

**SANTANDER CONSUMER FINANCE, S.A.  
AND SUBSIDIARIES**

Auditor's Report, Condensed interim consolidated  
financial statements and Interim Management Report  
as at 30 June 2019



*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***

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#### ***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 2019, 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 2019 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.

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#### ***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.

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#### ***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.

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Tel.: +34 915 684 400 / +34 902 021 111, Fax: +34 915 685 400, [www.pwc.es](http://www.pwc.es)*

Key audit matters	How the matter was handled in the course of the audit
<p data-bbox="277 495 826 555"><i>Estimation of the impairment of financial assets at amortised cost - loans and advances</i></p> <p data-bbox="277 584 826 734">The estimation of the impairment of loans and advances to customers due to credit risk is one of the most significant and complex estimates when preparing the accompanying condensed interim consolidated financial statements.</p> <p data-bbox="277 763 826 920">The functioning of the expected loss impairment calculation models required by International Financial Reporting Standard 9 (IFRS 9) entails a high degree of judgement to determine such impairment losses.</p> <p data-bbox="277 949 826 1317">In this context, the Group is developing a general framework for risk models, although each geography and business takes into consideration the peculiarities of each market. These internal models allow them to estimate both collective provisions and provisions for risks estimated individually. In the expected loss models development by the Group, given the characteristics of the parameters and items considered, the level of judgement and complexity is higher when estimating certain items such as:</p> <ul data-bbox="277 1346 826 1800" style="list-style-type: none"> <li>• Definition of criteria for identifying and staging the assets.</li> <li>• Definition and assessment of the parameters of the macroeconomic scenarios employed in the expected loss models.</li> <li>• Determination of probability of default and loss given default.</li> <li>• The main assumptions, such as the classification of borrower risk and the expected life of the operation used to determine individual risks.</li> </ul> <p data-bbox="277 1830 826 2011">The Group's business is centred mainly on products for financing the purchase of cars and consumer financing. It is concentrated in nine main markets (Germany, Nordic countries (Norway, Sweden, Denmark and Finland), Spain, France, Italy and Austria).</p>	<p data-bbox="874 584 1455 824">The work carried out, with the assistance of our risk specialists, on the estimation of the impairment of assets at amortised cost - loans and advances to customers, focused on the analysis and assessment of internal control, testing controls and performing tests of detail on provisions estimated both collectively and individually.</p> <p data-bbox="874 853 1455 949">As regards internal control, we performed tests of detail and control tests on the following stages of the process:</p> <ul data-bbox="874 978 1455 1464" style="list-style-type: none"> <li>• Calculation methodologies, recalibration and backtesting processes completed by Management.</li> <li>• Regulatory compliance and functioning of internal models approved by Management.</li> <li>• Reliability of the data sources used in the calculations and the suitability of models in the circumstances.</li> <li>• Periodic assessment of risks and monitoring policies used by the Group.</li> <li>• Periodic review of borrowers to determine classification and measurement.</li> </ul> <p data-bbox="874 1494 1455 1554">We have also performed the following tests of detail:</p> <ul data-bbox="874 1583 1455 1890" style="list-style-type: none"> <li>• Verification of the main models with respect to: i) calculation and segmentation methods; ii) expected loss parameter estimation methods, iii) historical data and estimates employed, iv) criteria for the stage classification of loans and v) information on scenarios and related assumptions.</li> <li>• Re-calculation of collective provisions.</li> </ul>

Key audit matters	How the matter was handled in the course of the audit
<p>See Notes 1.c and 5 of the accompanying condensed interim consolidated financial statements.</p>	<ul style="list-style-type: none"> <li>Obtainment of a sample of individual case files to assess classification and recognition, loss estimation methods and, if applicable, related impairment.</li> </ul> <p>No differences outside a reasonable range were identified in the tests described above.</p>
<p><i>Assessment of signs of goodwill impairment</i></p>	
<p>The Group estimates annually the recoverable amount of each cash-generating unit (CGU) to which goodwill has been assigned, using quoted prices, if available, market references (multiples), internal estimates or independent expert valuations.</p> <p>With respect to the condensed interim consolidated financial statements, Group management assesses whether any signs of impairment have arisen since the previous year end that warrant the reassessment of the impairment test. The assessment of signs of impairment and, if applicable, the assumptions used to reassess the impairment test, require a complex estimate by Management that includes a high degree of judgement and therefore the assumptions made in this process are particularly relevant.</p> <p>In view of its relevance to the Group, Management pays special attention to goodwill from Germany, Austria and the Nordic countries (Norway, Sweden and Denmark). See Notes 1 and 8 to the accompanying condensed interim consolidated financial statements.</p>	<p>Assisted by our valuation specialists, we have gained an understanding of the process followed by Group management when assessing signs of goodwill impairment.</p> <p>As regards internal control, we have focused our procedures on the controls put in place by Group management to assess signs of impairment, including oversight of the process and implicit approvals.</p> <p>We have also conducted tests to verify the assessment of signs of impairment, taking into account applicable regulations, market practice and specific expectations in the banking industry. This assessment has included an analysis of the monitoring of the budgets of the main CGUs, verification of assumptions such as growth rates and discount rates, and the impact of departures identified in budgets and in rates that have been used by Group management to draw conclusions on possible signs of impairment.</p> <p>As a result of the above-mentioned procedures, we consider that the conclusions drawn by Group management regarding the non-existence of signs of impairment are suitably supported in the circumstances in which these condensed interim consolidated financial statements are prepared.</p>

Key audit matters	How the matter was handled in the course of the audit
<p><i>IT systems</i></p> <p>The Group's financial information relies largely on the information technology (IT) systems in the geographies in which it operates, so suitable control over the systems is a key to assuring the correct processing of the information.</p> <p>The technology environment has been developed mainly by the Group, although a part has also been developed by External Partners.</p> <p>In this context, it is essential to assess aspects such as the organisation of the Technology and Operations Area of the Group and of the External Partners, controls of application maintenance and development, physical and logical security, and system operation.</p> <p>In this regard, Management is drawing up a plan to boost internal control over IT systems. This plan includes aspects such as access control and internal governance of the IT processes that support the Group's processes, including the new Cybersecurity model.</p>	<p>With the help of our IT systems specialists, our work has consisted of assessing and verifying internal control over systems, databases and applications supporting the main business activities that impact the Group's financial information.</p> <p>To this end, internal control review procedures and substantive tests have been carried out on environment of both the Group and the External Partners, related to:</p> <ul style="list-style-type: none"> <li>• Functioning of the IT governance framework.</li> <li>• Access control and logical security of the applications, operating systems and databases that support relevant financial information.</li> <li>• Change management and application development.</li> <li>• IT operation maintenance.</li> </ul> <p>In addition, in view of the plan to improve the Group's internal control, our audit approach and plan has focused on the following aspects:</p> <ul style="list-style-type: none"> <li>• Follow-up of changes made as part of that plan and of the new strategic solutions for access control implemented by the Group in 2019.</li> <li>• Verification, through sampling, of the design and operability of the new controls put in place by Management.</li> </ul> <p>We have no key observations to make in this regard as a result of the above-mentioned procedures.</p>

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### *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 2018. The matter does not modify our opinion.

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### *Other disclosures: Interim Consolidated Management Report*

Other information comprises only the interim consolidated management report for the six-month period ended 30 June 2019, 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 2019 and its content and presentation are compliant with applicable legislation.

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### *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*

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### *Contract period*

The General Shareholders' Meeting on 25 April 2019 appointed us as the Group's auditors for a one-year period, as from the year ended on 31 December 2019.

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

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### *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.

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PricewaterhouseCoopers Auditores, S.L. (SO242)

Original in Spanish signed by  
Ignacio Martínez Ortiz (23834)

29 July 2019



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

Interim Condensed Consolidated  
Financial Statements and Interim  
Consolidated Management Report  
for the six-month period ended 30 June 2019

*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 2019 AND 31 DECEMBER 2018**

(Thousands of euros)

ASSETS	Note	30/06/2019	31/12/2018 (*)
CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEPOSITS ON DEMAND		6,575,623	5,871,676
FINANCIAL ASSETS HELD FOR TRADING	5	24,868	17,289
<i>Memorandum items: lent or delivered as guarantee with disposal or pledge rights</i>		-	-
NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS	5	127	213
<i>Memorandum items: lent or delivered as guarantee with disposal or pledge rights</i>		-	-
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	5	-	-
<i>Memorandum items: lent or delivered as guarantee with disposal or pledge rights</i>		-	-
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	5	1,475,000	1,272,619
<i>Memorandum items: lent or delivered as guarantee with disposal or pledge rights</i>		-	-
FINANCIAL ASSETS AT AMORTISED COST	5	96,035,902	93,469,351
<i>Memorandum items: lent or delivered as guarantee with disposal or pledge rights</i>		-	-
INVESTMENTS HELD-TO-MATURITY		-	-
<i>Memorandum items: lent or delivered as guarantee with disposal or pledge rights</i>		-	-
HEDGING DERIVATES	16	86,763	134,143
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RISK		51,415	33,426
INVESTMENTS IN ASSOCIATES AND JOINT VENTURES		590,972	590,277
Investments in joint ventures		194,126	170,794
Associated entities		396,846	419,483
ASSETS UNDER INSURANCE OR REINSURANCE CONTRACTS		-	-
TANGIBLE ASSETS	7	834,217	412,138
Property, plant and equipment		834,217	412,138
<i>For own-use</i>		413,027	161,117
<i>Leased out under an operating lease</i>		421,190	251,021
Investment property		-	-
<i>Of which Leased out under an operating lease</i>		-	-
<i>Memorandum items: acquired in financial lease</i>		297,246	47,993
INTANGIBLE ASSETS	8	2,188,117	2,150,076
Goodwill		1,895,642	1,881,898
Other intangible assets		292,475	268,178
TAX ASSETS		1,121,596	972,488
Current tax assets		503,100	352,280
Deferred tax assets		618,496	620,208
OTHER ASSETS		801,378	679,249
Insurance contracts linked to pensions		-	-
Inventories		4,049	3,710
Other		797,329	675,539
NON-CURRENT ASSETS HELD FOR SALE	6	7,962	9,331
<b>TOTAL ASSETS</b>		<b>109,793,940</b>	<b>105,612,276</b>

(\*) 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 2019.

## SANTANDER CONSUMER FINANCE GROUP

### **CONDENSED CONSOLIDATED BALANCE SHEETS AS AT 30 JUNE 2019 AND 31 DECEMBER 2018**

(Thousands of euros)

LIABILITIES	Note	30/06/2019	31/12/2018 (*)
FINANCIAL LIABILITIES HELD FOR TRADING	9	27,790	19,541
FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS		-	-
<i>Memorandum items: subordinated liabilities</i>		-	-
FINANCIAL LIABILITIES AT AMORTISED COST	9	93,023,548	89,177,577
<i>Memorandum items: subordinated liabilities</i>		1,156,224	933,475
HEDGING DERIVATES	16	99,036	92,631
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK		-	-
LIABILITIES UNDER INSURANCE OR REINSURANCE CONTRACTS		-	-
PROVISIONS	10	867,956	844,199
Pensions and other post-retirement obligations		585,665	510,230
Other long term employee benefits		55,382	56,013
Taxes and other legal contingencies		73,656	66,102
Contingent liabilities and commitments		36,354	40,565
Other provisions		116,899	171,289
TAX LIABILITIES		1,059,532	874,774
Current tax liabilities		338,782	230,598
Deferred tax liabilities		720,750	644,176
OTHER LIABILITIES		1,523,808	1,430,474
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE		-	-
<b>TOTAL LIABILITIES</b>		<b>96,601,670</b>	<b>92,439,196</b>
SHAREHOLDERS' EQUITY	11	12,025,542	12,045,975
CAPITAL		5,638,639	5,638,639
Called up paid capital		5,638,639	5,638,639
Unpaid capital which has been called up		-	-
<i>Memorandum items: uncalled up capital</i>		-	-
SHARE PREMIUM		1,139,990	1,139,990
EQUITY INSTRUMENTS ISSUED OTHER THAN CAPITAL		1,050,000	1,050,000
Equity component of the compound financial instrument		-	-
Other equity instruments issued		1,050,000	1,050,000
OTHER EQUITY		-	-
ACCUMULATED RETAINED EARNINGS		3,435,512	2,854,557
REVALUATION RESERVES		-	-
OTHER RESERVES		156,856	143,858
(-) OWN SHARES		-	-
PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		604,545	1,218,931
(-) INTERIM DIVIDENDS		-	-
OTHER COMPREHENSIVE INCOME	11	(499,076)	(462,909)
ITEMS NOT RECLASSIFIED TO PROFIT OR LOSS		(161,442)	(112,753)
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS		(337,634)	(350,156)
NON-CONTROLLING INTEREST		1,665,804	1,590,014
Other comprehensive income		(1,649)	(656)
Other elements		1,667,453	1,590,670
<b>EQUITY (*)</b>		<b>13,192,270</b>	<b>13,173,080</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>109,793,940</b>	<b>105,612,276</b>
MEMORANDUM ITEMS: OFF BALANCE SHEET AMOUNTS			
Loan commitments granted	14	22,958,117	23,434,253
Financial guarantees granted	14	660,182	540,264
Other commitments granted	14	403,814	469,662

(\*) 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 2019.

