.0% in June) and a long way below the 2.5% target set by the central bank, which will keep the official interest at 1.5% for the whole year.

- Portugal (GDP: +2.1% year on year in the first quarter of 2018). Portugal registered a more moderate GDP growth in the first quarter of the year, although the economy continues to perform well thanks to investment, consumption and exports (which account for nearly 50% of the GDP). The unemployment rate fell again (7.9% in the first quarter) and inflation was recorded at 1.5% in June.

- United Kingdom (GDP: +1.2% year on year in the first quarter of 2018). Inclement weather conditions caused an economic slowdown in the first quarter of the year. Inflation (2.4% in June) has continued to be moderated by the dilution of the effect of the pound's depreciation. The unemployment rate (4.2% in March) is considered to be full employment. The official interest rate (0.5%) may be raised in November.

BUSINESS PERFORMANCE

Results

Santander Consumer Finance achieved income of EUR 701 million as at June, up 13% on the first half of 2017, due mainly to:

1) The increase of EUR 51 million in net interest income.
2) The loss EUR 60 million in the value of the investment in the Bank of Beijing Consumer Finance Company in the first half of 2017.

The following were the principal components of the income statement that improved company income:

- Stability in the Group's gross income, with two main movements compared to the previous year:
    - Increase in net interest income in line with portfolio growth.
    - Reduction in net fee and commission income due to changes in premiums of insurance income.
- Increase in operating costs at lower rate than growth of loan portfolio.
- Although provisions are up on the previous year, they continue to show strong performance, with the cost of lending remaining at historically low levels.

Strategy

Santander Consumer Finance remains committed to a business model with a high degree of geographic diversification and a leadership position in the countries where it operates, underpinned by a competitive value proposition for the customer. The Group has one of the best efficiency ratios in the sector and outstanding risk management.

Units of Santander Consumer Finance in continental Europe have carried out their activity against a backdrop of consolidation of both consumption in general, and of vehicle registrations in particular (+2.8% year on year, according to ACEA.).

Management in the half year focused on:

- Improving the efficiency of capital, in a competitive environment characterised by the emergence of new competitors, excessive liquidity swilling around the markets, and slow GDP growth.
- Increasing vehicle financing and consumer financing and extending agreements with the main dealers/retailers.
- Implementation of open e-commerce platforms and digitalisation of processes.
- Development of innovative products that improve customer experience.

Activity

The Group's total assets at 30 June 2018 stood at EUR 101,787 million after a 2% year-on-year increase owing to the organic growth of the portfolio.

New loans rose compared to the first half of 2017, mainly due to the strong performance of the auto business. Growth in nearly all units across the board.

With respect to liabilities, Santander Consumer Finance has a solid funding structure based mainly on customer deposits (EUR 34,879 million, +4% year-on-year growth) and debt securities issue programmes (EUR 28,226 million, in line with the previous year).

RISK MANAGEMENT

For Santander Consumer Finance, outstanding risk management is one of the main pillars of its strategy, as it is a necessary condition for the creation of controlled value for shareholders.

In a financial group of these characteristics, with a strong international presence in consumer finance markets, identification of risk variables and their measurement and control will enable suitable expansion of the business in accordance with the standards defined by the Santander Group.

The priority of risk quality has been and continues to be the differential feature of the culture and management style of the Santander Group, and this is how it is viewed by the markets, which associate it with a clear competitive advantage.

Credit Risk

1.

The credit risk management process consists of identifying, measuring analysing, controlling, negotiating and deciding on the risks incurred in the Group's operations. This process involves the areas that take risks, senior management and the Risk function.

As SCF is a member of the Santander Group, the process starts with senior management, through the board of directors and the executive risk committee, which set the risk policies and procedures, the limits and delegation of powers, and approve and supervise the framework for action by the risk function.

Generally speaking, risk study consists of analysing a customer's capacity to meet their contractual commitments with the Group and other creditors. This entails analysing the customer's credit quality, risk operations, solvency and profitability on the basis of the risk assumed. With this objective, SCF uses rating models for classifying customer solvency. These mechanisms are applied in the wholesale segment (sovereign, financial entities, corporate banking) and to SMEs and individuals. The rating results from a quantitative model based on balance sheet ratios or macroeconomic variables, complemented by the expert judgement of analysts.

While ratings are used in the wholesale sector and for companies and institutions, scoring techniques predominate for individuals and smaller companies. In general, these techniques automatically assign a score to the customer for decision-making purposes, as explained in the Decisions on operations section.

The SCF Group is geographically diversified, with a presence in fifteen countries, concentrated in our core markets. The Group's profile is mainly retail (89% consumer credit and 11% dealer stock finance), with the main activity being funding vehicle purchases.

The credit risk exposure of our portfolio in the Group's main activity is shown in the following table:

2.

SCF Group - Gross credit risk exposure			
	June 2018 (million euros)	Change on December 2017	% portfolio
Spain and Portugal	15,492	0.31%	17.18%
Italy	7,980	3.71%	8.85%
France	11,177	7.17%	12.39%
Germany and Austria	36,650	-0.29%	40.64%
Scandinavia	15,933	5.66%	17.67%
Rest	3,202	1.16%	3.27%
SCF Group	**90,434**	**2.11%**	**100.00%**

3.
Credit risk exposure has increased by 2.11% in the year to date. This was due to the growth generated in SC units and units subject to the PSA Group agreement. The largest portfolio growth up to June occurred in the JV of France (+7.2%) owing to the auto business (new and used).

Germany continued to account for the largest share of the portfolio, 40.64%, together with Austria and their respective JVs. The Nordic countries now account for 17.7% of SCF's total credit risk, closely followed by the units in Spain and Portugal, with 17.2%.

The portfolios performed adequately in 2018, due to the risk profile being kept in check by continuous improvement in recovery procedures, both in early stages of irregularity and advanced stages of impairment, resulting in fewer than expected new non-performing loans. This resulted in a non-performing loans ratio of 2.13% at June 2018, slightly lower than on December 2017 (2.18%).

The vision of the risk and of its management in SCF is global in its conception and local in its execution. The risk function follows general principles and organisational criteria shared across Group entities.

To ensure its proper performance, SCF has established a series of policies, procedures and management tools that, sharing a common basic model, are adapted to the characteristics of local markets and businesses.

This risk is managed through the following stages:

a) Global Risk Management

4. Design, inventory and maintenance of general risk policies and metrics. Coordination with SC/SAN central areas. Coordination with sales areas.

b) Risk Approval.

5. SCF has a risk function that is specialised by customer segmentation. Customers are pre-classified in order to quickly respond to business needs. There is design, inventory and maintenance of automatic decision-making systems, and manual approval according to an authority scale.

c) Systems for Control and Monitoring of Non-Standard Risks.

6. Aware of the importance of keeping close oversight of loans granted, during monitoring exposure is assessed constantly, portfolios are managed actively, and if signs are observed of potential worsening of risks, early action is taken to mitigate risks and reduce exposure with the ultimate goal of minimising potential loss and optimising the return-to-risk ratio.

d) Collection and Recoveries

7. Recoveries management is based on overall responsibility throughout the recovery cycle, in turn based on anticipation, efficiency and specialised treatment of debt. Specific management strategies are defined for each product, stage of irregularity and volume of risk by using the most suitable resources in each situation in order to obtain the best results.

8. By the type of our risks, recovered assets are limited to the repossession of vehicles, which are accounted for at market value. Because these assets are auctioned off on a monthly basis, they are generally on the balance sheet for a very short time, if at all.

9.

Market, structural and liquidity risk

1. Scope and definitions

The measurement, control and monitoring scope of the Market Risk function encompasses operations where an asset risk is assumed because of changes in market factors.

Such risks are generated through two types of basic activities:

- Trading which includes both the rendering of financial services on markets for clients, on which the entity is the counterparty, and sales and purchases and positioning mainly in fixed income, equity and foreign currency products.
-

  Santander Consumer Finance does not carry out trading, as its treasury activity is limited to management and hedging of the structural risk of its balance sheet, and to management of liquidity needed to fund its business.