## SANTANDER CONSUMER FINANCE GROUP

### **CONDENSED CONSOLIDATED INCOME STATEMENTS FOR THE SIX-MONTH PERIODS**

**ENDED 30 JUNE 2019 AND 2018**

(Thousands of euros)

	Note	Incomes / (Expenses)	
		30/06/2019	30/06/2018 (*)
Interest income and other similar income	12	1,956,086	1,872,810
<i>Financial assets at fair value through other comprehensive income</i>		-	-
<i>Financial assets at amortised cost</i>		1,955,947	1,872,642
<i>Rest of interest expense</i>		139	168
Interest expense		(256,059)	(231,219)
<b>Net interest income</b>		<b>1,700,027</b>	<b>1,641,591</b>
Dividend income	12	1	120
Share of results of entities accounted for using the equity method		44,085	50,182
Commission income	12	566,650	538,034
Commission expense		(167,614)	(156,264)
Gain or losses on financial assets and liabilities not measured at fair value through profit or loss, net	12	160	(1,176)
Gain or losses on financial assets and liabilities held for trading, net	12	(1,569)	(3,837)
Gains or losses on non-trading financial assets and liabilities mandatorily at fair value through profit or loss	12	(6)	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	2,853	13,117
Exchange differences, net		(1,324)	(3,007)
Other operating income	12	61,512	53,167
Other operating expenses		(100,537)	(88,324)
Income from assets under insurance and reinsurance contracts		-	-
Expenses from liabilities under insurance and reinsurance contracts		-	-
<b>Gross income</b>		<b>2,104,238</b>	<b>2,043,787</b>
Administrative expenses		(840,791)	(840,078)
<i>Staff costs</i>		(403,857)	(374,980)
<i>Other general administrative expenses</i>		(436,934)	(465,098)
Depreciation and amortisation cost		(79,786)	(63,887)
Provisions or reversal of provisions, net	10	3,751	(20,653)
Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss, net	5	(149,240)	(146,674)
<i>Financial assets at fair value through other comprehensive income</i>		-	-
<i>Financial assets at amortised cost</i>		(149,240)	(146,674)
Impairment of investments in subsidiaries, joint ventures and associates, net		-	-
Impairment on non-financial assets, net		(1,228)	(442)
<i>Tangible assets</i>	7	(741)	(248)
<i>Intangible assets</i>	8	-	(863)
<i>Others</i>		(487)	669
Gain or losses on non-financial assets and investments, net	7	(227)	(357)
Negative goodwill recognised in results		-	-
Gains or losses on non-current assets held for sale not classified as discontinued operations	6	4,292	(2,256)
<b>Profit or loss before tax from continuing operations</b>	12	<b>1,041,009</b>	<b>969,440</b>
Tax expense or income from continuing operations	12	(305,206)	(268,493)
<b>Profit for the period from continuing operations</b>		<b>735,803</b>	<b>700,947</b>
Profit or loss after tax from discontinued operations		-	-
<b>Profit for the period</b>		<b>735,803</b>	<b>700,947</b>
Profit attributable to non-controlling interests		131,258	116,512
Profit attributable to the parent		604,545	584,435
<b>Earnings per share</b>			
Basic	3	0,3043	0,2979
Diluted	3	0,3043	0,2979

(\*) 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 2019.

## SANTANDER CONSUMER FINANCE GROUP

### **CONDENSED CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2019 AND 2018** (Thousands of euros)

	30/06/2019	30/06/2018 (*)
<b>CONSOLIDATED PROFIT FOR THE PERIOD</b>	<b>735.803</b>	<b>700.947</b>
<b>OTHER RECOGNISED INCOME AND EXPENSE</b>	<b>(37.160)</b>	<b>(11.779)</b>
<b>Items that will not be reclassified to profit or loss</b>	<b>(50.053)</b>	<b>6.503</b>
Actuarial gains and losses on defined benefit pension plans	(75.213)	7.133
Non-current assets held for sale	-	-
Other recognised income and expense of investments in subsidiaries, joint ventures and associates	(116)	26
Changes in the fair value of equity instruments measured at fair value through other comprehensive income	2.432	1.191
Gains or losses resulting from the accounting for hedges of equity instruments measured at fair value through other comprehensive income, net	-	-
<i>Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedged item)</i>	-	-
<i>Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedging instrument)</i>	-	-
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	22.844	(1.847)
<b>Items that may be reclassified to profit or loss</b>	<b>12.893</b>	<b>(18.282)</b>
Hedges of net investments in foreign operations (effective portion)	(29.261)	(32.348)
<i>Revaluation gains (losses)</i>	<i>(29.261)</i>	<i>(32.348)</i>
<i>Amounts transferred to income statement</i>	-	-
<i>Other reclassifications</i>	-	-
Exchanges differences	44.108	39.440
<i>Revaluation gains (losses)</i>	<i>44.108</i>	<i>39.440</i>
<i>Amounts transferred to income statement</i>	-	-
<i>Other reclassifications</i>	-	-
Cash flow hedges (effective portion)	(3.264)	(2.623)
<i>Revaluation gains (losses)</i>	<i>(9.661)</i>	<i>(5.660)</i>
<i>Amounts transferred to income statement</i>	<i>6.397</i>	<i>3.037</i>
<i>Transferred to initial carrying amount of hedged items</i>	-	-
<i>Other reclassifications</i>	-	-
Hedging instruments (items not designated)	-	-
<i>Revaluation gains (losses)</i>	-	-
<i>Amounts transferred to income statement</i>	-	-
<i>Other reclassifications</i>	-	-
Debt instruments at fair value with changes in other comprehensive income	268	(7.098)
<i>Revaluation gains (losses)</i>	<i>455</i>	<i>(6.910)</i>
<i>Amounts transferred to income statement</i>	<i>(187)</i>	<i>(188)</i>
<i>Other reclassifications</i>	-	-
Non-current assets held for sale	-	-
<i>Revaluation gains (losses)</i>	-	-
<i>Amounts transferred to income statement</i>	-	-
<i>Other reclassifications</i>	-	-
Share of other recognised income and expense of investments	1.976	(18.371)
Income tax relating to items that may be reclassified to profit or loss	(934)	2.718
<b>Total recognised income and expenses</b>	<b>698.643</b>	<b>689.168</b>
Attributable to non-controlling interests	130.265	117.227
Attributable to the parent	568.378	571.941

(\*) 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 2019.

**SANTANDER CONSUMER FINANCE GROUP**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY**  
**FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2019**  
(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		Total
												Other comprehensive income	Others items	
<b>Balance as at 31-12-18 (*)</b>	<b>5,638,639</b>	<b>1,139,990</b>	<b>1,050,000</b>	-	<b>2,854,557</b>	-	<b>143,858</b>	-	<b>1,218,931</b>	-	<b>(462,909)</b>	<b>(656)</b>	<b>1,590,670</b>	<b>13,173,080</b>
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Opening balance as at 01-01-19 (*)</b>	<b>5,638,639</b>	<b>1,139,990</b>	<b>1,050,000</b>	-	<b>2,854,557</b>	-	<b>143,858</b>	-	<b>1,218,931</b>	-	<b>(462,909)</b>	<b>(656)</b>	<b>1,590,670</b>	<b>13,173,080</b>
<b>Total recognised income and expense</b>	-	-	-	-	-	-	-	-	<b>604,545</b>	-	<b>(36,167)</b>	<b>(993)</b>	<b>131,258</b>	<b>698,643</b>
<b>Other changes in equity</b>	-	-	-	-	<b>580,955</b>	-	<b>12,998</b>	-	<b>(1,218,931)</b>	-	-	-	<b>(54,475)</b>	<b>(679,453)</b>
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	-	-	-	-	(601,455)	-	-	-	-	-	-	-	(133,440)	(734,895)
Purchase of equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Disposal of equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity items	-	-	-	-	1,182,410	-	36,521	-	(1,218,931)	-	-	-	-	-
Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	78,965	78,965
Share-based payment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Others increases or (-) decreases of the equity	-	-	-	-	-	-	(23,523)	-	-	-	-	-	-	(23,523)
<b>Balance as at 30-06-19</b>	<b>5,638,639</b>	<b>1,139,990</b>	<b>1,050,000</b>	-	<b>3,435,512</b>	-	<b>156,856</b>	-	<b>604,545</b>	-	<b>(499,076)</b>	<b>(1,649)</b>	<b>1,667,453</b>	<b>13,192,270</b>

(\*) 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 2019.

**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		Total
												Other comprehensive income	Others items	
<b>Balance as at 31-12-17 (*)</b>	<b>5,638,639</b>	<b>1,139,990</b>	<b>850,000</b>	-	<b>2,175,234</b>	-	<b>241,907</b>	-	<b>1,079,387</b>	<b>(400,343)</b>	<b>(413,350)</b>	<b>(247)</b>	<b>1,448,987</b>	<b>11,760,204</b>
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to changes in accounting policies	-	-	-	-	-	-	(63,070)	-	-	-	(1,008)	-	9,683	(54,395)
<b>Opening balance as at 01-01-2018 (*)</b>	<b>5,638,639</b>	<b>1,139,990</b>	<b>850,000</b>	-	<b>2,175,234</b>	-	<b>178,837</b>	-	<b>1,079,387</b>	<b>(400,343)</b>	<b>(414,358)</b>	<b>(247)</b>	<b>1,458,670</b>	<b>11,705,809</b>
<b>Total recognised income and expense</b>	-	-	-	-	-	-	-	-	<b>584,435</b>	-	<b>(12,494)</b>	<b>715</b>	<b>116,512</b>	<b>689,168</b>
<b>Other changes in equity</b>	-	-	-	-	<b>682,497</b>	-	<b>(16,574)</b>	-	<b>(1,079,387)</b>	<b>400,343</b>	-	-	<b>(102,457)</b>	<b>(115,578)</b>
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)
<b>Balance as at 30-06-18 (*)</b>	<b>5,638,639</b>	<b>1,139,990</b>	<b>850,000</b>	-	<b>2,857,731</b>	-	<b>162,263</b>	-	<b>584,435</b>	-	<b>(426,852)</b>	<b>468</b>	<b>1,472,725</b>	<b>12,279,399</b>

(\*) 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 2019.

# SANTANDER CONSUMER FINANCE GROUP

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX-MONTH PERIODS

ENDED 30 JUNE 2019 AND 2018

(Thousands of euros)

	Note	30/06/2019	30/06/2018(*)
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>1,373,878</b>	<b>577,739</b>
Profit for the period		735,803	700,947
Adjustments made to obtain the cash flows from operating activities		724,960	697,032
Depreciation and amortisation cost		79,786	63,887
Other adjustments		645,174	633,145
Net increase/(decrease) in operating assets		(2,525,440)	(1,620,890)
Financial assets held-for-trading		(7,458)	18,262
Non-trading financial assets mandatorily at fair value through profit or loss		86	1,920
Financial assets at fair value through profit or loss		-	-
Financial assets at fair value through other comprehensive income		(199,625)	27,976
Financial assets at amortized cost	5	(2,040,310)	(1,550,666)
Other operating assets		(278,133)	(118,382)
Net increase/(decrease) in operating liabilities		2,673,307	1,017,598
Liabilities held-for-trading financial		8,159	(13,672)
Financial liabilities designated at fair value through profit or loss		-	(817)
Financial liabilities at amortised cost	9	2,595,348	952,080
Other operating liabilities		69,800	80,007
Income tax recovered/(paid)		(234,752)	(216,948)
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(70,060)</b>	<b>(50,629)</b>
Payments		(257,970)	(98,090)
Tangible assets	7	(142,326)	(63,064)
Intangible assets	8	(58,015)	(30,731)
Investments		-	-
Subsidiaries and other business units	2	(57,629)	(4,295)
Non-current assets held for sale and associated liabilities		-	-
Held-to-maturity investments		-	-
Proceeds		187,910	47,461
Tangible assets		40,202	34,292
Intangible assets		-	-
Investments		52,150	-
Subsidiaries and other business units	2	69,796	-
Non-current assets held for sale and associated liabilities		25,762	13,169
Other payments related to investing activities		-	-
<b>C. CASH FLOW FROM FINANCING ACTIVITIES</b>		<b>(599,785)</b>	<b>(138,121)</b>
Payments		(799,785)	(138,121)
Dividends	3	(601,455)	-
Subordinated liabilities		(14,134)	(37,263)
Redemption of own equity instruments		-	-
Acquisition of own equity instruments		-	-
Other payments related to financing activities		(184,196)	(100,858)
Proceeds		200,000	-
Subordinated liabilities		200,000	-
Issuance of own equity instruments		-	-
Disposal of own equity instruments		-	-
Other proceeds related to financing activities		-	-
<b>D. EFFECT OF FOREIGN EXCHANGE RATE DIFFERENCES</b>		<b>(86)</b>	<b>2,839</b>
<b>E. NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>703,947</b>	<b>391,828</b>
<b>F. CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>		<b>5,871,676</b>	<b>4,565,157</b>
<b>G. CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		<b>6,575,623</b>	<b>4,956,985</b>
<b>COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>			
Cash		81,040	78,572
Cash equivalents at central banks		3,858,764	2,398,690
Other financial assets		2,635,819	2,479,723
Less: Bank overdrafts refundable on demand		-	-
<b>TOTAL CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		<b>6,575,623</b>	<b>4,956,985</b>
In which: restricted cash		-	-

	Note	30-06-2019	30-06-2018(*)
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>577,739</b>	<b>577,739</b>
Profit for the period		700,947	700,947
Adjustments made to obtain the cash flows from operating activities		697,032	697,032
Depreciation and amortisation cost		63,887	63,887
Other adjustments		633,145	633,145
Net increase/(decrease) in operating assets		(1,620,890)	(1,620,890)
Financial assets held-for-trading		18,262	18,262
Non-trading financial assets mandatorily at fair value through profit or loss		1,920	1,920
Financial assets at fair value through profit or loss		-	-
Financial assets at fair value through other comprehensive income		27,976	27,976
Financial assets at amortized cost		(1,550,666)	(1,550,666)
Other operating assets		(118,382)	(118,382)
Net increase/(decrease) in operating liabilities		1,017,598	1,017,598



<i>Liabilities held-for-trading financial</i>		(13,672)	(13,672)
<i>Financial liabilities designated at fair value through profit or loss</i>		(817)	(817)
<i>Financial liabilities at amortised cost</i>		952,080	952,080
<i>Other operating liabilities</i>		80,007	80,007
<b>Income tax recovered/(paid)</b>		<b>(216,948)</b>	<b>(216,948)</b>
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(50,629)</b>	<b>(50,629)</b>
<b>Payments</b>		<b>(98,090)</b>	<b>(98,090)</b>
<i>Tangible assets</i>		(63,064)	(63,064)
<i>Intangible assets</i>		(30,731)	(30,731)
<i>Investments</i>		-	-
<i>Subsidiaries and other business units</i>		(4,295)	(4,295)
<i>Non-current assets held for sale and associated liabilities</i>		-	-
<i>Held-to-maturity investments</i>		-	-
<b>Proceeds</b>		<b>47,461</b>	<b>47,461</b>
<i>Tangible assets</i>		34,292	34,292
<i>Intangible assets</i>		-	-
<i>Investments</i>		-	-
<i>Subsidiaries and other business units</i>		-	-
<i>Non-current assets held for sale and associated liabilities</i>		13,169	13,169
<i>Other payments related to investing activities</i>		-	-
<b>C. CASH FLOW FROM FINANCING ACTIVITIES</b>		<b>(138,121)</b>	<b>(138,121)</b>
<b>Payments</b>		<b>(138,121)</b>	<b>(138,121)</b>
<i>Dividends</i>		-	-
<i>Subordinated liabilities</i>		(37,263)	(37,263)
<i>Redemption of own equity instruments</i>		-	-
<i>Acquisition of own equity instruments</i>		-	-
<i>Other payments related to financing activities</i>		(100,858)	(100,858)
<b>Proceeds</b>		<b>-</b>	<b>-</b>
<i>Subordinated liabilities</i>		-	-
<i>Issuance of own equity instruments</i>		-	-
<i>Disposal of own equity instruments</i>		-	-
<i>Other proceeds related to financing activities</i>		-	-
<b>D. EFFECT OF FOREIGN EXCHANGE RATE DIFFERENCES</b>		<b>2,839</b>	<b>2,839</b>
<b>E. NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>391,828</b>	<b>391,828</b>
<b>F. CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>		<b>4,565,157</b>	<b>4,565,157</b>
<b>G. CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		<b>4,956,985</b>	<b>4,956,985</b>
<b>COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>			
<i>Cash</i>		78,572	78,572
<i>Cash equivalents at central banks</i>		2,398,690	2,398,690
<i>Other financial assets</i>		2,479,723	2,479,723
<i>Less: Bank overdrafts refundable on demand</i>		-	-
<b>TOTAL CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		<b>4,956,985</b>	<b>4,956,985</b>
<i>In which: restricted cash</i>		-	-

(\*) 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 2019.

*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 2019

### **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 direct and indirect ownership interest in the share capital of the Bank at 30 June 2019 (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 2018 and the first half of 2019, 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 condensed 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 "Other accumulated results – Items that can be reclassified to profit and loss – Exchange differences" within equity on the condensed consolidated balance sheet until such gains or losses are realized. Upon realization, the exchange differences deferred in Group equity are reclassified to the condensed 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, repealed on January 1, 2018 in virtue of the Circular 4/2017, of November 27, 2017 of the Bank of Spain, and its subsequent modifications.

The Group's consolidated annual accounts for 2018 were authorised by the Bank's directors (at the board of directors meeting on 28 February 2019) in accordance with EU-IFRS, taking into account Bank of Spain Circular 4/2017, 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 2018 and the consolidated results of its operations, the consolidated recognised income and expense, the changes in consolidated equity and the consolidated cash flows in 2018.

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"). The aforementioned financial statements will be incorporated in the half-year financial report for the first semester of 2019 to be presented by the Group, in accordance with the aforementioned 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 prepared 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 2018.

The accounting policies and methods used in preparing these interim financial statements are the same as those applied in the consolidated annual accounts for 2018, taking into account the standards and interpretations which came into effect for the Group in the six month period ended 30 June 2019, which are detailed below:

#### - IFRS 16 Leases

On 1 January 2019, IFRS16 Leases came effective. IFRS16 establishes the principles for the recognition, measurement, presentation and breakdown of lease contracts, with the objective of ensuring reporting information that faithfully represents the lease transactions. The Group has chosen not to apply the standard in advance and has chosen to apply the approach equals, at the beginning of the old operating leases, the right-of-use asset with the lease liability, all valued since January 1, 2019. In this regard, the Group has analyzed all contracts and classified them as leases or services since January 1, 2019.

The adoption of IFRS16 has led to changes in the Group's accounting policies for the recognition, measurement, presentation and breakdown of lease contracts.

The main aspects contained in the new regulations and the breakdowns relating to the impact of the adoption of IFRS16 in the Group are included below:

##### a) Lease accounting policy

Since 1 January 2019, leases are recognised as right-of-use assets and the corresponding liability on the date on which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and the finance charge. The finance charge is allocated to the income statement during the term of the lease in such a way as to produce a constant periodic interest rate on the remaining balance of the liability for each year. The right-of-use asset is depreciated over the useful life of the asset or the lease term, whichever is shorter, on a straight-line basis.

Assets and liabilities arising from a lease are initially measured at present value. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including essentially fixed payments), less any lease incentive receivable,
- Variable lease payments that depend on an index or rate,
- The amounts expected to be paid by the lessee as residual value guarantees,
- The exercise price of a purchase option if the lessee is reasonably certain that it will exercise that option, and
- Lease termination penalty payments, if the term of the lease reflects the lessee's exercise of that option.

Lease payments are discounted using the interest rate implicit in the lease. The discount rate used is the lessee's incremental borrowing rate at the related date. For this purpose, the entity has calculated this incremental interest rate taking as reference the listed debt instruments issued by the Group; in this regard, the Group has estimated different interest rate curves depending on the currency and economic environment in which the contracts are located.

In order to construct the incremental interest rate, a methodology has been developed at the corporate level. This methodology is based on the need for each Entity to consider its economic and financial situation, for which the following factors must be considered:

- Economic and political situation (country risk).
- Credit risk of the company.
- Monetary policy.
- Volume and seniority of the company's debt instrument issues.

The incremental interest rate is defined as the interest rate that a lessee would have to pay for borrowing, given a similar period to the duration of the lease and with similar security, the funds necessary to obtain an asset of similar value to the asset by right of use in a similar economic environment. The Group Entities have a wide stock and variety of financing instruments issued in different currencies to that of the euro (pound, dollar, etc.) that provide sufficient information to be able to determine an "all in rate" (reference rate plus adjustment for credit spread at different terms and in different currencies). In circumstances, where the leasing company has its own financing, this has been used as the starting point for determining the incremental interest rate. On the other hand, for those Group entities that do not have their own financing, the information from the financing of the consolidated subgroup to which they belong was used as the starting point for estimating the entity's curve, analysing other factors to assess whether it is necessary to make any type of negative or positive adjustment to the initially estimated credit spread.

Right-of-use assets are valued at cost which includes the following:

- The amount of the initial measurement of the lease liability,
- Any lease payment made at or before the start date less any lease incentive received,
- Any initial direct costs, and
- Restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the income statement. Short-term leases are leases with a lease term less than or equal to 12 months.

#### b) Recognised effects on the adoption of the standard

With the adoption of IFRS16, the Group recognised lease liabilities in relation to leases previously classified as "operating leases" under the principles of IAS17 Leases in force at 31 December 2018. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

For leases previously classified as finance leases, the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and lease liability on the initial effective date. The measurement principles in IFRS16 apply only after that date.

As a result of the entry into force of IFRS16, the impact of the first application recorded by the Group corresponds, mainly, to the recognition of assets for right of use for and financial liabilities for an amount of 269 million euros. Assets for right of use mainly corresponds to lands and buildings booked in the heading "Tangible assets – property, plant and equipment- assets leased out under an operating lease"

- IFRIC23 Uncertainty about the treatment of income tax - applies to the determination of taxable profit or loss, tax bases, unused tax loss carry forwards, unused tax credits and tax rates when there is uncertainty about the treatment of taxes under IAS12.
- Amendment to IFRS9 Financial Instruments - allows entities to measure certain financial assets prepayable with a negative offset at amortised cost. These assets, which include some loans and debt securities, would have had to be measured at fair value through profit or loss.

In order to apply measurement at amortised cost, the negative offset must be 'reasonable compensation for early termination of the contract' and the asset must be maintained within a 'held-to-collect' business model.

- Amendment to IAS28 Investments in associates and joint ventures - the amendments clarify the accounting for long-term interests in an associate or joint venture, which are essentially part of the net investment in the associate or joint venture, but to which equity accounting is not applied. Entities must account for such interest under IFRS9 Financial Instruments before applying the allocation of losses and IAS28 impairment requirements in Investments in associates and joint ventures.

- Amendment to IAS19 Employee Benefits – clarifies the accounting of the amendments, reductions and settlements on defined benefit plans.
- Amendment to IFRS 2015-2017 introduces minor amendments to IFRS3, IFRS11, IAS12 and IAS23:
  - o IFRS3: clarifies that obtaining control of a business that is a joint venture is a business combination achieved in stages.
  - o IFRS11: clarifies that the party that obtains joint control of a business that is a joint venture should not reassess its previous interest in the joint venture.
  - o IAS12: clarifies that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised.
  - o IAS23: clarifies that if a specific loan remains outstanding after the related qualifying asset is ready for sale or intended use, it becomes part of generic loans.

The application of the aforementioned amendments to accounting standards and interpretations did not have any material effects on the Group's interim financial statements.

At the date of preparation of these interim financial statements there are no standards pending adoption by the European Union which came into force on 1 January 2019.

#### **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 2018, with the exception of those identified in these interim financial statements on the occasion of the regulations that have entered into force during the first quarter of 2019.

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 – Financial assets at fair value through other comprehensive income, financial assets at amortized cost, non-current assets held for sale, investments in subsidiaries, joint ventures and associates, tangible assets and intangible assets;
3. The assumptions used in the calculation of the post-employment benefit liabilities and commitments and other obligations;
4. The useful life of the tangible and intangible assets;
5. The measurement of goodwill 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.

9. The fair value of the identified assets acquired and liabilities assumed in business combinations according to IFRS3.

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 2019 there were no significant changes in the estimates made at the 2018 year-end.

**e) *Contingent assets and liabilities***

Note 2.m to the Group's consolidated financial statements for the year ended 31 December 2018 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 2018 to the date of formal preparation of these interim financial statements.

The Group did not have any material contingent assets at 31 December 2018 or 30 June 2019.

**f) *Comparative information***

The information for the year 2018 contained in these interim financial statements is only presented for comparison purposes with the information relating to the six-month period ended 30 June 2019.

In order to interpret the changes in the balances with respect to 31 December 2018, 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 2018) and the impact of the appreciation/depreciation of the various currencies against the euro in the first six months of 2019, considering the exchange rates at the end of the first half of 2019: Polish Zloty (+1.2%), Norwegian kroner (+2.56%), Swedish krona (-3.01%), Danish krone (+0.05%), Swiss Franc (+1.46%) and Chinese renminbi Yuan (+0.72%); as well as the evolution between the same comparable periods: Polish Zloty (-0.73%), Norwegian kroner (-1.36%), Swedish krona (-2.54%), Danish krone (-0.16%), Swiss Franc (+2.18%) and Chinese renminbi Yuan (+1.78%).

**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 2019.

**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 2019.

**i) *Events after the reporting period***

From 1 July 2019 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 2019 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 2018 provide relevant information on the Group companies that consolidated at 2018 year-end and on those accounted for using the equity method.

Likewise, 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 2018 and 2017.

Below are the most significant transactions performed in the first six months of 2019:

On 22 August 2018, the Group, through its German subsidiary Santander Consumer Bank AG, signed the agreement to acquire 51% of the shares representing the share capital of Hyundai Capital Bank Europe, GmbH, owned by Hyundai Capital Services, Inc., Hyundai Motor Company and Kia Motors Corporation.

On 15 February 2019, the parties signed an amendment to the purchase and sale agreement signed on 22 August 2018, whereby, to ensure the business expansion in 2019 and at the same time comply with the regulatory requirements, they agree to extend the company's reserves by 90 million euros. On 31 January 2019, Hyundai Capital Services Inc., in its capacity as final shareholder of the company, following the acquisition by Santander Consumer Bank AG of 51% of the holding (with Hyundai Motor Company and Kia Motors Corporation ceasing to be shareholders of the company), increased the company's reserves from 44.1 million euros, with the commitment by Santander Consumer Bank AG to contribute 45.9 million euros once it becomes the company's shareholder.

Likewise, in this amendment to the purchase and sale agreement, it was resolved that the contribution of 44.1 million euros made by Hyundai Capital Services Inc. will not form part of the price to be paid at the effective acquisition date.

On 28 March 2019, once the corresponding regulatory authorisations (European and local) had been obtained, the parties signed the agreement to transfer shares, whereby Santander Consumer Bank AG acquired 51% of the shareholding in Hyundai Capital Bank Europe, GmbH, whose share capital was 11.3 million euros, fully paid in and represented by 11,257,892 shares with a par value of 1 euro each, through the acquisition of 5,741,525 shares with a par value of 1 euro each, all with their corresponding voting rights, for a total value of 57.6 million euros. The acquisition was performed as follows:

- Acquisition from Hyundai Motor Company of all of the holding in the share capital formed by 2,251,578 shares, amounting to 22.6 million euros.
- Acquisition from Kia Motors Corporation of all of the holding in the share capital formed by 1,688,684 shares, amounting to 16.9 million euros.
- Acquisition from Hyundai Capital Services Inc. of 1,801,263 shares amounting to 18.0 million euros.

The details of the business acquired are therefore as follows:

Business acquired	Main activity	Acquisition date	Ownership percentage (voting rights) acquired	Consideration transferred (millions of euros)
Hyundai Capital Bank Europe, GmbH	Financing of cars, together with other services related thereto.	28/03/2019	51%	57.6 (a)

(a) The price is subject to review following the acquisition and such review had not been completed at the date of presentation of these accounts. However, following the review, significant changes in price are not expected.

The details of the net assets of the business acquired are as follows:

	Carrying amount (millions of euros)
Loans and advances	642.5
Non-current assets	15.4
Current assets	84.2
Financial liabilities measured at amortised cost	(560.3)
Current and non-current liabilities	(67.0)
<b>Net assets</b>	<b>114.8</b>
Own funds issuance	(44.1)
<b>Total net assets</b>	<b>70.7</b>
Non-controlling interests	(34.6)
Consideration transferred	57.6
<b>Goodwill</b>	<b>21.5</b>

Hyundai Capital Bank Europe, GmbH engages in the financing of Hyundai and Kia cars (end customers and dealers), together with other services related thereto through the obtainment of public funds through deposits and loans. This business combination intends to extend the Santander Consumer Finance Group's presence in the consumer loans market to acquire vehicles in Europe.

At the date of issue of these accounts, the business combination was provisionally recognised, based on accounting information since, in accordance with IFRS 3, the company has a year to conduct the study on the assignment of the price to the net assets acquired.

The fair value of the accounts receivable acquired, mainly of a financial nature, is 642.5 million euros, which does not differ from the gross contractual amount of such receivables. The Parent's directors do not consider that at the acquisition date there were any signs that such receivables would not be paid in full.