- Balance sheet management or ALM, which involves management of inherent risks in the entity's balance sheet, not including the trading portfolio.

The risks generated in these activities are:

- Market: Risk resulting from the possibility of changes in market factors affecting the value of positions held by the entity in its trading book.

- Structural: Risk arising from management of different balance sheet items. This risk includes both losses owing to price variations affecting available-for-sale and held-to-maturity portfolios (banking book), and losses arising on the management of the Group’s assets and liabilities measured at amortised cost.

- Liquidity: Risk of payment obligations not being met on a timely basis or being met at an excessive cost. The types of losses that this risk triggers include losses on the forced selling of assets or impacts on the margin because of the mismatch of forecast cash outflows and inflows.

Market and structural risks, depending on the market variable that triggers them, may be classified as:

- Interest rate risk: Identifies the possibility that interest rate variations may have a negative impact on the value of a financial instrument, a portfolio or the Group as a whole.

- Credit spread risk: Identifies the possibility that variations in credit risk curves associated with issues and specific types of debt may have an adverse effect on a financial instrument, a portfolio or the Group as a whole. The spread is a differential between financial instruments listed at a margin over other benchmark instruments, basically the Internal Rate of Return (IRR) of government securities and interbank interest rates.

- Exchange rate risk: Identifies the possibility that variations in the value of a position in a currency other than the base currency can have an adverse effect on the value of a financial instrument, a portfolio or the Group as a whole.

- Inflation risk: This identifies the possibility that changes in inflation rates could adversely affect the value of a financial instrument, a portfolio or the Group as a whole.

- Volatility risk: Identifies the possibility that variations in the listed volatility of market variables may have an adverse effect on the value of a financial instrument, a portfolio or the Group as a whole.

- Market liquidity risk: Identifies the possibility that an entity or Group as a whole is unable to unwind or close a position on a timely basis without impacting the market price or transaction cost.

- Risk of early payment or cancellation: Identifies the possibility of early cancellation without negotiation on operations where the contractual relationship so allows explicitly or implicitly, generating cash flows that should be reinvested at a potentially lower interest rate.

There are other variables that only impact the market risk (and not the structural risk), meaning that market risk can also be classified as follows:

- Equity risk: Identifies the possibility that changes in the value of prices or dividend expectations from equity instruments can have an adverse effect on the value of a financial instrument, a portfolio or the Group as a whole.

- Commodity price risk: Identifies the possibility that changes in commodity prices may have an adverse effect on the value of a financial instrument, a portfolio or the Group as a whole.

- Correlation risk: Identifies the possibility that changes in the correlation between variables, either of the same or a different type, listed in the market, could adversely affect the value of a financial instrument, a portfolio or the Group as a whole.

- Underwriting risk: Identifies the possibility that placement targets for securities or other types of debt are not reached when the entity participates in underwriting them.

Liquidity risk may also be classified in the following categories:

- Funding risk: Identifies the possibility that the entity is unable to meet its obligations owing to its inability to sell assets or secure funding.

- Mismatch risk: Identifies the possibility that differences between the maturity structures of assets and liabilities will generate an additional cost to the entity.

- Contingency risk: Identifies the possibility that adequate management levers will be unavailable to raise liquidity as a result of an outlier event that entails greater funding needs or more strict collateral requirements to raise funds.

2. Roles and responsibilities

The risk function is built around three lines of defence. The roles and responsibilities of these lines form an integral part of the management and control of market, structural and liquidity risk, as explained below.

2.1. First line of defence

This comprises the departments, business lines and activities that generate risk exposure. In the scope of this framework, this involves those responsible for management of the trading and balance sheet management portfolios.

This line of defence must ensure at all times:

- That all risks that might have a material impact are identified.

- Recurrent assessment of existing risks.

- The information needed to assess risks is available.

- The limits established for their activities are observed and respected.

2.2. Second line of defence

This involves the specialist teams involved in risk control and monitoring. In the scope of this framework, this involves those responsible for monitoring activities involving the entity's portfolios and the performance and management of the risks assumed.

The second line of defence is an independent function within the risk function that complements the management and control functions of the first line of defence, ensuring at all times that:

- Limits are established and approved by the entity's governance bodies or their delegated bodies.

- The first line of defence understands and complies with these limits.

- The policies, procedures and limits established for trading activities and balance sheet management are respected.

- Systematic reviews are carried out of exposure to market, structural and liquidity risks.

- Robust, reliable and adequate mechanisms are in place for these activities.

The second line of defence must provide a consolidated overview of market, structural and liquidity risks.

2.3. Third line of defence

As the final layer of control in the Group, Internal Audit regularly checks that policies, methods and procedures are adequate and applied effectively in management.

3. Measurement and methodologies.

3.1. Interest rate risk

The Group analyses the sensitivity of net interest income and of equity value to interest rate fluctuations. This sensitivity is determined by mismatches in the maturity and review dates of interest rates of different balance sheet items.

According to the interest rate positioning of the balance sheet, and considering the situation and perspectives of the market, financial measures are adopted to adjust the positioning to that sought by the Group. These measures may range from taking of positions in markets to the definition of interest rate characteristics of commercial products.

The possibility that the financial margin or the Entity's equity will be affected by adverse changes in market interest rates to which asset, liability or off-book transaction positions are referenced.

- *Interest rate gap*

Analysis of the interest rate gap deals with the mismatch between the timing of re-pricing of on and off-balance aggregates of assets and liabilities and of memorandum accounts (off-balance sheet). It provides a basic profile of the balance sheet structure and can detect concentrations of interest rate risk at different terms. It is also a useful tool for estimates of the potential impact of interest rate movements on net interest income and the equity of the entity.

All on- and off-balance sheet aggregates have to be broken down so that they can be placed in the point of repricing/maturity. For aggregates that do not have a contractual maturity, the Santander Group's internal model for analysis and estimation of their durations and sensitivity is used.

- *Sensitivity of Net Interest Income (NII)*

The sensitivity of net interest income measures the change in expected accruals for a certain period (12 months) in the event of a shift in the interest rate curve.

- *Sensitivity of Economic Value of Equity (EVE)*

This measures the implied interest rate risk in the economic value of equity which, for the purposes of interest rate risk, is defined as the difference between the net present value of assets minus the net present value of liabilities, based on the affect of a change in interest rates on such present values.

3.2. Liquidity Risk.

Management of structural liquidity aims to fund the recurring activity of the Santander Consumer Group in optimal conditions of term and cost, while avoiding undesired liquidity risks.

The measures used for the control of liquidity risk are the liquidity gap, liquidity ratios, the statement of structural liquidity, liquidity stress tests, the financial plan, the liquidity contingency plan and regulatory reporting.

- *Liquidity gap*

The liquidity gap provides information on contractual and expected cash inflows and outflows for a given period in each of the currencies in which the Santander Consumer Group operates. The gap measures the net cash needed or the surplus at a given date and reflects the liquidity level maintained under normal market conditions.

In the contractual liquidity gap, all balance sheet items that generate cash flows are analysed and placed at their point of contractual maturity. For assets and liabilities with no contractual maturity, the Santander Group's internal analysis model is used. It is based on a statistical study of products' time series, and the so-called stable and unstable balance is determined for liquidity purposes.

- *Liquidity ratios*

The minimum liquidity ratio compares liquid assets available for sale or transfer (after the relevant discounts and adjustments have been applied) and assets at less than twelve months with liabilities of up to twelve months.

The Net Stable Funding Ratio measures the extent to which assets that require structural funding are being funded with structural liabilities.

- Structural Liquidity

The purpose of this analysis is to determine the structural liquidity position according to the liquidity profile (greater or lesser stability) of different asset and liability instruments.

- Liquidity stress tests

The purpose of the liquidity stress tests conducted by the Santander Consumer Finance Group is to determine the impact of a severe, but plausible, liquidity crisis. In such stress scenarios, a simulation is made of internal factors that may affect Group liquidity, such as, inter alia, a credit rating downgrade of the institution, a fall in the value of balance sheet assets, banking crises, regulatory factors, a change in consumer trends and/or a loss of depositor confidence.