At 30 June 2019, this company had contributed a loss of 2.6 million euros to the consolidated Group's results. If the business combination had been formed on 1 January 2019, the results contributed at 30 June 2019 would have represented a loss of approximately 3.8 million.

Net cash flow from the acquisition:

	Millions of euros
Cash paid	57.6
Less: cash and cash equivalents (*)	(69.8)
<b>Total</b>	<b>(12.2)</b>

(\*) Includes the contribution made by Hyundai Capital Services, Inc. amounting to 44.1 million euros, which did not form part of the price to be paid at the acquisition date.

As a result of the business combination described above, a difference arose between the considerations transferred and the carrying amount of the net assets from the businesses acquired. In line with the existing expectations regarding the market performance of car financing, together with the synergies arising as a result of the businesses acquired and the business plans prepared, the Group considers that the recovery of goodwill has been sufficiently accredited.

Likewise, on 17 April 2019, Santander Consumer Bank AG performed the increase in reserves committed, amounting to 45.9 million euros.

In 2019, no other significant transactions or capital increases involving holdings in the capital of Group entities and in other companies in the scope of consolidation took place.

#### ***Impairments of investments in subsidiaries, joint ventures and associates***

As at 30 June 2019 and 2018, there has not been registered impairments based on the value of investments in subsidiaries and affiliates.

#### ***Capital increases***

During the first six months of 2019 and 2018, 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***

On 18 January 2019, the Bank's Board of Directors approved an interim dividend from profits for the year 2018 of 501,839 thousands of euros, paid on 6 February 2019. In addition, on February 28, 2019, the Bank's Board of Directors approved a dividend charged to Voluntary Reserves for an amount of 99,616 thousand euros, which has been paid on March 5, 2019.

In the first semester of fiscal year 2018, the Bank's Board of Directors did not agree on any distribution of interim dividends of the result of fiscal year 2018.

The distribution of the Bank's net profit for 2018 that the Board of Directors proposed at its meeting held on 28 February 2019, which was included in Note 4 to the Group's consolidated financial statements for 2018, was approved by the shareholders at the Annual General Meeting of the Bank on 25 April 2019.

The cash remuneration paid by the Bank to its shareholders in the first six months of 2019 and 2018 was as follows:

	First half of 2019			First half of 2018		
	% of par value	Euros per share	Amount (Thousands of euros)	% of par value	Euros per share	Amount (Thousands of euros)
Ordinary shares	100%	0.320	601,455	-	-	-
Other shares (non-voting, redeemable, etc.)	-	-	-	-	-	-
Total remuneration paid	100%	0.320	601,455	-	-	-
Remuneration charged against profit or loss	100%	0.267	501,839	-	-	-
Remuneration charged against reserves or the share premium account	100%	0.053	99,616	-	-	-
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).

Accordingly, the detail of earnings per share at 30 June 2019 and 2018 is as follows:

	30-06-19	30-06-18
Consolidated profit of the year attributable to the Parent (thousands of euros)	604,545	584,435
Remuneration of contingently convertible preference shares PPC (thousands of euros)	(32,687)	(24,438)
	571,858	559,997
Dilutive effect of changes in profit for the period arising from potential conversion of ordinary shares	-	-
<i>Of which:</i>		
<i>Profit or Loss from discontinued operations (non controlling interest net) (thousands of euros)</i>	-	-
<i>Profit or Loss from continuing operations (PPC net) (thousands of euros)</i>	571,858	559,997
Weighted average number of shares outstanding	1,879,546,172	1,879,546,172
Adjusted number of shares	1,879,546,172	1,879,546,172
Diluted earnings per share (euros)	0.3043	0.2979
<i>Of which:</i>		
<i>from continuing operations (euros)</i>	0.3043	0.2979

#### 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 2018 includes the detail of the remuneration and other benefits paid to the Bank's Directors and senior managers in 2018.

The most salient data relating to the aforementioned remuneration and benefits for the six-month periods ended 30 June 2019 and 2018 are summarized as follows:

##### *Remuneration paid to the Bank's Directors*

The Bank's Board of directors have received and accrued from Banco Santander, S.A., for the six months ended 30 June 2019 and 2018, the remunerations and benefits summarized below:

	Thousands of euros	
	30-06-19	30-06-18
<b>Members of the Board of Directors:</b>		
Type of remuneration-		
Fixed salary remuneration of executive Directors	1,988	2,078
Variable remuneration in cash of executive Directors	728	568
Attendance fees of Directors (1)	-	-
Bylaw-stipulated annual Directors' emoluments	-	-
Other (except insurance premiums)	24	25
<b>Sub-total</b>	<b>2,740</b>	<b>2,671</b>
Transactions with shares and/or other financial instruments	-	-
	<b>2,740</b>	<b>2,671</b>

(1) It contains the information on the remuneration paid to all the external directors (independent)

##### *Other benefits of members of the board of directors*

	Thousands of euros	
	30-06-19	30-06-18
<b>Members of the board of directors:</b>		
Other benefits-		
Advances	-	-
Loans granted	-	-
Pension funds and plans: Endowments and/or contributions (1)	360	451
Pension funds and plans: Accumulated rights (2)	6,494	3,747
Life insurance premiums	268	268
Guarantees provided for directors	-	-

(1) These correspond to the endowments and/or contributions made during the first six months of 2019 and 2018 in respect of retirement pensions and complementary benefits for widowhood, orphan hood and permanent disability.

(2) Corresponds to the rights accrued by the directors in matters of pensions.

The total sum insured under life and other insurance policies for the Bank's Directors amounted to 20,752 thousands of euros at 30 June 2019 (30 June 2018: 20,527 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 management*

The amounts related to remunerations of senior management, at 30 June 2019 and 2018, excluding the executive directors, from other entities of the Santander Group, not integrated into the Santander Consumer Finance Group (neither the Bank nor the companies of the Santander Consumer Finance Group) are summarized below:

	Thousands of euros	
	30-06-19	30-06-18
<b>Senior management (1):</b> Total remuneration of senior management (2)	1,670	1,366

(1) The number of senior managers of the Bank, excluding executive directors, is 10 as at 30 June 2019. (No changes regarding the figure published at 30 June 2018).

The variable annual remuneration (or bonuses) received for fiscal year 2018, both for directors and the rest of senior management, were included in the information on remuneration included in the annual report for that year. Similarly, the variable remuneration attributable to the 2019 results, which will be submitted for approval by the Board of Directors at the appropriate time, will be included in the financial statements for the current year.

#### *Funds and pension plans of senior management*

	Thousands of euros	
	30-06-19	30-06-18
<b>Senior management:</b> Pension funds: Endowments and / or contributions (1)	106	185

(1) Corresponds to the allocations and/or contributions made during the first six months of 2019 and 2018 as retirement pensions. These contributions have been made by Santander Group entities not integrated in the Santander Consumer Finance Group.

## **5. Financial assets**

### **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" as at 30 June 2019 and 31 December 2018 is as follows:

	Thousands of euros				
	30-06-19				
	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	24,868	-	-	-	-
Equity instruments	-	127	-	19,489	-
Debt instruments	-	-	-	1,455,511	1,183,718
Loans and advances	-	-	-	-	94,852,184
Central Banks	-	-	-	-	767
Credit institutions	-	-	-	-	202,125
Customers	-	-	-	-	94,649,292
<b>Total</b>	<b>24,868</b>	<b>127</b>	<b>-</b>	<b>1,475,000</b>	<b>96,035,902</b>

	Thousands of euros				
	31-12-18				
	Non-current assets held for sale	Financial assets measured at fair value through profit or loss	Financial assets available-for-sale financial assets	Financial assets designated at fair value through other comprehensive income	Investments held -to-maturity
Derivatives	17,289	-	-	-	-
Equity instruments	-	213	-	16,999	-
Debt instruments	-	-	-	1,255,620	1,426,596
Loans and advances	-	-	-	-	92,042,755
Central Banks	-	-	-	-	4,417
Credit institutions	-	-	-	-	157,979
Customers	-	-	-	-	91,880,359
<b>Total</b>	<b>17,289</b>	<b>213</b>	<b>-</b>	<b>1,272,619</b>	<b>93,469,351</b>

Hereafter, it is included the gross exposure of financial assets by stages of impairment as of 30 June 2019 and 31 December 2018:

	Thousands of euros							
	30/06/2019				31/12/2018			
	Impairment value correction				Impairment value correction			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>Financial assets at fair value through other comprehensive income</b>	<b>1,458,614</b>	-	-	<b>1,458,614</b>	<b>1,257,571</b>	-	-	<b>1,257,571</b>
Debt instruments	1,458,614	-	-	1,458,614	1,257,571	-	-	1,257,571
Loans and advances	-	-	-	-	-	-	-	-
Central Banks	-	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-	-
Customers	-	-	-	-	-	-	-	-
<b>Financial assets at amortised cost</b>	<b>92,632,460</b>	<b>3,447,041</b>	<b>1,860,642</b>	<b>97,940,143</b>	<b>89,148,699</b>	<b>4,370,079</b>	<b>1,861,544</b>	<b>95,380,322</b>
Debt instruments	1,183,813	-	-	1,183,813	1,426,702	-	-	1,426,702
Loans and advances	91,448,647	3,447,041	1,860,642	96,756,330	87,721,997	4,370,079	1,861,544	93,953,620
Central Banks	767	-	-	767	4,417	-	-	4,417
Credit institutions	204,860	24	2	204,886	160,667	15	-	160,682
Customers	91,243,020	3,447,017	1,860,640	96,550,677	87,556,913	4,370,064	1,861,544	93,788,521
<b>Total</b>	<b>94,091,074</b>	<b>3,447,041</b>	<b>1,860,642</b>	<b>99,398,757</b>	<b>90,406,270</b>	<b>4,370,079</b>	<b>1,861,544</b>	<b>96,637,893</b>

Additionally, the Group has recorded an amount of 24,022,113 thousands of euros in provision of commitments and financial guarantees granted subject to impairment under IFRS 9 (24,444,179 thousand euros on 31 December 2018), of which an amount of 23,813,387 thousands of euros are in stage 1 (24,244,708 thousands of euros on 31 December 2018), an amount of 188,162 thousands of euros in stage 2 (183,233 thousands of euros on 31 December 2018) and an amount of 20,564 thousands of euros in stage 3 (16,238 thousands of euros on 31 December 2018).



**b) Valuation adjustments for impairment of loans and advances**

The following is the movement that has taken place, during the six-month periods ended 30 June 2019 and 2018, in the balance of provisions that cover losses due to impairment of assets which comprise the heading balance of the financial assets at amortized cost:

	Thousands of euros	
	30-06-19	30-06-18
Balance at beginning of period	1,910,972	1,950,780
Net impairment losses charged to income for the period (*)	364,837	349,471
<i>Of which:</i>		
<i>Impairment charges</i>	786,671	675,033
<i>Impairment losses reversed with a credit to income</i>	(421,834)	(325,562)
Write-off of impaired balances against recorded impairment allowance	(375,903)	(298,767)
Exchange differences and other	4,335	(9,753)
<b>Balance at end of period</b>	<b>1,904,241</b>	<b>1,991,731</b>
<i>Of which:</i>		
<i>Depending of their determination:</i>		
<i>Impaired assets</i>	1,265,391	1,335,309
<i>Other assets</i>	638,850	656,422
<i>Of which:</i>		
<i>Calculated individually</i>	496,327	549,729
<i>Calculated collectively</i>	1,407,914	1,442,002

(\*) 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 – Financial assets on amortised cost " in the accompanying half-yearly condensed consolidated income statements.

Previously written-off assets recovered in the first six months of 2019, including sales of written-off portfolios, amounted to 215,597 thousands of euros (first six months of 2018: 202,797 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 - Financial assets on amortized cost" in the accompanying half-yearly condensed consolidated income statements.

Following is the movement of the loan loss provision broken down by impairment stage of loans and advances to customers recognised under "Financial assets at amortised cost" as at 30 June 2019:

	Thousands of euros			
	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at beginning of period	404,037	232,177	1,271,948	1,908,162
Transfers between stages	(43,800)	(9,088)	329,537	276,649
Net exposure changes and modifications in the credit risk	51,387	(832)	37,587	88,142
Write-offs	-	-	(375,903)	(375,903)
Exchange differences and other	921	1,193	2,221	4,335
<b>Carrying amount as of 30 June 2019</b>	<b>412,545</b>	<b>223,450</b>	<b>1,265,390</b>	<b>1,901,385</b>

Additionally, the Group has recorded an amount of 36,354 thousands of euros of provisions for commitments and financial guarantees granted subject to impairment under IFRS 9 (Note 10) (40,565 thousands of euros on 31 December 2018), of which an amount of 29,430 thousands of euros are in stage 1 (33,516 thousands of euros on 31 December 2018), an amount of 2,444 thousands of euros in stage 2 (2,253 thousands of euros on 31 December 2018) and an amount of 4,480 thousands of euros in stage 3 (4,796 thousands of euros on 31 December 2018).

In the first half of 2019 and 2018, the Group sold the following portfolios of written-off loans:

<i>Company</i>	Millions of euros	
	30/06/2019	30/06/2018
	Nominal Value	Nominal Value
Santander Consumer Bank S.p.A. (Italy)	121	-
Santander Consumer Finance Benelux B.V. (Netherlands)	8	12
Santander Consumer Bank AS (Norway)	218	168
Santander Consumer Finance Oy (Finland)	17	14
Santander Consumer Bank GmbH (Austria)	54	21
Banco Santander Consumer Portugal S.A. (Portugal)	-	-
Financiera El Corte Inglés, E.F.C., S.A. (Spain)	105	-
Santander Consumer, E.F.C., S.A. (Spain)	7	148
Santander Consumer Finance, S.A. (Spain)	-	89
Transolver Finance E.F.C., S.A. (Spain)	-	9
Santander Consumer Bank Spolka Akcyjna (Poland)	-	94
	<b>530</b>	<b>555</b>

The sale price of the portfolios of bad loans realized in the first semester of 2019 was 182 million of euros (30 June 2018: 139 millions of euros).

**c) Non-performing assets**

The detail of the changes in the six-month periods ended 30 June 2019 and 2018 in the balance of financial assets classified as amortized cost and considered to be doubtful due to credit risk is as follows:

	Thousands of euros	
	30-06-19	30-06-18
Balance as at beginning of period	1,861,544	1,934,478
Net additions	376,666	279,420
Written-off assets	(375,903)	(298,767)
Exchange differences and other	(1,665)	5,371
<b>Balance at the end of period</b>	<b>1,860,642</b>	<b>1,920,502</b>

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 guarantees received value for the loans and receivables portfolio to ensure collection of financial assets classified as financial assets at amortized cost – loans and advances, identifying between real guarantees and other guarantees, as of 30 June 30 2019 and 31 December 2018.

	Thousands of euros	
	30-06-19	31-12-18
Real Guarantees value	21,193,689	20,115,332
<i>Of which guarantee doubtful risk</i>	<i>113,890</i>	<i>221,275</i>
Other guarantees value	113,933	102,141
<i>Of which guarantee doubtful risk</i>	<i>433</i>	<i>2,034</i>
<b>Total value of the guarantees received (*)</b>	<b>21,307,622</b>	<b>20,217,473</b>

**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 2019 and 31 December 2018:

	Millions of euros		Millions of euros	
	30-06-19		31-12-18	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans and advances:				
Central banks	1	1	4	4
Loans and advances to credit institutions	202	200	158	162
Loans and advances to customers	94,649	95,237	91,880	92,594
Debt instruments	1,184	1,182	1,427	1,427
<b>ACTIVO</b>	<b>96,036</b>	<b>96,620</b>	<b>93,469</b>	<b>94,187</b>

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 2018 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 2019 and 31 December 2018 is as follows:

	Thousands of euros	
	30-06-19	31-12-18
Tangible assets	6,229	8,569
<i>Of which property assets in Spain</i>	2,978	7,134
Other assets	1,733	762
	<b>7,962</b>	<b>9,331</b>

In the first half of 2019, the Group sold, for a net total of approximately 3,653 thousands of euros (30 June 2018: 505 thousands of euros), foreclosed properties with a gross carrying amount of 6,778 thousands of euros (30 June 2018: 775 thousands of euros), for which provisions totaling 3,329 thousands of euros (30 June 2018: 11 thousands of euros) had been recognized. These sales gave rise to gains of 204 thousands of euros (30 June 2018: losses of 259 thousands of euros). In addition, in the first semester of 2019, other foreclosed assets have been sold for an amount of 21,637 thousands of euros (30 June 2018: 12,664 thousands of euros), generating gains of 5,559 thousand of euros (30 June 2018: losses of 137 thousands of euros). On the other hand, during the first semester of the 2019 and 2018 financial year, impairment losses have been recognized amounting to 3,868 thousand euros and 4,367 thousand euros, respectively, with recoveries amounting to 2,397 thousand of euros and 2,507 thousand of euros, respectively. Both results were 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 2019.

The following table shows the breakdown at 30 June 2019 and 31 December 2018 of the foreclosed assets for the Spanish business:

Thousands of euros	30-06-2019		31-12-2018	
	Gross carrying amount	Accumulated impairment charges	Gross carrying amount	Accumulates impairment charges
Real estate assets arising from financing provided to construction and property development companies	-	-	-	-
<i>Of which:</i>	-	-	-	-
<i>Completed Buildings</i>	-	-	-	-
<i>Residential</i>	-	-	-	-
<i>Other</i>	-	-	-	-
<i>Land</i>	-	-	-	-
<i>Development Land</i>	-	-	-	-
<i>Other land</i>	-	-	-	-
Real estate assets from home purchase mortgage loans to households	22,359	19,415	31,054	23,970
Other real estate assets foreclosed or received in lieu of debt repayment	164	130	276	226
<b>Total property assets</b>	<b>22,523</b>	<b>19,545</b>	<b>31,330</b>	<b>24,196</b>

At 30 June 2019, the allowance that covers the value of the foreclosed assets represents a coverage ratio of 86.78% (31 December 2018: 77.90%).

## 7. **Tangible Assets**

### **a) Changes in the period**

In the first six months of 2019, the Group acquire tangible assets for 142,326 thousands of euros (first six months of 2018: 63,064 thousands of euros). Likewise, in the first six months of 2019, tangible asset items were disposed of with a carrying amount of 40,429 thousands of euros (first six months of 2018: 34,649 thousands of euros). In the first semester of 2019 and 2018, those sales gave rise to losses of 227 thousands of euros and 357 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 semester of 2019 there was impairment losses of tangible assets for the amount of 741 thousand euros (30 June 2018: 248 thousand euros) that are included in "Impairment of value or reversal or Impairment of the value of non-financial assets - Tangible assets "

### **b) Property, plant and equipment purchase commitments**

At 30 June 2019 and 2018, 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 2019 and 31 December 2018, based on the cash-generating units giving rise thereto, is as follows:

	Thousands of euros	
	30-06-19	31-12-18
Germany	1,231,736	1,210,101
Austria	98,074	98,074
Nordics (Scandinavia)	494,208	501,880
Netherlands	35,550	35,550
Spain / Portugal	36,074	36,293
	<b>1,895,642</b>	<b>1,881,898</b>

The changes arising in goodwill in the first half of 2019 mainly relate to the exchange differences of the CGU of Nordics (Scandinavia) 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 2019, and with the goodwill registered in the CGU of Germany as a result of the acquisition during the first half of the 2019 financial year of the company Hyundai Capital Bank Europe GmbH (see Note 2).

Note 14 to the consolidated financial statements for the year ended 31 December 2018 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 2019 there were no impairment losses which required recognition.

### b) *Other intangible assets*

In the first half of 2018, impairment losses due to obsolescence of intangible assets were recognized amounting to 863 thousands of euros. These losses were recognized under "Impairment on non-financial assets, net – Intangible assets" in the condensed consolidated income statement of 30 June 2018. In the first six months of fiscal year 2019, there has been no impairment due to intangible assets.

## 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 2019 and 31 December 2018 is as follows:

	Thousands of euros			Thousands of euros		
	30-06-19			31-12-18		
	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	27,790	-	-	19,541	-	-
Short Positions	-	-	-	-	-	-
Deposits:	-	-	56,667,419	-	-	56,110,775
<i>Central Banks</i>	-	-	7,024,196	-	-	7,039,711
<i>Credit institutions</i>	-	-	13,888,604	-	-	14,529,965
<i>Customer</i>	-	-	35,754,619	-	-	34,541,099
Debt securities	-	-	35,017,522	-	-	32,274,687
Other financial liabilities	-	-	1,338,607	-	-	792,115
<b>Total</b>	<b>27,790</b>	<b>-</b>	<b>93,023,548</b>	<b>19,541</b>	<b>-</b>	<b>89,177,577</b>

### b) Information on issues, repurchases or refunds of debt securities issued

The composition of the balance of debt securities issued based on their nature is:

	Thousands of euros	
	30-06-19	31-12-18
Bonds and debentures outstanding	27,955,603	25,339,466
Promissory notes and other securities	7,061,919	6,935,221
<b>Total debt instruments issued</b>	<b>35,017,522</b>	<b>32,274,687</b>

The table below contains the outstanding balance of debt securities that had been issued by the Bank or any other entity of the Group, excluding promissory notes as of June 30, 2019 and 2018. Likewise, a detail of the movement experienced during the first six months of 2019 and 2018 is shown:

	Thousands of euros					
	30-06-19					
	Opening balance at 1-01-19	Perimeter	Issues	Repurchases or redemptions	Exchange rate and other adjustments	Closing balance at 30-06-2019
Bonds and debentures outstanding	25,339,466	-	6,476,467	(3,887,289)	26,959	27,955,603
<b>Total Bonds and debentures outstanding</b>	<b>25,339,466</b>	<b>-</b>	<b>6,476,467</b>	<b>(3,887,289)</b>	<b>26,959</b>	<b>27,955,603</b>

	Thousands of euros					
	30-06-18					
	Opening balance at 1-01-18	Perimeter	Issues	Repurchases or redemptions	Exchange rate and other adjustments	Closing balance at 30-06-2018
Bonds and debentures outstanding	22,390,954	-	2,677,472	(4,220,532)	1,941,672	22,789,566
<b>Total bonds and debentures outstanding</b>	<b>22,390,954</b>	<b>-</b>	<b>2,677,472</b>	<b>(4,220,532)</b>	<b>1,941,672</b>	<b>22,789,566</b>

**c) Other issues guaranteed by the Group**

As of June 30, 2019 and 2018, there were no debt securities issued by associated entities or by third parties (outside the Group) that were guaranteed by the Bank or by any other entity of the Group.

**d) 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 2019 and 31 December 2018:

	Millions of euros			
	30-06-19		31-12-18	
	Carrying amount	Fair value	Carrying amount	Fair value
Short positions				
Deposits:	56.668	56.856	56,111	56,110
<i>Central Banks</i>	7.024	7.041	7,040	7,035
<i>Credit institutions</i>	13.889	13.922	14,530	14,513
<i>Customer</i>	35.755	35.893	34,541	34,562
Debt instruments	35.018	35.467	32,275	32,626
Other financial liabilities	1.339	1.338	792	799
<b>Liabilities</b>	<b>93.025</b>	<b>93.661</b>	<b>89,178</b>	<b>89,535</b>

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 2018 consolidated financial statements and Note 16 of these interim financial statements.

**10. Provisions**

The detail of "Provisions" in the accompanying condensed consolidated balance sheets as at 30 June 2019 and 31 December 2018 is as follows:

	Thousands of euros	
	30-06-19	31-12-18
Provisions for pensions and other post-retirement obligations	585,665	510,230
Provisions and other long-term employee remuneration	55,382	56,013
Provisions for taxes and other legal contingencies	73,656	66,102
Commitments assumed and guarantees conferred	36,354	40,565
Other provisions	116,899	171,289
	<b>867,956</b>	<b>844,199</b>



"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 Nordic Countries have been 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 2019, under the heading "Other provisions", the amount of the provisions for the restructuring expenses of the Group's businesses, mainly in Germany, and Nordic Countries, which are pending to be incurred, is included.

As at 30 June 2019, the balances recognized under the heading "Provisions" in the accompanying condensed consolidated income statement, mainly includes provisions recorded by Santander Consumer Bank, AG (Germany) amounting to 9,730 thousand euros, as well as reversals of provisions made by Santander Consumer Finance, S.A. amounting to 7,429 thousand euros and Santander Consumer, E.F.C., S.A. amounting to 7,052 thousand euros (as of June 30, 2018 mainly included the provisions made by Santander Consumer Bank, AG (Germany) for the amount of 7,093 thousand euros and Santander Consumer, E.F.C, S.A, (Spain) amounting to 4,470 thousands of euros).

As of June 30, 2019, the main legal dispute affecting the Group is the Swiss franc (CHF) mortgage portfolio in Poland: On May 14, 2019, the General Lawyer of the Court of Justice of the Union European (CJEU) issued a non-binding opinion on a claim against a bank not related to the Group in Poland in relation to abusive contractual clauses on loans, specifically on the consequences of the existence of potential abusive contractual clauses on loans indexed to Swiss franc. The General Lawyer concluded that, if the exchange rate differential clause is considered abusive, the agreement may become a loan in Polish zlotys with an interest rate based on CHF LIBOR or it may be considered void and invalid, as local courts stated. In consultation with the Polish Banking Association (ZBP), the defendant bank filed an appeal, attaching a written opinion of the ZBP that signaled a significant risk for that the decision of the CJEU was based on incorrect legal assumptions presented in the Attorney's opinion General. The decision of the CJEU remains pending.

Uncertainty regarding the decision of the Court of Justice of the European Union, as well as the effects of that decision, make it difficult to estimate the potential impact. An unfavorable decision of the Court of Justice of the European Union could result in the registration of a material provision. As of June 30, 2019, the Group presents a portfolio of mortgages denominated in or indexed to CHF for an approximate amount of 2,380 million Polish zlotys (560 million euros). The Group integrates its participation in Santander Consumer Bank, S.A. (Poland) by the equity method, with its participation percentage at June 30, 2019 being 40%.

Note 21 to the Group's consolidated financial statements for 2018 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 2019 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 2019 and 2018 is not material with respect to these interim condensed consolidated financial statements.

## **11. Shareholder's equity**

In the six-month periods ended 30 June 2019 and 2018 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 2019 and 31 December 2018, 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 2019 and 31 December 2018 is at follow:

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

(\*) Santander Group Company.

**b) Breakdown of other comprehensive income - Items not reclassified to profit or loss and Items that may be reclassified to profit or loss**

	Thousands of euros	
	30-06-2019	31-12-2018
<b>Other comprehensive income accumulated</b>	<b>(499,076)</b>	<b>(462,909)</b>
<b>Items not reclassified to profit or loss</b>	<b>(161,442)</b>	<b>(112,753)</b>
Actuarial gains or losses on defined benefit pension plans	(164,914)	(114,000)
Non-current assets held for sale	-	-
Share in other income and expenses recognised in investments, joint venture and associates	(6)	110
Other valuation adjustments	-	-
Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income	3,478	1,137
Inefficacy of fair value hedges of equity instruments measured at fair value with changes in other comprehensive income	-	-
Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income (hedged item)	-	-
Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income (hedging instrument)	-	-
Changes in the fair value of financial liabilities measured at fair value through profit or loss attributable to changes in credit risk	-	-
<b>Items that may be reclassified to profit or loss</b>	<b>(337,634)</b>	<b>(350,156)</b>
Hedge of net investments in foreign operations (effective portion)	(15,577)	13,684
Exchange of differences	(306,996)	(350,732)
Hedging derivatives. Cash flow hedges (effective portion)	(6,651)	(3,716)
Changes in the fair value of debt instruments measured at fair value with changes in other comprehensive income	2,824	3,819
Hedging instruments (items not designated)	-	-
Non-current assets held for sale	-	-
Share in other income and expenses recognised in investments, joint venture and associates	(11,234)	(13,211)

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

The balance of Other comprehensive income - Items not reclassified to profit or loss - Actuarial gains or losses on defined benefit pension plans include the actuarial gains or losses generated in the period and the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset), less the administrative expenses and taxes inherent to the plan, and any change in the effect of the asset ceiling. Its variation is shown in the condensed consolidated statement of recognized income and expense.