Every month, four liquidity stress scenarios (banking crisis in Spain, idiosyncratic crisis at the Santander Consumer Finance Group, global crisis and a combined scenario) are simulated by stressing these factors, and the results are used to establish early warning levels.

- Financial plan

Every year, a liquidity plan is prepared based on the funding needs arising from the business budgets of all the Group's subsidiaries. Based on these liquidity requirements, an analysis is made of limits on new securitisation considering eligible assets available, in addition to potential growth in customer deposits. This information is used to establish an issue and securitisation plan for the year. Throughout the year, regular monitoring is carried out of actual trends in funding requirements, thus giving rise to the revisions of the plan.

- Liquidity Contingency Plan

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

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

- Regulatory reporting

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

In addition, since 2016, Santander Consumer Finance has produced an annual Internal Liquidity Adequacy and Assessment Process (ILAAP) report as part of the consolidated document of the Santander Group, although the supervisor does not require this report at sub-group level.

3.3. Structural change risk

Structural change risk is managed centrally, as part of the general corporate procedures of the Santander Group.

4. Limits

Within the framework of the annual limits plan, limits are established for structural balance sheet risks, based on the risk appetite of Santander Consumer Finance.

The limit structure involves a process that considers:

- Efficient and comprehensive identification and delimitation of the main types of market risk incurred, consistently with the management of the business and the strategy defined.

- Quantification and communication of the risk levels and profile considered acceptable by senior management to the business areas, so that undesired risks are not incurred.

- Providing flexibility for the business areas in the acceptance of risks, responding efficiently and appropriately to developments in the market and changes in business strategies, within the risk limits considered acceptable by the entity.

- Enabling business generators to take sufficient prudent risks to achieve their budgeted results.

- Delimiting the range of products and underlying assets in which each Treasury unit can operate, considering characteristics such as the model and assessment systems, the liquidity of the instruments involved, etc.

In the event of a breach of one of these limits or their sub-limits, the market risk, structural risk and liquidity risk function will notify the breach, explain the reasons for it and request an action plan from those responsible for risk management.

The main management limits for structural risk at the consolidated Santander Consumer level are:

- One-year net interest income sensitivity limit.

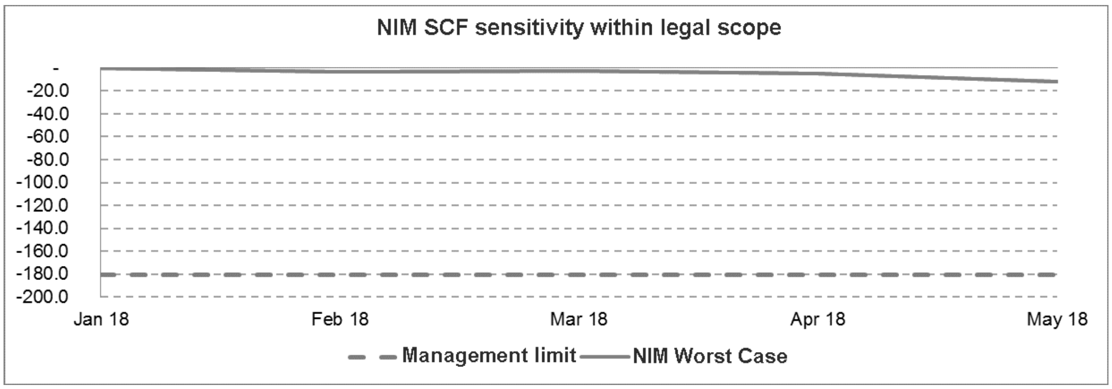
- Equity value sensitivity limit.

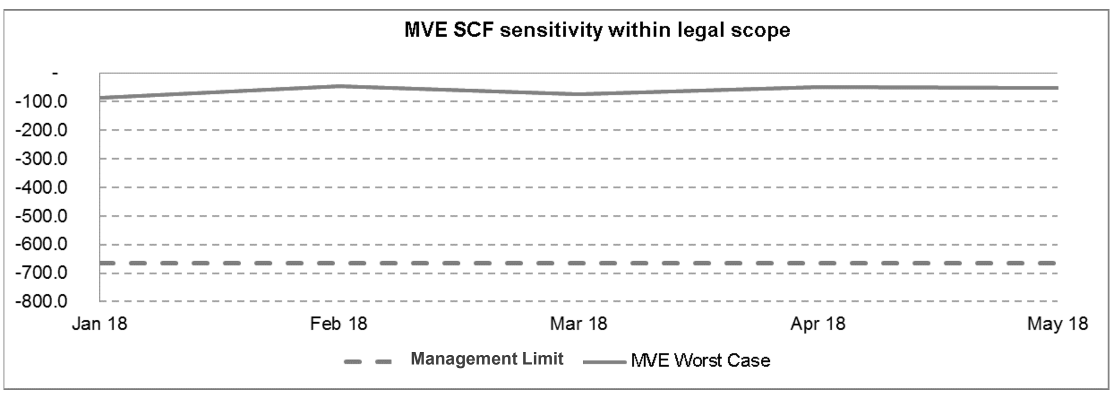
The limits are compared to the sensitivity that would result in the largest loss among those calculated under eight scenarios (parallel 25, 50, 75 and 100 basis point increases and decreases in the interest rate curve). Using a range of scenarios fosters improved control of interest rate risk. Scenarios of decreases envisage negative interest rates with a floor, which is -0.5% for the euro. In the first half of 2018, the exposure of the net interest margin and economic value was moderate compared to the budget and the value of own funds, respectively, being within the limits set for the legal scope.

At the end of May 2018 (the most recent figure available), the greater net interest margin risk over one year occurs in a parallel 75 basis point increase, amounting to EUR 11.5 million.

In the same period, the higher sensitivity of the economic value of equity occurs with a parallel 100 basis point increase of EUR -51.9 million.

The sensitivity of the net interest margin and of the economic value of equity in the first half of 2018 is shown in the chart below (data to May 2018):





5. Management

Balance sheet management entails the analysis, projection and simulation of structural risks, along with the design, proposal and execution of transactions and strategies to manage this risk. Finance Management is responsible for this process, and it takes a projection-based approach where and when this is applicable or feasible.

A high-level description of the main processes and/or responsibilities in managing structural risks is as follows:

- Analysis of the balance sheet and its structural risks.

- Monitoring of movements in the most relevant markets for asset and liability management (ALM) in Santander Consumer Finance.

- Planning. Design, maintenance and monitoring of certain planning instruments. Finance Management is responsible for preparing, following and maintaining the financial plan, the funding plan and the liquidity contingency plan.

- Strategy proposals. Design of strategies aimed at funding the SCF sub-group's business by securing the best available market conditions or by managing the balance sheet and its exposure to structural risks, thereby avoiding unnecessary risks, preserving net interest income and safeguarding the market value of equity and capital.

- Execution. To achieve appropriate ALM positioning, Finance Management uses different tools. Chief among these are issues in debt or capital markets, securitisation, deposits and interest rate and/or currency hedges, and the management of ALCO portfolios.

- Compliance with risk limits and with risk appetite.

Operational risk

Definition and objectives

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

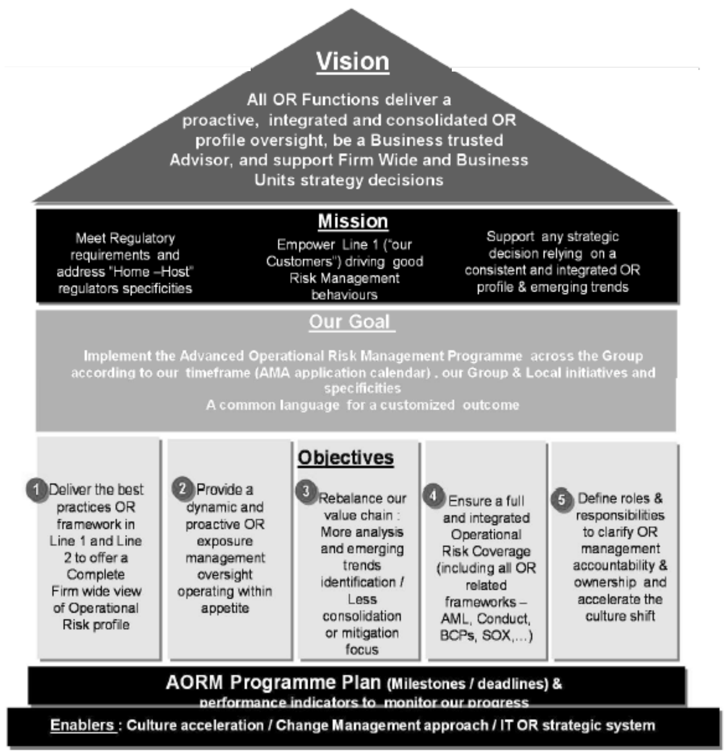
Operational risk is inherent to all products, activities, processes and systems, and is generated in all business and support areas. Accordingly, all employees are responsible for managing and controlling operational risks arising in their area of activity.

The aim pursued by the Santander Group in operational risk control and management is primarily to identify, measure/assess, monitor, control, mitigate and report this risk.

The Santander Group's priority, therefore, is to identify and mitigate focal points of risk, irrespective of whether they have given rise to any losses. Measurement also contributes to the establishment of priorities in the management of operational risk.

For the purpose of calculating regulatory capital for operational risk, Santander Consumer Finance has been applying the standardised approach set out in the BIS II regulation.

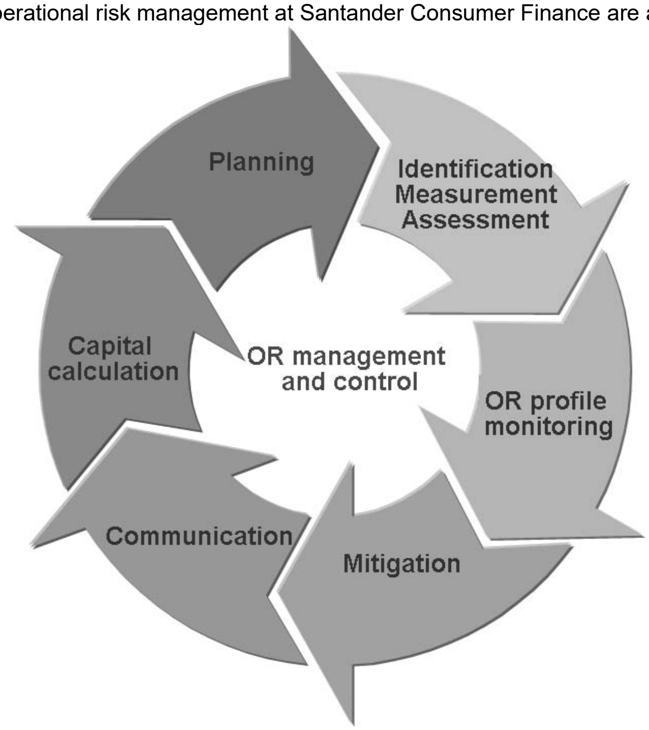
However, in 2017, Santander Consumer Finance implemented an advanced operational risk management model (AORM) in its main regions, which is being extended to other units in 2018.



Operational risk management and control model

Operational risk management cycle

The components of operational risk management at Santander Consumer Finance are as follows:



The stages of the model of operational risk management and control involve the following:

Identifying the operational risk inherent to all activities, products, processes and systems of Santander Consumer Finance. This process is carried out through a Risk and Control Self-Assessment (RCSA), and Thematic Risk Assessment tests (for fraud and cyber-risk).

- Definition of the target operational risk profile, specifying the strategies by unit and time horizon, through the establishment of the operational risk appetite and tolerance, the budget and the related monitoring.
- Encouragement of the involvement of all employees in the operational risk culture, through appropriate training for all areas and levels of the organisation.
- Objective and ongoing measurement and assessment of operational risk, consistent with industry and regulatory standards (Basel, Bank of Spain, etc.).
- Continuous monitoring of operational risk exposures, implementation of control procedures, improvement of internal awareness and mitigation of losses.
- Establishment of mitigation measures to eliminate or minimise operational risk.

- Preparation of periodic reports on the exposure to operational risk and its level of control for the senior management of Santander Consumer Finance and its areas/units, and reporting to the market and the regulatory authorities.

- Definition and implementation of the methodology required for calculating capital in terms of expected and unexpected loss.

The following is required for each of the key processes indicated above:

- The existence of a system whereby operational risk exposures can be reported and controlled, as part of the Group's daily management efforts.

  Towards this end, the Group has implemented a single tool for management and control of operational risk, compliance and internal control, called Heracles.

- Internal rules and regulations based on principles for management and control of operational risk have been defined and approved pursuant to the established governance system and in line with prevailing regulation and best practices.

  In 2015, the Group adhered to the relevant corporate framework and subsequently, the model, policies and procedures were approved and implemented, along with the Operational Risk Committee Regulation.

The model of operational risk management and control implemented by Santander Consumer Finance provides the following benefits:

- It promotes the development of an operational risk culture.
- It enables comprehensive and effective management of operational risk (strategic planning, identification, measurement/assessment, control/mitigation and reporting) reflected in the Target Operating Model (TOM), which supports the ARM programme for operational risk.
- It improves knowledge of both actual and potential operational risks and their assignment to businesses and support lines.
- Information on operational risk helps improve processes and controls and reduce losses and income volatility.
- It facilitates the setting of limits for operational risk appetite.

Risk identification, measurement and assessment model

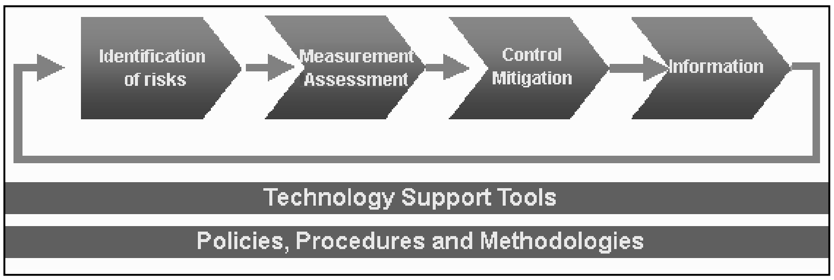
In November 2014, Santander Consumer Finance adopted the new management system of the Santander Group, in which three lines of defence are defined:

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

- 2nd line of defence: performed by the Non-Financial Risks Department, reporting to the CRO. Its functions are to design, maintain and develop the local adaptation of the *Operational Risk Management Framework* (BIS), and to control and *challenge* of the first line of defence against operational risk.

- 3rd line of defence: carried out by Internal Audit, which assesses compliance with its policies and procedures by all the entity's activities and units.

The components of risk management at Santander Consumer Finance are as follows:



In order to identify, measure and assess operational risk, the Group defined a set of qualitative and quantitative corporate techniques/tools, and these are combined to carry out a diagnosis based on the risks identified and obtain an assessment through measurement/evaluation of the area or unit.

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

- An internal event database to capture all operational risk events at Santander Consumer Finance. The capture of operational risk-related events is not limited to the establishment of thresholds, i.e., events are not excluded because of their amount, and the database contains events both with an accounting impact (including positive impacts) and those without.

  Accounting reconciliation processes are in place that ensure the quality of the information in the database. The most significant events of the Group and of each of its operational risk units are especially documented and reviewed.

- The external event database, as Santander Consumer Finance, through the Santander Group, takes part in international consortia such as the Operational Riskdata eXchange Association (*ORX*). The use of external databases provides quantitative and qualitative information that enable a more detailed and structured analysis of significant events occurring in the sector.

- OR scenario analysis. Expert opinion is obtained from the business lines and the risk and control managers with the aim of identifying potential events which, although very unlikely to occur, could result in a very high loss for the institution. Their potential effect on the institution is evaluated and additional controls and mitigating measures are identified that reduce the possibility of a high economic impact.

  This feature has also been included in the Heracles tool.

- Calculation of capital using the Standardised Approach.