During the first six months of 2019 actuarial losses (net of actuarial gains) on defined benefit pension plans amounts to 75,213 thousands of euros, mainly due to the increase of 59,500 thousand of euros in accumulated actuarial losses corresponding to the Group's businesses in Germany, mainly due to the variation in the discount rate (decrease from 2.27% to 1.47%).

**d) Other comprehensive income – Items that may be reclassified to profit or loss – Hedges of net investments in foreign operations (effective portion) and exchange differences**

Other comprehensive income - Items that may be reclassified to profit or loss - Hedges of net investments in foreign operations (effective portion) includes the net amount of the changes in value of hedging instruments in hedges of net investments in foreign operations, in respect of the portion of these changes considered to be effective hedges.

Other comprehensive income - Items that may be reclassified to profit or loss - Exchange differences 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.

The net variation of both headings recognized during the first half of 2019 included in the consolidated statement of recognized income and expense reflects the effect generated by the general appreciation of exchange rates (Note 1.f).

**12. Segment information**

This primary level of segmentation, which is based on the Group's management structure, comprises 6 segments relating to 6 operating areas. The operating areas, which include all the business activities carried on therein by the Group, are Spain and Portugal, Italy, Germany, Scandinavia, France and Other. Note 45 to the Group's consolidated financial statements for the year ended 31 December 2018 includes the corresponding segment information for 2018 and 2017.

Hereafter, the detail by the geographical areas of the balance of Interest income for the six-month periods ended 30 June 2019 and 2018 is as follows:

Geographical area	Interest and Similar Income by Geographical Area			
	(Thousands of euros)			
	Individual		Consolidated	
	30-06-19	30-06-18	30-06-19	30-06-18
Spain	<b>87,744</b>	<b>84,253</b>	<b>384,518</b>	<b>353,236</b>
Abroad				
European Union	30,696	24,316	1,200,055	1,167,049
- Euro Zone	25,695	23,616	1,200,055	1,167,049
- Non Euro Zone	5,001	700	-	-
Other countries	11,685	8,811	371,513	352,525
	<b>42,381</b>	<b>33,127</b>	<b>1,571,568</b>	<b>1,519,574</b>
<b>Total</b>	<b>130,125</b>	<b>117,380</b>	<b>1,956,086</b>	<b>1,872,810</b>

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 non-negotiable financial assets obligatorily valued at fair value with changes in results"; "Gain or losses and financial liabilities measured 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 2019 and 2018.

Segments	Revenue (Thousands of euros)					
	Revenue from External Customers		Inter-segment Revenue		Total Revenue	
	30/06/2019	30/06/2018	30/06/2019	30/06/2018	30/06/2019	30/06/2018
Spain and Portugal	498,080	479,700	130,446	114,157	628,526	593,857
Italy	260,830	252,815	864	795	261,694	253,610
Germany	831,869	813,855	200,022	128,388	1,031,891	942,243
Scandinavia	448,122	422,324	39,861	37,367	487,983	459,691
France	308,209	276,185	223,338	201,147	531,547	477,332
Other	238,578	227,540	52,157	40,920	290,734	268,460
Inter-segment revenue adjustments and eliminations	-	-	(646,688)	(522,774)	(646,688)	(522,774)
<b>Total</b>	<b>2,585,688</b>	<b>2,472,419</b>	<b>-</b>	<b>-</b>	<b>2,585,688</b>	<b>2,472,419</b>

Likewise, following is the reconciliation of the Group's consolidated profit before tax for the six-month periods ended 30 June 2019 and 2018, 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)	
	30-06-19	30-06-18
Spain and Portugal	85,300	116,036
France	109,819	100,239
Italy	84,434	64,810
Germany	164,532	146,955
Scandinavia	159,242	135,559
Other	132,476	137,348
<b>Total profit (loss) of the segments reported</b>	<b>735,803</b>	<b>700,947</b>
(+/-) Unallocated profit/loss	-	-
(+/-) Elimination of inter-segment profit/loss	-	-
(+/-) Other profit/loss	-	-
(+/-) Income tax and/or profit from discontinued operations	305,206	268,493
<b>Profit before tax</b>	<b>1,041,009</b>	<b>969,440</b>

### 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 2019 and 2018, 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				
	30-06-19				
Expenses and income	Significant shareholders	Directors and executives	Group companies or entities	Other related parties (*)	Total
<b>Expenses:</b>					
Finance costs	19,195	-	-	600	19,795
Leases	-	-	-	-	-
Services received	-	-	-	-	-
Purchases of goods	-	-	-	-	-
Other expenses	39,322	-	1,561	71,244	112,127
	<b>58,517</b>	<b>-</b>	<b>1,561</b>	<b>71,844</b>	<b>131,922</b>
<b>Income:</b>					
Finance income	5,132	-	2,392	7,026	14,550
Dividends received	-	-	-	-	-
Services rendered	-	-	-	-	-
Sale of goods (finished or in progress)	-	-	-	-	-
Other income	798	-	417	1,961	3,176
	<b>5,930</b>	<b>-</b>	<b>2,809</b>	<b>8,987</b>	<b>17,726</b>

(\*) 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				
	30/06/2019				
	Significant Shareholders	Directors and executives	Group Employees Companies or Entities	Other related parties (*)	Total
Financing agreements: loans and capital contributions (lender)	(62,315)	-	69,721	18,615	26,021
Financing agreements: loans and capital contributions (borrower)	(1,188,566)	-	(14,061)	(50,028)	(1,252,655)
Guarantees provided	3,538	-	5,459	4,992	13,989
Guarantees received	-	-	-	-	-
Obligations acquired	(30,637)	-	3,042	-	(27,595)
Dividends and other distributed profit	-	-	-	-	-
Other transactions	-	-	-	-	-

(\*) 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

Period end closing balances	Thousands of euros				
	30-06-19				
	Significant shareholders	Directors and executives	Individuals, Group companies or entities	Other related parties	Total
<b>Debt balances:</b>					
Customers and commercial debtors	-	-	-	-	-
Loans and credits granted	67,654	-	227,937	302,230	597,821
Other collection rights	7,914	-	5,203	4,070	17,187
	<b>75,568</b>	-	<b>233,140</b>	<b>306,300</b>	<b>615,008</b>
<b>Credit balances:</b>					
Suppliers and creditors granted	-	-	-	-	-
Loans and credits received	10,262,367	-	86,904	122,198	10,471,469
Other payment obligations	18,426	-	364	35,774	54,564
	<b>10,280,793</b>	-	<b>87,268</b>	<b>157,972</b>	<b>10,526,033</b>

Expenses and income	Thousands of euros				
	30-06-18				
	Significant shareholders	Directors and executives	Group companies or entities	Other related parties (*)	Total
<b>Expenses:</b>					
Finance costs	15,585	-	164	1,893	17,642
Leases	-	-	-	-	-
Services received	-	-	-	-	-
Purchases of goods	-	-	-	-	-
Other expenses	1,291	-	799	105,174	107,264
	<b>16,876</b>	<b>-</b>	<b>963</b>	<b>107,067</b>	<b>124,906</b>
<b>Income:</b>					
Finance income	6,700	-	-	4,191	10,891
Dividends received	-	-	-	-	-
Services rendered	-	-	-	-	-
Sale of goods (finished or in progress)	-	-	-	-	-
Other income	11,103	-	487	25	11,615
	<b>17,803</b>	<b>-</b>	<b>487</b>	<b>4,216</b>	<b>22,506</b>

(\*) 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.

Other transactions	Thousands of euros				
	30/06/2019				
	Significant Shareholders	Directors and executives	Group Employees Companies or Entities	Other related parties (*)	Total
Financing agreements: loans and capital contributions (lender)	(2,649)	-	(35,683)	1,163	(37,169)
Financing agreements: loans and capital contributions (borrower)	2,657,535	3	6,271	(29,567)	2,634,242
Guarantees provided	15,270	-	41,793	-	57,063
Guarantees received	3,657	-	-	-	3,657
Obligations acquired	(15,300)	-	(74,015)	25,903	(63,412)
Dividends and other distributed profit	-	-	-	-	-
Other transactions	8,143	(715)	-	(7,666)	(238)

(\*) 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.

#### 14. Off-balance-sheet exposures

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

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	
	30/06/2019	31/12/2018
<b>Loan commitments granted</b>	<b>22,958,117</b>	<b>23,434,253</b>
<i>Of which doubtful</i>	<i>16,872</i>	<i>13,446</i>
<b>Financial guarantees granted</b>	<b>660,182</b>	<b>540,264</b>
<i>Of which doubtful</i>	<i>-</i>	<i>-</i>
Bank sureties	660,182	540,264
Credit derivatives sold	-	-
<b>Other commitments granted</b>	<b>403,814</b>	<b>469,662</b>
<i>Of which doubtful</i>	<i>3,692</i>	<i>2,792</i>
Other granted guarantees	286,472	350,896
Other	117,342	118,766

#### 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 2019 and 2018 is as follows:

	Bank		Group	
	30-06-19	30-06-18	30-06-19	30-06-18
Men	2	2	4,673	4,772
Women	1	1	4,851	4,986
	<b>3</b>	<b>3</b>	<b>9,524</b>	<b>9,758</b>

The average number of offices at 30 June 2019 and 2018 are as follows:

Number of branches	Group	
	30-06-19	30-06-18
Spain	51	63
Foreign	221	224
	<b>272</b>	<b>287</b>



**16. Other disclosures:**

**a) Valuation techniques for financial assets and liabilities**

The following table shows a summary of the fair values, at 30 June 2019 and 31 December 2018, 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					
	30-06-19			31-12-18		
	Published price quotations in active markets (Level 1)	Internal models (*)	Total	Published price quotations in active markets (Level 1)	Internal models (*)	Total
Financial assets held for trading	-	24,868	24,868	-	17,289	17,289
Non-trading financial assets mandatorily at fair value through profit or loss	-	127	127	-	213	213
Financial assets at fair value through other comprehensive income	1,456,343	18,657	1,475,000	1,255,620	16,999	1,272,619
Hedging derivatives (assets)	-	86,763	86,763	-	134,143	134,143
Financial liabilities held for trading	-	27,790	27,790	-	19,541	19,541
Hedging derivatives (liabilities)	-	99,036	99,036	-	92,631	92,631

(\*) 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 2018). 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 2019. 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 2019 and 31 December 2018:

	Thousands of euros		
	Fair values Calculated Using Internal Models at al 30-06-19 (Level 2)	Valuation Techniques	Main assumptions
<b>ASSETS</b>			
<b>Non-Current assets held for sale</b>	<b>24,868</b>		
Trading Derivatives	24,868		
Swaps	24,852	Present Value Method	Interest rate curves, FX Market Prices, Basis, Liquidity.
Others	16		Interest rate curves, Volatility surface, FX Market Prices.
<b>Hedging Derivatives</b>	<b>86,763</b>		
Swaps	64,752	Present Value Method	Interest rate curves, FX Market Prices, Basis, Liquidity
Others	22,011	Present Value Method	Interest rate curves, Volatility Surface, FX market prices
<b>Non-trading Financial Assets mandatorily at fair value through profit and loss</b>	<b>127</b>		
Equity instruments	127		
Debt Securities	-		
Loans and advances	-		
<b>Financial assets at fair value through other comprehensive income</b>	<b>18,657</b>		
Equity instruments	18,657	Present Value Method	Interest rate curves, Market Prices FX and EQ, Dividends, Credit, Other
Debt securities	-		
Loans and advances	-		
<b>LIABILITIES</b>	<b>27,790</b>		
<b>Financial liabilities held for trading</b>			
Trading Derivatives	27,790		
Swaps	27,103	Present Value Method	Interest rate curves, FX Market Prices, Basis, Liquidity
Others	687	Present Value Method	Interest rate curves, Volatility surface, FX Market Prices
<b>Hedging Derivatives</b>	<b>99,036</b>		
Swaps	83,039	Present Value Method	Interest rate curves, Market prices Fx, Basis, Liquidity
Others	15,997	Present Value Method	Interest rate curves, Volatility surface, FX Market Prices

	Thousands of euros		
	Fair Values Calculated Using Internal Models at al 31-12-18 (Level 2)	Valuation Techniques	Main assumptions
<b>ASSETS:</b>			
<b>Non-currents assets held for trading</b>	<b>17,289</b>		
Trading Derivatives	17,289		
<i>Swaps</i>	17,213	Present Value Method	Interest rate curves, FX Market Prices, Basis
<i>Others</i>	76	Present Value Method	Interest rate curves, FX Market Prices, Volatility surface.
<b>Hedging derivatives</b>	<b>134,143</b>		
<i>Swaps</i>	113,280	Present Value Method	Interest rate curves, FX Market Prices, Basis
<i>Others</i>	20,863	Present Value Method	Interest rate curves, Volatility surface, FX Market Prices
<b>Non-Trading Financial Assets mandatorily at fair value through profit and loss</b>	<b>213</b>		
<i>Equity instruments</i>	213	Present Value Method	Interest rate curves, FX Market Prices and EQ, Dividends, Credit, Other
<b>Financial Assets at fair value through other comprehensive income</b>	<b>16,999</b>	Present Value Method	Interest rate curves, FX Market Prices and EQ, Dividends, Credit, Other
<i>Equity instruments</i>	16,999		
<b>TOTAL ASSETS</b>	<b>168,644</b>		
<b>LIABILITIES</b>			
<b>Financial Liabilities held for trading</b>	<b>19,541</b>		
Derivatives	19,541		
<i>Swaps</i>	19,258	Present Value Method	Interest rate curves, FX Market Prices, Basis
<i>Others</i>	283		
<b>Hedging derivatives</b>	<b>92,631</b>		
<i>Swaps</i>	84,634	Present Value Method	Interest rate curves, FX Market Prices, Basis,
<i>Others</i>	7,997	Present Value Method	Interest rate curves, Volatility surface, FX Market Prices
<b>TOTAL LIABILITIES</b>	<b>112,172</b>		

**b) Sovereign risk with peripheral European countries**

The detail at 30 June 2019 and 31 December 2018, 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 2018), is as follows:

Sovereign Risks of issuers/Borrower at 30 June 2019(*)								
	Thousands of euros							
	Debt instruments					Total net direct exposure	Derivatives (***)	
	Non-Currents 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	Financial assets at amortised cost	Loans and advances to customers (**)		Direct Risk	Indirect risk (CDS)
Spain	-	-	1,453,023	-	29	1,453,052	-	-
Portugal	-	-	-	-	24	24	-	-
Italy	-	-	-	387,401	15,467	402,868	-	-
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 5 thousands of euros with Spain.

(\*\*) Presented without taking into account the valuation adjustments recognized (259 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 2018 (*)								
	Thousands of euros							
	Debt instruments					Total net direct exposure	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 (**)		Other than CDSs	CDSs
Spain	-	-	1,251,603	-	39	1,251,642	-	-
Portugal	-	-	-	-	3	3	-	-
Italy	-	-	-	384,924	79,734	464,658	-	-
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 7 and 13,301 thousands of euros (with Spain and Italy respectively).

(\*\*) Presented without taking into account the valuation adjustments recognized (2.335 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 2019 and 31 December 2018 is as follows:

Exposure to other counterparties by country of issuer/borrower at 30 June 2019 (*)									
	Thousands of euros								
	Balances with central banks	Reverse repurchase agreements	Debt Securities			Loans and advances to customers (**)	Total net direct exposure	Derivatives (***)	
			Non-current assets held for sale and Financial assets designated at FVTPL	Available-for-sale financial assets	Financial assets at amortised cost			Other than CDSs	CDSs
Spain	89,772	-	-	1,509	-	15,547,116	15,638,397	(13,396)	-
Portugal	18,039	-	-	-	-	1,528,250	1,546,289	-	-
Italy	354,740	-	-	-	-	8,871,352	9,226,092	(5,337)	-
Greece	-	-	-	-	-	2,123	2,123	-	-
Ireland	-	-	-	-	-	27	27	-	-

(\*) Also, the Group has off-balance-sheet exposure other than derivatives -contingent liabilities and commitments- amounting to 12,164,634 thousands of euros, 413,822 thousands of euros and 450,822 thousands of euros to counterparties in Spain, Portugal and Italy respectively.

(\*\*) Presented excluding valuation adjustments and impairment losses recognized (636,970 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 2018 (*)									
	Thousands of euros								
	Balances with central banks	Reverse repurchase agreements	Debt Securities			Loans and advances to customers (**)	Total net direct exposure	Derivatives (***)	
			Non-current assets held for sale and Financial assets designated at FVTPL	Available-for-sale financial assets	Financial assets at amortised cost			Other than CDSs	CDSs
Spain	277,489	-	-	3,016	-	15,122,555	15,403,060	(5,581)	-
Portugal	10,056	-	-	-	-	1,417,631	1,427,687	-	-
Italy	44,465	-	-	-	-	8,601,833	8,646,298	(2,151)	-
Greece	-	-	-	-	-	2,279	2,279	-	-
Ireland	-	-	-	-	-	52	52	-	-

(\*) Also, the Group has off-balance-sheet exposure other than derivatives -contingent liabilities and commitments- amounting to 12,815,027 thousands of euros, 357,436 thousands of euros and 439,766 thousands of euros to counterparties in Spain, Portugal and Italy respectively.

(\*\*) Presented excluding valuation adjustments and impairment losses recognized (614,545 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 2019 or 31 December 2018.

**c) Forbearance and restructured transactions**

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 transactions will be as maximum the covered amount of exposure.
- Personal guarantees, maximum amount guarantors will have to pay if the guarantee is implemented.



	30-06-2019 ( 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
	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	2	12	-	-	-	-	4	2	12	-	-	-	-	4
Other financial institutions and: individual shareholder)	56	542	-	-	-	-	175	33	245	-	-	-	-	156
Non-financial institutions and individual shareholders	5,797	67,161	76	6,633	2,681	11	33,718	3,679	39,222	63	4,813	1,224	-	31,413
Of which: Financing for constructions and property development	18	146	-	-	-	-	67	14	88	-	-	-	-	57
Rest of households	82,323	391,600	679	58,174	31,335	41	187,653	44,304	196,400	470	33,770	9,984	10	161,365
Total	88,178	459,315	755	64,807	34,016	52	221,550	48,018	235,879	533	38,583	11,208	10	192,938
ADDITIONAL INFORMATION	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financing classified as non-current assets and included in disposal groups as classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-

	30-06-2018 ( 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
	Number of operations	Gross amount	Number of operations	Gross amount	Maximum amount of the actual collateral that can be considered			Number of operations	Gross amount	Number of operations	Gross amount	Maximum amount of the actual collateral that can be considered		
					Mortgage guarantee	Other guarantees						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
<i>Of which: Financing for constructions and property development</i>	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
<b>Total</b>	<b>113,041</b>	<b>512,917</b>	<b>1,227</b>	<b>140,269</b>	<b>95,872</b>	<b>61</b>	<b>245,487</b>	<b>57,612</b>	<b>244,386</b>	<b>526</b>	<b>53,309</b>	<b>19,533</b>	<b>3</b>	<b>209,210</b>
ADDITIONAL INFORMATION														
Financing classified as non-current assets and included in disposal groups as classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-

The transactions presented in the table above are classified at 30 June 2019 and 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, modified 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, modified 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; (iv) and 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 2019 and 2018:

Carrying amount	Thousands of euros	
	30-06-19	30-06-18
Opening balances	354,663	473,583
(+) Refinancing and Restructured balances	111,872	88,248
<i>Memorandum items: Amount registered in the income statements</i>	41,812	25,115
(-) Debt repayment	(132,907)	(107,308)
(-) Foreclosures	-	-
(-) Balance derecognition (Written-off reclassification)	(16,873)	(5,901)
(+)/(-) Other changes	(14,183)	(40,923)
<b>Final Balances</b>	<b>302,572</b>	<b>407,699</b>

#### d) Real estate business– Spain

##### Portfolio of home purchase loans to families

On 30 June, 2019 and on 31 December, 2018 no home purchase loans in Spain have been granted to families. The breakdown of the book at 30 June 2019 and 31 December 2018 is as follows:

	Thousands of euros			
	30-06-2019		31-12-2018	
	Gross Amount	Of which: Non performing	Gross Amount	Of which: Non performing
Home purchase loans to families				
- Without mortgage guarantee	-	-	-	-
- With mortgage guarantee	1,757,728	68,106	1,835,264	67,872
	<b>1,754,161</b>	<b>68,047</b>	<b>1,835,264</b>	<b>67,872</b>

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 2019, 62.23% 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 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).

	30-06-2019					
	Exposure as a percentage of last available appraisal (Loan to value ratio)					TOTAL
	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%	
In millions of euros						
Gross Amount	306	401	388	192	471	<b>1,758</b>
- Of which: Non Performing	4	7	13	8	36	<b>68</b>

	31-12-2018					
	Exposure as a percentage of last available appraisal (Loan to value ratio)					TOTAL
	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%	
In millions of euros						
Gross Amount	302	394	435	198	503	<b>1,832</b>
- Of which: Non Performing	4	7	14	8	35	<b>68</b>

#### e) Non-audit services

Between 1 January and 30 June 2019, 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 251 thousands of euros. Likewise, during the period between January 1 and June 30, 2019, fees have been accrued by other companies of the PwC network as a result of other verification services, which have amounted to 275 thousand euros.

## 17. Solvency information

The breakdown of the Group's capital and leverage ratios at 30 June 2019 and 31 December 2018 is provided below:

### Capital ratio

	Millions of euros	
	30-06-2019	31-12-2018
<b>Capital ratio</b>		
Ordinary common equity Tier 1 (Millions of euros)	8,791	8,485
Additional capital common equity Tier 1 (Millions of euros)	1,124	1,113
Ordinary common equity Tier 2 (Millions of euros)	644	563
Risk weighted assets (Millions of euros)	71,042	68,915
Ordinary common equity Tier 1 ratio (CET 1)	12.37%	12.31%
Additional capital Tier 1 ratio (AT 1)	1.59%	1.62%
Capital Tier 1 ratio (TIER 1)	13.96%	13.93%
Capital Tier 2 ratio (TIER 2)	0.90%	0.81%
<b>Total Capital Ratio</b>	<b>14.86%</b>	<b>14.74%</b>

### Leverage

	Millions of euros	
	30-06-2019	31-12-2018
<b>Leverage</b>		
Tier 1 capital (Millions of euros)	9,915	9,598
Exposure (Millions of euros)	114,844	110,837
<b>Leverage ratio</b>	<b>8.63%</b>	<b>8.66%</b>

## Interim Consolidated Management Report for the six month-period ended 30 June 2019

### **GENERAL BACKDROP**

In the second quarter of 2019, economic activity reported a certain slowdown, especially in the advanced economies, as a result of commercial tension, which weighed over exports and investment, and of certain specific temporary factors. The slowdown in growth has been observed more in the EU. The forecasts for 2019 point to global growth in the GDP of around 3.25% (3.6% in 2018).

This moderation of growth, tied to a downward bias in the risks balance sheet and inflation in general down on objectives, led to a downward turn in market expectations regarding official interest rates, reinforced by the central banks themselves, which now consider reductions in the Fed and ECB benchmark rates to be a foregone conclusion. The central banks of the Latin American economies have a higher margin for manoeuvre.

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

- Eurozone (GDP: +1.2% year on year in the first quarter of 2019). The growth in the GDP slowed down affected by idiosyncratic factors in certain countries, tied to a weakening of global trade and increased global uncertainties. Inflation dropped to 1.2% in June faced with the fall in energy prices. The ECB is considering maintaining a highly relaxed monetary policy, envisaging expansive measures if necessary.
- Spain (GDP: +2.4% year on year in the first quarter of 2019). The economy maintains greater strength in the Eurozone despite the fact that the growth rate has become more moderate. The creation of jobs continues to be significant, causing the unemployment rate to fall. Inflation dropped to 0.4% in June.
- Poland (GDP: +4.7% year on year in the first quarter of 2019). The GDP in the first quarter remained high, with a solid base and an unemployment rate that brushed historical lows (3.9% in the first quarter of 2019). Inflation stood at 2.6% in June, exceeding average inflation (2.5%) for the first time in seven years. However, the interest rate remained at 1.5%.
- Portugal (GDP: +1.8% year on year in the first quarter of 2019). The Portuguese economy accelerated slightly in the first quarter of 2019, which was not sufficient to continue to reduce the unemployment rate, which stood at 6.8%, due to the reduced growth in employment. Inflation continues to be low (0.4% in June). The public deficit fell to 0.5% of the GDP in 2018.
- United Kingdom (GDP: +1.8% year on year in the first quarter of 2019). The economy grew significantly in the first quarter (+0.5% with respect to 4Q18). Inflation stood at 2.0% in June, in line with the target of the Bank of England, and unemployment dropped by one decimal in the first quarter (3.8%). The official interest rate continues to be 0.75%, awaiting a resolution regarding the Brexit.

## **BUSINESS PERFORMANCE**

### **Earnings**

Santander Consumer Finance obtained profit after tax at 30 June of 736 million euros, up 5% on that obtained in the first semester of 2018, while attributed profit stood at 605 million euros, up 3% on 2018, mainly due to:

- The Group's gross income remained stable, with interest and net fees that rose by 4% in comparison with June 2018, due to the growth of the portfolio, product diversification and the funding cost.
- Costs rose by 2% (at a lower rate than the growth in income); accordingly, the efficiency ratio fell to 43.8% in comparison with the 44.2% of the preceding year.
- The provisions are slightly lower than the equivalent period, enabling us to keep the cost of loans low.

### **Strategy**

Santander Consumer Finance continues to pledge for a solid business model backed by:

- extensive geographical diversification with a solid presence in key products
- better efficiency ratio than its comparables and;
- a risk management and recovery system that enables a significant credit rating to be maintained.

The Entity's management continues to focus on:

- Improving the efficiency of capital, in a competitive environment characterised by the emergence of new competitors, surplus liquidity in the markets and slow GDP growth.
- Increasing vehicle financing and consumer financing and extending agreements with the main distributors / retailers.
- Developing innovative products and digitalising customer service processes.
- Moving forward in developing open e-commerce platforms in businesses.

### **Line of business**

Total group assets at 30 June 2019 amounted to 109,794 million euros (up 4% with respect to December 2018).

Loans increased by 3% in the period, and new loans were up by 4% in the first semester of 2018, mainly due to vehicle loans and direct loans.

With regard to liabilities, customer deposits were up 4% on December 2018. Debt security issue programmes rose by 8%.

At the end of June 2019, customer deposits and medium- and long-term securitisations and issues placed on the market accounted for 75% of net lending.

## **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**

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 (88% consumer credit and 12% dealer stock finance), with the main activity being funding vehicle purchases.

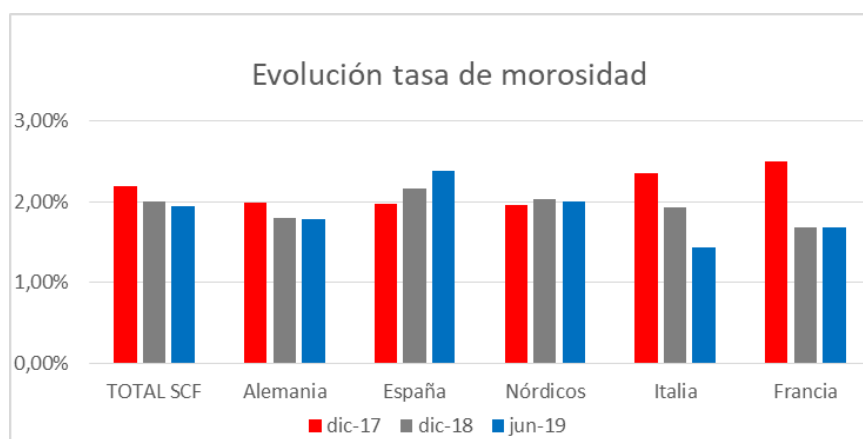
The exposure to credit risk of our portfolio is detailed in the following table (figures in millions of euros):

<b>SCF Group - Gross credit risk exposure</b>			
	June 2019 (millions of euros)	Change on December 2018	% portfolio
Spain and Portugal	16,900	2.18%	17.50%
Italy	8,887	2.35%	9.20%
France	13,173	7.40%	13.64%
Germany and Austria	37,092	2.01%	38.42%
Scandinavia	16,794	2.16%	17.39%
Others	3,705	5.83%	3.85%
<b>SCF Group</b>	<b>96,551</b>	<b>2.94%</b>	<b>100.00%</b>

Credit risk exposure has increased by 2.94% 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 (+7.4%) owing to the auto business (new and used).