The tools defined for the qualitative analysis aim to assess aspects (coverage/exposure) linked to the risk profile, thereby making it possible to capture the control environment in place. These tools are mainly as follows:

- RCSA: We continue to use the new methodology, as included in the Heracles tool, to improve assessment of risks based on the expert opinion of managers, to obtain a qualitative view of the main focal points of risk of Santander Consumer Finance, irrespective of whether such risks have materialised in the past.

  Improvements of RCSA:

  a. Incentivising the responsibility of the first lines of defence: It establishes the first line figures of *risk owner* and *control owner*.
  b. Helping identify the most significant risks: Non-predefined risks, but rather risks that arise from the risk-generating areas.
  c. Improved integration of OR tools: Root cause analysis is added.
  d. Improved preparation of test. Carried out through *workshops* instead of questionnaires.
  e. Carry out a *challenge* of the test performed by units, with a special focus on assessments of inherent risks, controls implemented to mitigate them and in the final assessment of residual risk.
  f. Tests with a more *forward-looking approach:* The financial impact from risk exposure is assessed

- Continuously-evolving corporate system of operational risk indicators that is coordinated with the corresponding corporate area. These are diverse statistics or parameters that provide information on an entity's exposure to risk. They are revised periodically in order to warn of any changes that could reveal problems vis-à-vis risk.

- Audit recommendations. These provide relevant information on inherent risk arising from internal and external factors, and enable identification of weaknesses in controls.

- Other specific instruments that permit a more detailed analysis of technology risk, such as control of critical incidences in systems and cyber-security events.

Implementation of model and initiatives

At present, virtually all units of Santander Consumer Finance have been incorporated to the model, with a high degree of standardisation.

The main functions, activities and global initiatives adopted seek to ensure effective management of operational risk, and may be summarised as follows:

- New operational risk framework~~.~~, in line with corporate operational risk framework.
- Designation of responsible OR coordinators and creation of operational risk departments in local units.
- Training and sharing of experiences: communication of best practices within Santander Consumer Finance.
- Promotion of mitigation plans: control of implementation of corrective measures and of projects under development.
- Definition of policies and structures to minimise impacts of major disasters on Santander Consumer Finance.

Measures against *cyber-risk*

In 2018, Santander Consumer Finance has continued to devote its full attention to risks related to cyber-security, which affect our units in different geographical areas. This situation, which is causing concern among entities and regulators, is leading to the adoption of preventive measures to be prepared for attacks of this nature.

At a technical level, such measures include an improvement of protection against denial-of-service attacks.

The Group has further developed its cyber regulations with the approval of a new cyber-security framework and the cyber-risk supervisory model, and new polices related to this area.

Also, a new organisational structure has been defined, and governance for the management and control of this risk has been strengthened. For this purpose, specific committees have been set up and cyber-security metrics have been incorporated to the Group's risk appetite. These metrics have been monitored and reported both in different geographical areas and at a Global level.

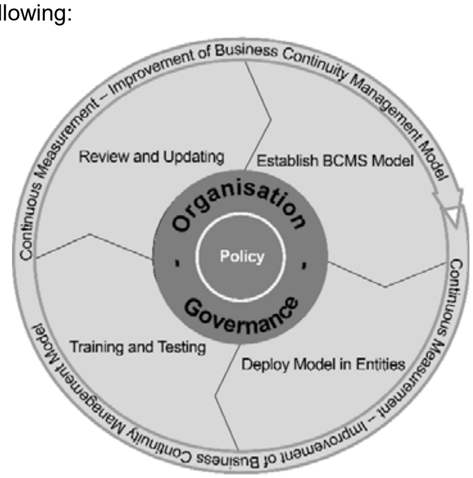
Operational risk information system

In 2018, the implementation of a new corporate system called Heracles has concluded, and its modules are undergoing continuous updating and improvement. This system has modules for risk self-assessment, event registration, a risk and assessment map, indicators of both operational risk and of internal control, mitigation and *reporting* systems and scenario analysis, and it is applied to all entities of Santander Consumer Finance.

Business Continuity Plan

The Santander Group and, accordingly, Santander Consumer Finance, have a Business Continuity Management System (BCMS) to ensure the continuity of its entities' business processes in the event of a disaster or serious incident.

The basic objective consists of the following:



- Minimising possible injury to persons, as well as adverse financial and business impacts for Santander Consumer Finance, resulting from an interruption of normal business operations.

- Reducing the operational effects of a disaster by supplying a series of pre-defined, flexible guidelines and procedures to be employed in order to resume and recover processes.
- Resuming time-sensitive business operations and associated support functions, in order to achieve business continuity, stable earnings and planned growth.
- Re-establishing the time-sensitive technology and transaction-support operations of the business if existing technologies are not operational.
- Safeguarding the public image of, and confidence in, Santander Consumer Finance.
- Meeting Santander Consumer Finance's obligations to its employees, customers, shareholders and other third-party stakeholders.

Corporate information

The Santander Group's corporate operational risk control area has an operational risk management information system that provides data on the Group's main risk elements. The information available from each country/unit in the operational risk sphere is consolidated to obtain a global view with the following features:

- Two levels of information: a corporate level, with consolidated information, and an individual level containing information for each country/unit.
- Dissemination of best practices among the Santander Group countries/units, obtained from the combined study of the results of quantitative and qualitative analyses of operational risk.

Specifically, information is prepared on the following subjects:

- The operational risk management model in the Santander Group and its main units and geographic areas.
- The scope of operational risk management.
- The monitoring of appetite metrics
- Analysis of internal event database and of significant external events.
- Analysis of most significant risks detected using various information sources, such as operational and technology risk self-assessment processes.
- Evaluation and analysis of risk indicators.
- Mitigation measures/active management.
- Business continuity plans and contingency plans.

This information is used as the basis for meeting *reporting* requirements to the Executive Risk Committee, the Risk Supervision Regulation and Compliance Committee, the Operational Risk Committee, senior management, regulators, r*ating* agencies, etc.

The role of insurance in operational risk management

The Santander Group, to which the Santander Consumer Finance Group belongs, considers insurance to be a key tool in the management of operational risk. In 2014, common guidelines were established for coordination between the different functions involved in the management cycle of operational risk-mitigating insurance, mainly the areas of proprietary insurance and operational risk control, but also different areas of first line risk management.

These guidelines include the following activities:

- Identification of all risks at the Santander Group which could be covered by insurance, as well as new insurance cover for risks already identified in the market.
- Establishment and implementation of criteria for quantifying insurable risk, based on the analysis of losses and in loss scenarios that make it possible to determine the Santander Group's level of exposure to each risk.
- Analysis of the cover available in the insurance market, as well as preliminary design of the terms and conditions that best suit the requirements previously identified and evaluated.
- Technical assessment of the level of protection provided by a policy, the cost and levels of retention that would be assumed by the Santander Group (deductibles and other items borne by the insured) for the purpose of deciding whether to contract it.
- Negotiation with insurance providers and award of policies in accordance with the relevant procedures established by the Santander Group.
- Monitoring of claims reported under the policies, as well as those not reported or not recovered due to incorrect reporting.
- Analysis of the appropriateness of the Group's policies for the risks covered, taking the necessary measures to correct any shortcomings detected.
- Close cooperation between local operational risk officers and local insurance coordinators in order to enhance operational risk mitigation.
- Regular meetings to inform on the specific activities, situation and projects of the two areas.
- Active participation of both areas in the global insurance *sourcing* desk, the Group's highest technical body for the definition of insurance cover and arrangement strategies.

RESEARCH, DEVELOPMENT AND INNOVATION ACTIVITIES

The Group sees innovation and development in technology as a cornerstone of its corporate strategy, placing the customer in the centre of its business model. In line with corporate objectives, the Technology and Operations division supports the business with value propositions ordered by segments, that are centred on the customer and his satisfaction, performs optimised management of price-risk within high standards of operational security, and leverages the opportunities of an intensively digital new world.

Concentration risk:

Concentration risk is a fundamental element in credit risk management. The Santander Group continuously tracks the degree of concentration in its credit risk portfolios from a range of perspectives: geographical areas and countries, economic sectors, products and groups of customers.

The Executive Risk Committee establishes the risk policies and reviews the appropriate exposure levels for the adequate management of the degree of concentration of credit risk portfolios.

The Group is subject to regulation of "Large Exposures" set out in the Fourth Part of Regulation 575/2013 (those that exceed 10% of the entity's own funds). Under the Regulation, no exposure with the same person or economic group may exceed 25% of the Group's eligible capital (unless the client or group of connected clients includes one or more Institutions; in such a case, the aggregate exposure value may not exceed 25% of the eligible capital of the Institution or EUR 150 million, whichever is higher, and without exceeding 100% of the eligible capital).

The Santander Group's Risk Division closely cooperates with the Financial Division in the active management of credit portfolios that, among its main areas of action, includes reduction of exposure concentration using several techniques, such as the contracting of credit hedging derivatives or securitisation, with the ultimate aim of optimising the return-to-risk ratio of the entire portfolio.

The breakdown at 30 June 2018 of the distribution of customer loans by activity (carrying value, not including advances) is as follows:

	TOTAL	Without collateral	Of which: Mortgage collateral (e)	Del que: Other collateral (e)	Secured loans. Loan-to-value (f)				
					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%
1. Public authorities	**127,992**	**127,992**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2. Other financial corporations and individual entrepreneurs (financial business)	**212,327**	**183,841**	**28,486**	**-**	**28,414**	**21**	**51**	**-**	**-**
3. Non-financial companies and individual entrepreneurs (non-financial business activity) (broken down by purpose)	**23,030,166**	**20,648,830**	**290,229**	**2,091,107**	**138,591**	**82,906**	**61,977**	**2,017,489**	**80,373**
3.1 Real estate construction and development (including land)	86,338	85,158	-	1,180	1,180	-	-	-	-
3.2 Civil engineering	17,778	17,086	-	692	692	-	-	-	-
3.3 Large companies	9,493,362	9,283,047	90,046	120,269	46,092	51,840	31,461	54,964	25,958
3.4 SMEs and individual entrepreneurs	13,432,688	11,263,539	200,183	1,968,966	90,627	31,066	30,516	1,962,525	54,415
4. Other households (broken down by purpose)	**64,620,384**	**58,218,709**	**5,724,010**	**677,665**	**1,655,236**	**1,397,380**	**1,829,463**	**941,234**	**578,362**
4.1 Housing units	5,729,675	27,635	5,702,040	-	1,603,544	1,391,675	1,823,923	306,093	576,805
4.2 Consumer	58,352,412	57,674,770	-	677,642	43,345	-	-	634,297	-
4.3 Other purposes	538,297	516,304	21,970	23	8,347	5,705	5,540	844	1,557
5. TOTAL	**87,990,869**	**79,179,372**	**6,042,725**	**2,768,772**	**1,822,241**	**1,480,307**	**1,891,491**	**2,958,723**	**658,735**
MEMORANDUM ITEMS									
Refinancing, refinanced and restructured operations (*2)	407,699	300,147	107,492	60	3,585	17,297	23,600	10,255	52,815

(*1) In addition, the Consumer Group has granted advanced to customers in the amount of EUR 453,837 thousand; hence, total loans and advances to customers amounts to EUR 88,444,706 thousand.

(*2) Includes net balance of accumulated impairment or accumulated losses in fair value due to credit risk

The breakdown at 30 June 2018 of the concentration of the Group's risk, by activity and geographic location of counterparties, is as follows:

	Thousands of euros				
	Spain	Rest of the European Union	America	Rest of the world	Total
Credit institutions – Central banks	1,272,601	5,076,217	-	55,962	6,404,780
Public authorities	1,051,534	1,016,802	-	41,085	2,109,421
Of which:					
Central government	*1,051,143*	*941,131*	-	*23,951*	*2,016,225*
Other public authorities	*391*	*75,671*	-	*17,134*	*93,196*
Other financial institutions	27,381	611,738	7,383	178	646,680
Non-financial institutions and individual entrepreneurs	2,603,692	19,300,356	-	1,791,316	23,695,364
Of which:					
Real estate construction and development	-	*49,710*	-	*39,353*	*89,063*
Civil engineering	-	*17,778*	-	-	*17,778*
Large companies	*625,850*	*8,485,008*	-	*518,821*	*9,629,679*
SMEs and individual entrepreneurs	*1,977,842*	*10,747,860*	-	*1,233,142*	*13,958,844*
Other households and non-profit institutions serving households	11,270,384	48,692,819	40	4,745,846	64,709,089
Of which:					
Housing units	*2,022,287*	*3,716,361*	-	-	*5,738,648*
Consumer	*9,161,450*	*44,522,189*	*39*	*4,745,846*	*58,429,524*
Other purposes	*86,647*	*454,269*	*1*	-	*540,917*
Total	**16,225,592**	**74,697,932**	**7,423**	**6,634,387**	**97,565,334**

(*) The definition of risk for the purposes of this table includes the following items on the public consolidated balance sheet: deposits in credit institutions and central banks, loans and advances to customers, debt securities, trading derivatives, hedging derivatives, equity instruments, equity investments and guarantees provided.

EVENTS AFTER THE REPORTING PERIOD
Since 30 June 2018 and at the date of this report, there are no events after the reporting period.

Information required under Law 2/1981, of 25 March, on Regulation of the Mortgage Market and by Royal Decree 716/2009, of 24 April, implementing certain aspects of this Law

Mortgage covered bonds

Mortgage covered bonds issued by the Bank are securities in which the principal and interest are specially backed by mortgages, with no need for registration, without prejudice to liability of the Bank's assets.

Mortgage covered bonds include credit rights for holders vis-à-vis the Bank, guaranteed as stated in the preceding paragraph, and entail execution to claim payment for the issuer after they mature. The holders of these securities are considered to be creditors with special preference, as stipulated in section 3 of Article 1923 of the Civil Code, vis-à-vis any other creditor, in relation to the total mortgage credits and loans registered in favour of the issuer and, as the case may be, vis-à-vis the economic flows generated by derivative financial related to the issues.

In the event of insolvency, the holders of mortgage-backed bonds will enjoy the special privilege established in Article 90.1.1 of Insolvency Law 22/2003, of 9 July.

Without prejudice to the foregoing, in accordance with Article 84.2.7 of the Insolvency Law, during the insolvency proceedings, the payments relating to the repayment of the principal and interest of the bonds issued and outstanding at the date of the insolvency filing will be settled up to the amount of the income received by the insolvent party from the mortgage loans and credits and, where appropriate, from the replacement assets backing the bonds and from the cash flows generated by the financial instruments associated with the issues (Final Provision 19 of the Insolvency Law).

If, due to a timing mismatch, the income received by the insolvent party is insufficient to meet the payments described in the preceding paragraph, the insolvency managers must settle them by realising the replacement assets set aside to cover the issue and, if this is not sufficient, they must obtain financing to meet the mandated payments to the holders of the mortgage-backed bonds, and the finance provider must be subrogated to the position of the bond-holders.

In the event that the measures indicated in Article 155.3 of the Insolvency Law were to be adopted, the payments to all holders of the mortgage-backed bonds issued would be made on a pro-rata basis, irrespective of the issue dates of the bonds.

Information concerning issues of mortgage covered bonds.

The breakdown of this account, by issue currency and by interest rate, is as follows:

Currency of issuance	Thousands of euros 30-06-18	31-12-17	Interest rate Annual (%)	Maturity date
Euros:				
May 2016 issuance	150,000	150,000	0.125	May 2019
July 2007 issuance	500,000	500,000	5.135	July 2022
Balance at 30 June	**650,000**	**650,000**		

10.

The aggregate nominal value of outstanding mortgage covered bonds at 30 June 2018 and 31 December 2017 issued by the Bank, pursuant to Royal Decree 716/2009 and broken down by residual maturity, is as follows:

	Thousands of euros			
	Residual maturity at 30 June 2018			
	Less than 3 years	3 to 5 years	5 to 10 years	Over 10 years
Issued through public offerings:	150,000	500,000	-	-
Not issued in public offers, including nominative, private, withheld and FAFA	-	-	-	-
	150,000	**500,000**	-	-

	Thousands of euros			
	Residual maturity at 31 December 2017			
	Less than 3 years	3 to 5 years	5 to 10 years	Over 10 years
Issued through public offerings:	150,000	500,000	-	-
Not issued in public offers, including nominative, private, withheld and FAFA	-	-	-	-
	150,000	**500,000**	-	-

At 30 June 2018 and 31 December 2017, the breakdown of the Bank's mortgage loans, based on their eligibility in respect of mortgage market calculations, is as follows:

	Thousands of euros	
	Nominal value	
	30-06-18	31-12-17
Total mortgage-backed loans and credits	1,943,360	2,033,189
Mortgage participations issued	-	-
Mortgage transfer certificates issued	-	-
Mortgage loans pledged in guarantee for financing received	-	-
Loans backing mortgage bonds issues and covered bond issues	1,943,360	2,033,189
i) Ineligible mortgage loans and credits	770,271	808,816
- They meet eligibility requirements, except for limits established in Article 5.1. of Royal Decree 716/2009	76	78
- Rest	770,195	808,738
ii) Eligible mortgage loans and credits	1,266,328	1,224,373
- Non-computable amounts	-	
- Computable amounts	1,173,089	1,224,373
a) Mortgage loans and credits covering issues of mortgage bonds	-	-
b) Mortgage loans and credits covering issues of mortgage covered bonds	1,173,089	1,224,373

(*) As the Bank has no outstanding mortgage bonds at 30 June 2018 and 31 December 2017, the totality of loans and credit backs the issuance of mortgage covered bonds.

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 is as follows:

	Thousands of euros			
	30-06-18		31-12-17	
	Mortgage Loans and Credits Backing the Issue of Mortgage Bonds and Mortgage Covered Bonds	Of which: Eligible loans	Mortgage Loans and Credits Backing the Issue of Mortgage Bonds and Mortgage Covered Bonds	Of which: Eligible loans
Origin of operations				
Originated by the entity	1,943,360	1,173,089	2,033,189	1,224,373
Subrogated from other entities	-	-	-	-
Rest	-	-	-	-
Currency				
Euro	1,943,360	1,173,089	2,033,189	1,224,373
Other currencies	-	-	-	-
Payment status				
Payment normality	1,868,119	1,148,365	1,949,147	1,192,139
Other status	75,241	24,724	84,042	32,234
Average residual period to maturity				
Up to 10 years	154,191	139,225	153,838	149,333
Between 10 and 20 years	740,132	584,426	759,897	592,120
Between 20 and 30 years	921,968	399,015	937,228	417,979
Over 30 years	127,069	50,423	182,226	64,941
Interest rate				
Fixed	-	-	25	25
Variable	1,943,360	1,173,089	2,033,164	1,224,348
Mixed	-	-	-	-

	Thousands of euros			
	30-06-18		31-12-17	
	Mortgage Loans and Credits Backing the Issue of Mortgage Bonds and Mortgage Covered Bonds	Of which: Eligible loans	Mortgage Loans and Credits Backing the Issue of Mortgage Bonds and Mortgage Covered Bonds	Of which: Eligible loans
Holders				
Legal entities and individual business owners	136,229	77,653	123,759	78,602
Of which: Real estate developers	-	-	-	-
Other individuals and NPISH	1,807,131	1,095,436	1,909,430	1,145,771
Type of collateral				
Completed buildings				
- Residential	1,903,080	1,159,113	1,988,209	1,199,136
Of which: Subsidised housing	-	-	-	-
- inventories	40,280	13,976	44,980	25,237
- Other	-	-	-	-
Buildings under construction				
- Residential	-	-	-	-
Of which: Viviendas de protección oficial	-	-	-	-
- Comercials	-	-	-	-
- Other	-	-	-	-
Land	-	-	-	-
- Built	-	-	-	-
- Rest	-	-	-	-
	1,943,360	**1,173,089**	**2,033,189**	**1,224,373**

The following are the nominals of such loans and credits, and those which become eligible, according to the ratio between the amount of transactions and the appraisal values of the respective mortgaged assets ("loan to value"), pursuant to disclosure requirements on collateral related to mortgage loans and credits, and those which become eligible pursuant to the aforementioned regulation:

	LTV ranges				
	30-06-2018				
	Million euros				
	Up to 40%	>40%, <= 60%	>60%, <=80%	>80%	Total
Mortgage loans and credits eligible for issuing mortgage bonds and mortgage covered bonds					
- *Residential*	*299*	*387*	*474*	-	*1,160*
- *Other*	*5*	*9*	-	-	*14*

	LTV ranges				
	31-12-2017				
	Million euros				
	Up to 40%	>40%, <= 60%	>60%, <=80%	>80%	Total
Mortgage loans and credits eligible for issuing mortgage bonds and mortgage covered bonds					
- *Residential*	*283*	*393*	*523*	-	*1,199*
- *Other*	*6*	*19*	-	-	*25*

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

	Thousands of euros	
	Eligible Mortgage Loans and Credits	Ineligible Mortgage Loans and Credits
Balance at 1 January 2017	**1,303,740**	**908,782**
Reductions in the year	(81,495)	(107,444)
Cancellations on maturity	-	-
Repaid early	*(60,316)*	*(26,336)*
Subrogated by other entities	-	-
Rest	*(21,179)*	*(81,108)*
Period additions	2,128	7,478
Originated by the entity	*2,128*	*7,478*
Subrogated from other entities	-	-
Rest	-	-
Balance at 31 December 2017	**1,224,373**	**808,816**
Reductions in the year	(51,643)	(41,711)
Cancellations on maturity	-	-
Repaid early	*(51,643)*	*(19,780)*
Subrogated by other entities	-	-
Rest	-	*(21,931)*
Period additions	358	3,167
Originated by the entity	*358*	*3,167*
Subrogated from other entities	-	-
Rest	-	-
Balance at 30 June 2018	**1,173,088**	**720,272**

Mortgage-backed bond issuers have an early redemption option solely for the purpose of complying with the limits on the volume of outstanding mortgage-backed bonds stipulated by mortgage market regulations.

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

The members of the Board of Directors certify that the Bank has policies and procedures in place covering all activities carried on within the scope of its mortgage market issues, and that they guarantee strict compliance with the mortgage market regulations applicable to such activities. In addition, Financial Management 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 document verification tools and procedures.

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 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. Accordingly, the 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.

Basically, 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 in the same are suitable for the asset valued, based on prevailing regulations, and that the values reported are in line with market conditions.

CORPORATE GOVERNANCE

Capital and treasury shares

Banco Santander, S.A.	1,409,659,629	Percentage: 75.00%
Holneth, B.V.	469,886,543	Percentage: 25.00%
Total shares	1,879,546,172	
Par value in euros	3.00	
Share capital in euros	5,638,638,516	

At 30 June 2018, the Bank’s share capital consisted of 1,879,546,172 registered shares, with a par value of EUR 3 each, all fully subscribed and paid up, and with equal dividend and voting rights.

The Bank did not enter into any transactions with treasury shares or parent company shares in the first half of 2018, and no treasury shares are held at 30 June 2018.

Restrictions on the transferability of shares
Not applicable.

Restrictions on voting rights
Those attending the annual general meeting will have one vote for each share that they possess or represent. Only owners of twenty or more shares will have the right to attend the annual general meeting, and provided their name is listed in the pertinent accounting register.

Shareholders' agreements
Not applicable.

Non-financial information

On 24 November 2017, the Spanish government passed Royal Decree Law 18/2017, which transposed into Spanish law the European Parliament and European Council Directive 2014/95/UE, dated 22 October 2014, amending Directive 2013/34/UE, regarding the disclosure of non-financial and diversity information.

The statement of non-financial information shall contain the following: a brief description of the Group's business model, the policies pursued and the outcome of those policies, the principal risks related to its business, in addition to non-financial key performance indicators on matters relating to the environment, employees, human rights, the fight against corruption and bribery and diversity.

This Directive applies to entities of public interest employing over 500 employees on average during the year that can be classified as large companies in two successive years. However, subsidiaries belonging to a group are exempt from this obligation if the company and its subsidiaries are included in another company's consolidated management report.

In this regard, as a subsidiary of Banco Santander S.A, Santander Consumer Finance, S.A. and the companies in the Consumer Finance Group (consolidated) have included this information in the consolidated interim management report of Banco Santander Group S.A. and subsidiaries for period ended 30 June 2018, which is available at www.santander.com

BOARD OF DIRECTORS

Appointment and replacement of members of the Board of Directors and amendment of the bylaws

The representation of the Bank is the responsibility of the Board of Directors, which will comprise no fewer than 5 and no more than 15 members, who will be appointed by the Annual General Meeting for a period of three years, although they may be re-elected, as many times as may be desired, for further three-year periods.

It is not necessary to be a shareholder of the Company in order to be a director.

Powers of the members of the Board of Directors

On 6 June 2012, the Bank granted powers of attorney to Ms Inés Serrano González and to Mr Bruno Montalvo Wilmot, so that either of them, acting jointly and severally, for and on behalf of the Bank, can exercise the powers detailed below:

1. To manage, control and govern all manner of properties now or hereafter owned by the principal, to perform the improvements, repairs and work thereon that they deem appropriate, to lease them for the period, price and terms they consider appropriate, to evict tenants or dwellers and approve new ones, to collect rent, interest, dividends and lease payments, and to give the corresponding receipts and invoices.

2. To enter into, modify, subrogate and terminate finance leases on all manner of real and movable properties, upon the terms and conditions that they may freely determine, and to acquire the properties held under such finance leases, the only limit being that when the acquisition amount exceeds EUR 300,507 it must have been approved by the Board of Directors or the Executive Committee, and this approval must be supported by the appropriate certificate issued by the Secretary to the Board or to the Executive Committee, or by the acting Secretary to said Board or Committee, with the approval of the Chairman or of the acting Chairman.

3. To verify groupings or subdivisions of properties, demarcations and deeds of declaration of new construction.

4. To submit accounts and request them, approve them, adjust or challenge them, to provide and receive the sums of the resulting balances and sign and receive final settlements.

5. To use, with full powers, the signature of the principal bank in all banking transactions, acts and agreements to which the principal bank is party, subject to the limits indicated for the transactions referred to in sections e) and j), and to sign all manner of correspondence.

6. To acquire and dispose of, at the price and under the terms that they may freely stipulate, including resale and repurchase agreements and by any other means permitted by law, all manner of movable and immovable property, not excluding rights in personam and rights in rem, the only limit being that when the transaction arranged in exercise of this power exceeds EUR 300,507 it must have been approved by the Board of Directors or the Executive Committee, and this approval must be supported by the appropriate certificate issued by the Secretary to the Board or to the Executive Committee or by the acting Secretary to said Board or Committee, with the approval of the Chairman or of the acting Chairman.

7. Notwithstanding the provisions of the preceding paragraph, the limitation will not exist when the acquisition relates to loans that other financial institutions (banks, savings banks, credit cooperatives and similar entities registered with the Bank of Spain) have granted to their customers, i.e. the loans included in the loan portfolio of the entity in question, even if the latter, in turn, had acquired the loans from another financial institution and they were not originally granted by said entity; or when the disposal relates to loans in the Bank's portfolio, whether these be loans granted to its customers or loans that the Bank had acquired previously from another financial institution; all the foregoing irrespective of whether these acquisitions or disposals relating to the loan or loans in question are full or partial, and irrespective of the type of the loans themselves, in terms of either the form of instrumentation (agreement, deed, bills, promissory notes or by another other means) or of the additional guarantees they might have (all manner of security interest, mortgages, etc.).

8. To arrange in favour of the Bank mortgages and other encumbrances on immovable property to secure the loan transactions to which it is party or to underwrite guarantees and other obligations which, with respect to these transactions, are outstanding, and they will stipulate the periods, interest and distribution of charges and any other terms inherent to the agreements in question at their own discretion.

9. To modify, transfer or subrogate and terminate mortgages and other in rem rights, including entries in the Property Registry, held by the Bank, and to grant and release, in the Bank's name, tax payment documents and final account settlements, or declare that the obligations related to the encumbrances have been extinguished.

10. To reach a settlement on properties and rights and submit any questions and discrepancies affecting the Bank to the decision of arbitrators or honest brokers.

11. To appear in the hereditary successions of debtors, at administration and insolvency proceedings and in bankruptcies, to approve inventories and arrangements and contest them; to take part in and vote at the meetings held for such purposes, whether they be in or out of court; to accept or reject such agreements as are adopted for the purpose; to sign arrangements in or out of court, to provide the guarantees that may be required, and to accept attached assets.

12. As security for the obligations of third parties and on their behalf, whether said parties be individuals or legal entities, and under the terms and clauses deemed appropriate, they may arrange, modify and withdraw or terminate guarantees and all other types of collateral before all manner of departments, bodies and agencies at central, provincial or municipal government level, autonomous community governments and their dependent agencies, autonomous community or semi-public agencies, ordinary and special tribunals and courts, including the economic-administrative and judicial review jurisdictions, employment courts, official banks and savings banks and, in general, before any public body, and before any type of company or individual, placing, as the case may be, the required deposits in cash or securities, with or without transfer of possession, and they may bind the Bank, even jointly and severally with the principal debtor, therefore waiving the benefits of order, discussion and division, the only limit being that, if the obligation undertaken by way of guarantee exceeds EUR 3,005,060, the transaction must have been approved by the Board of Directors or the Executive Committee, and this approval must be supported by the appropriate certificate issued by the Secretary to the Board or to the Executive Committee or by the acting Secretary to said Board or Committee, with the approval of the Chairman or of the acting Chairman.

13. Without any limitations, to perform all manner of actions and to file claims and appeals at the courts and tribunals of any jurisdiction, including the Constitutional Court, and most particularly the judicial review jurisdiction; to answer interrogatories; to give court depositions; to file complaints and criminal complaints and to ratify them.

14. To request from the ministries, directorates general, units and offices of central government, from autonomous community governments, provincial, municipal and any other level of public corporations, and from authorities and civil servants, such action as is deemed appropriate in the interests of the principal, by filing economic-administrative claims, appeals to superior administrative bodies and claims of any other nature and class, which they will conduct through all stages and levels; to request payment orders/releases, and to present affidavits and supporting evidence.

15. To confer legal and court-case powers on court procedural representatives ("procuradores") if the principal requires such legal representation, and to perform in the Bank's name all manner of actions and exceptions which might be available to the former, conducting the proceedings through all stages and appeals, including appeals to the Constitutional Court and extraordinary cassation and judicial review appeals, and to withdraw, settle and stay such proceedings.

16. To pledge securities belonging to the Bank's portfolio in sufficient quantity so as to arrange credit account facilities, pledging the amount deemed appropriate in each case, and to sign the documents required for this purpose, and for the arrangement, drawdown and cancellation of the aforementioned accounts and of their related guarantees and the renewal thereof upon expiry of each facility.

17. To present, at any central government offices, banks (including the Bank of Spain), companies, establishments and private individuals, shares or securities for conversion or exchange purposes, withdrawing or collecting the new certificates, receipts, securities or bills resulting from the exchange or conversion, with current or in-arrears coupons, and in general carrying out any transactions required to this end.

18. To arrange policies with insurance companies that cover all manner of movable or immovable property owned by the Bank or pledged or mortgaged in its favour against the risks of fire, catastrophic damage or third-party liability, and establish such terms and conditions of the policies as they see fit.

19. To authorise certifications of the Bank's accounting ledgers and documents.

20. To execute and sign the public deeds and private documents required for the aforementioned acts and agreements

21. To take part in Annual General Meetings and meetings of the Board of Directors in the name and on behalf of the Bank at companies in which the Bank holds an ownership interest.

The Bank does not grant the power to issue or buy back treasury shares, which corresponds to the Annual General Meeting or the Board of Directors, as appropriate.

Significant agreements which will be modified or terminated in the event of a change in control of the Bank

Not applicable.

Agreements between the Bank and the directors, executives or employees which provide for termination benefits if the relationship with the Company ends as a result of a takeover bid.

Not applicable.