Germany continued to account for the largest share of the portfolio, 38.4%, together with Austria and their respective JVs. The Spanish and Portuguese units now account for 17.5% of SCF's total credit risk, closely followed by the Nordic countries with 17.4%.

The portfolios performed adequately in 2019, 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 1.94% at June 2019, slightly lower than that at 2018 year-end (2.00%). The non-performing loans ratio performed positively in all of the main units, as shown in the table below:



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.

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

b) Risk approval.

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.

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

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.

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.

## **Market, structural and liquidity risk**

### ***Scope and definitions***

The measurement, control and monitoring scope of the Market Risk function encompasses operations where an asset risk is accepted 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 the 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 not complying with payment obligations in due time, or of doing so at 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 issuers 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.
- Prepayment or cancellation risk: Identifies the possibility of early cancellation without negotiation in operations in which the contractual relationship explicitly or implicitly permits such cancellation, 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 regarding equity instruments can have an adverse effect on the value of a financial instrument, a portfolio or the Group as a whole.
- Raw materials 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:

- Financing 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 for 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.

### ***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.

## ***Measurement and methodologies.***

### 3.1. Interest rate risk

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

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

The 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 effect 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 based on and must be designed in line with two key elements: liquidity stress tests and an early warning 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 within the consolidated Santander Consumer Finance Group are as follows:

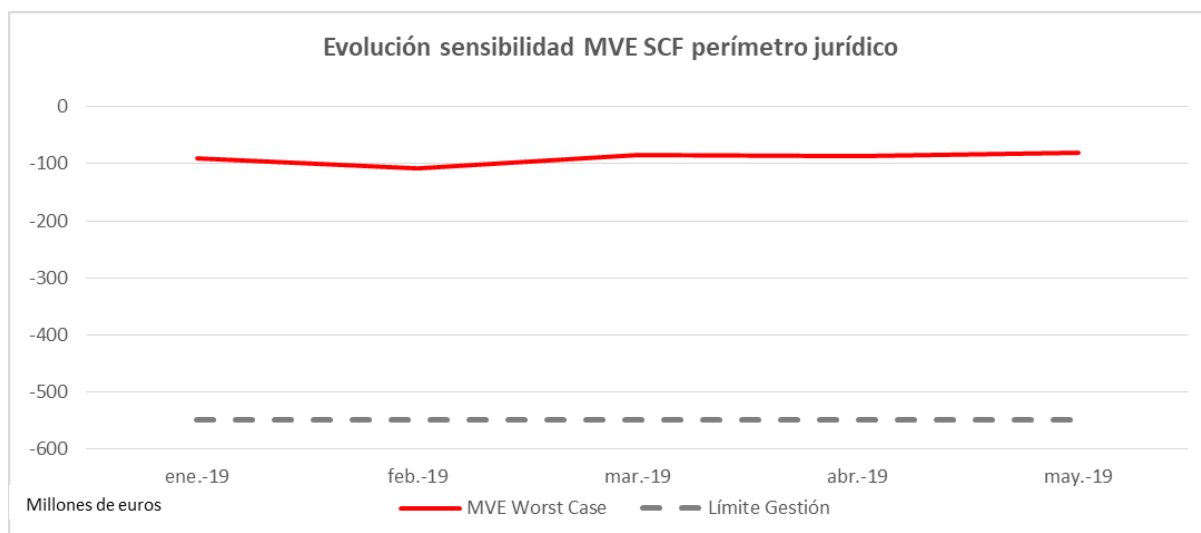
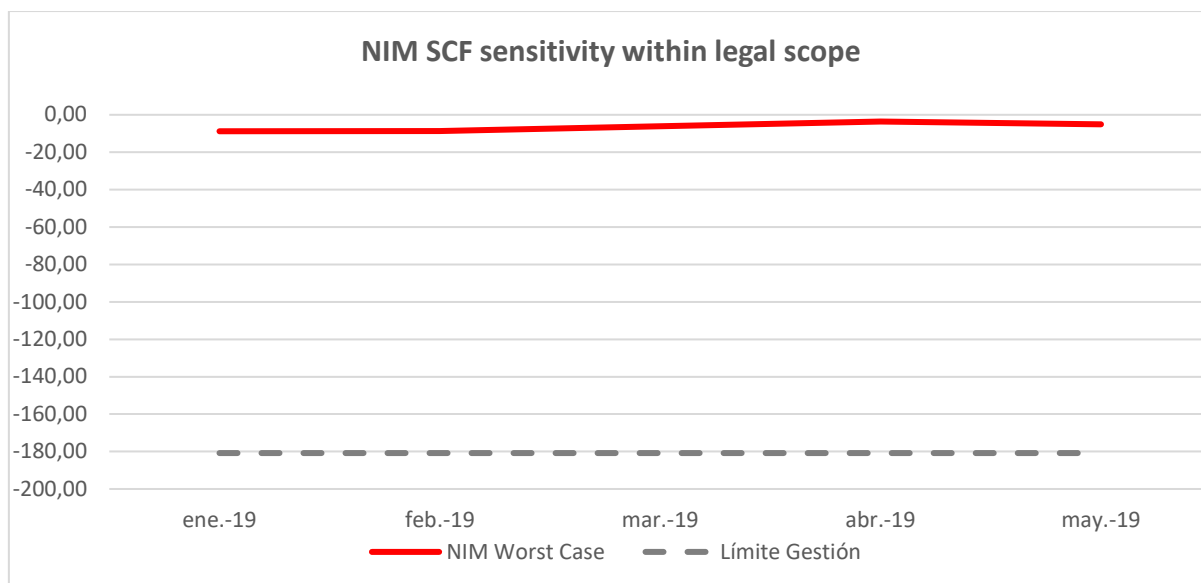
- One-year net interest income sensitivity limit.
- Value of equity sensitivity limit.

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 2019 (the most recent figure available to prepare this report), the greater net interest margin risk over one year occurs in a parallel -25 basis point decrease, amounting to -5 million euros.

In the same period, the higher negative sensitivity of the value of equity occurs with a parallel 100 basis point decrease of -81.4 million euros.

The sensitivity of the net interest margin and of the value of equity in the first half of 2019 is shown in the chart below (data to May 2019):



With respect to the liquidity risk, the main limits of the Santander Consumer Finance Group include regulatory liquidity metrics such as the LCR and the NSFR, together with liquidity stress tests under different previously mentioned adverse scenarios.

At the end of May 2019, all liquidity metrics were above the internal limits in force and complied with the regulatory requirements. The consolidated Group's LCR ratio was 269%, and its NSFR, for the same scope, at March 2019 was 109.9%.

## **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**

#### **a) Definition and objectives**

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

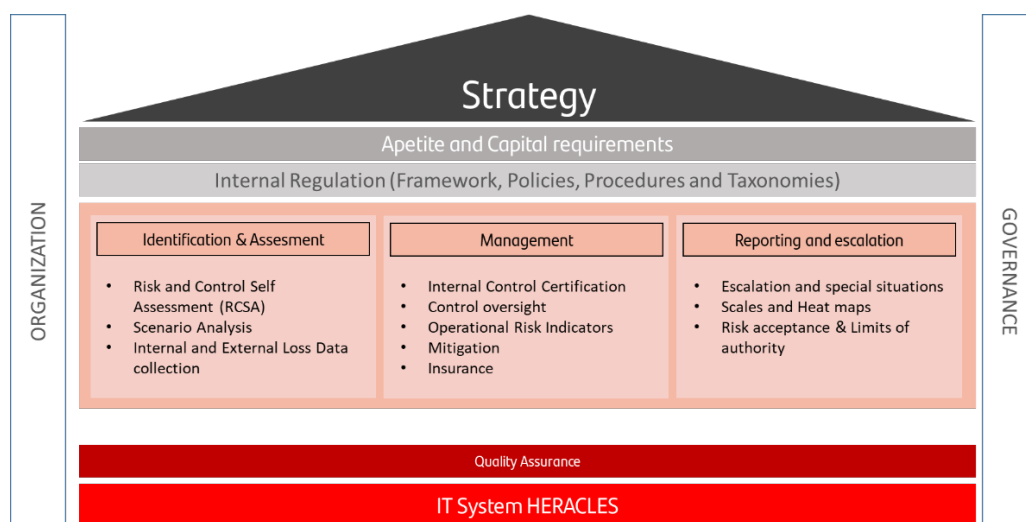
Operational risk is inherent to all products, activities, processes and systems, and is generated in all business and support areas. Accordingly, all employees are responsible for managing and controlling operational risks arising in their area of activity.

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

The 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, the Group has been applying the standardised approach set out in the BIS II regulation.





#### ***b) Operational risk management and control model***

##### **Operational risk management cycle**

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

- Identifying the operational risk inherent to all activities, products, processes and systems of the Group. This process is carried out via the Risk and Control Self-assessment (RCSA) exercise.
- Definition of the target operational risk profile, specifying the strategies by unit and time horizon, through the establishment of the operational risk appetite and tolerance, the budget and the related monitoring.
- Encouragement of the involvement of all employees in the operational risk culture, through appropriate training for all areas and levels of the organisation.
- Objective and ongoing measurement and assessment of operational risk, consistent with industry and regulatory standards (Basel, Bank of Spain, etc.).
- Continuous monitoring of operational risk exposures, implementation of control procedures, improvement of internal awareness and mitigation of losses.
- Establishment of mitigation measures to eliminate or minimise operational risk.
- Preparation of periodic reports on the exposure to operational risk and its level of control for the senior management of the Group and its areas/units, and reporting to the market and the regulatory authorities.
- Definition and implementation of the methodology required for calculating capital in terms of expected and unexpected loss.

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

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

Towards this end, 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.

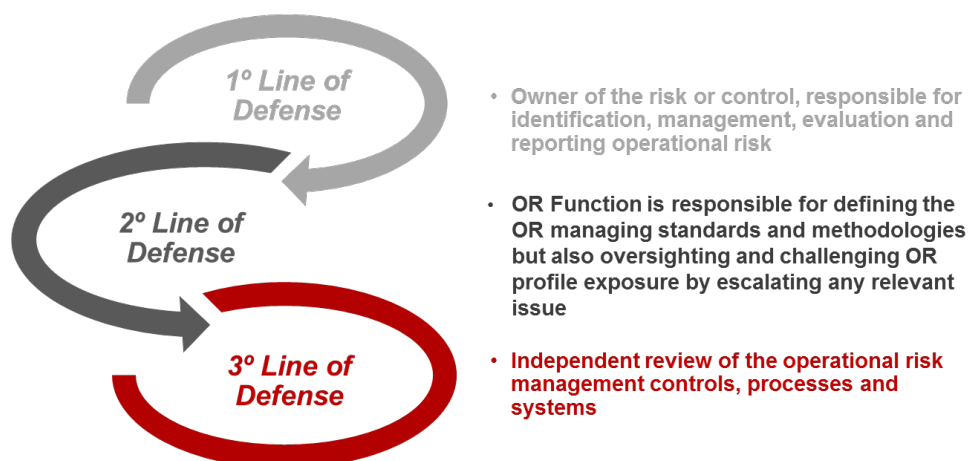
The model of operational risk management and control implemented by the Group provides the following benefits:

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

#### c) Risk identification, measurement and assessment model

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

- 1st line of defence: Integrated in the 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 the Group 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 the Group. 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, since the Group, through the Santander Group, takes part in international consortia such as ORX (operational risk exchange). In 2016, the Group started to make increased use of external databases that provide quantitative and qualitative information to 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: Operational risk assessment methods, based on managers' expert judgement, leading to a qualitative view of the Group's main risk focuses, regardless of whether or not they have materialised previously.

Benefits of RCSA:

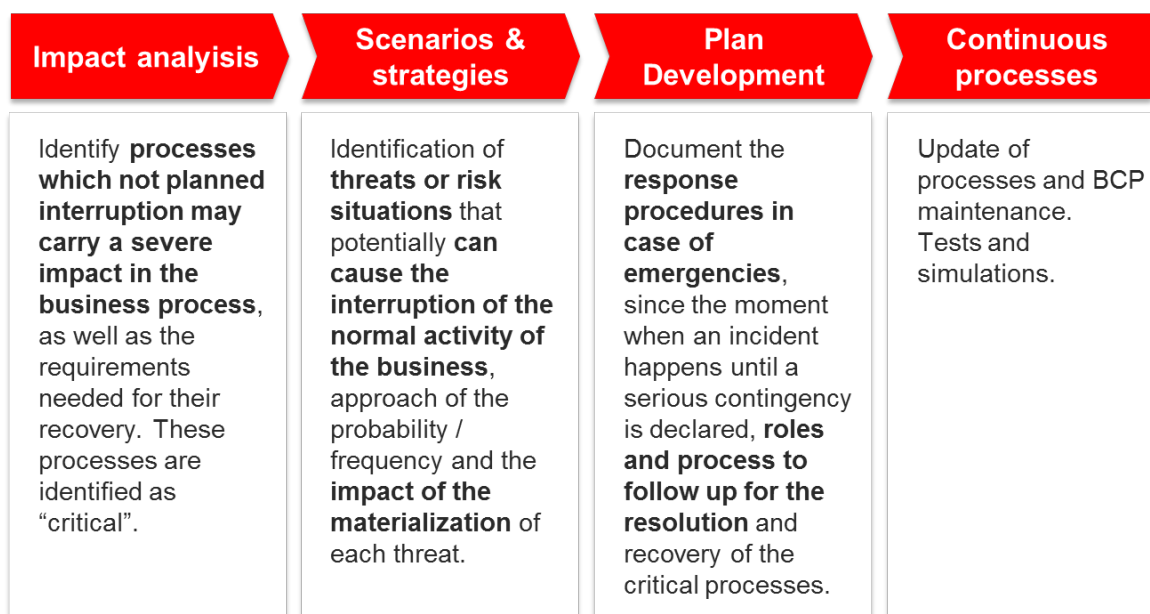
- a. Incentivises responsibility of the first lines of defence: It establishes the first line figures of risk owner and control owner.
  - b. Favours the identification of the most significant risks: Non-predefined risks, but rather risks that arise from the risk-generating areas.
  - c. Improved integration of OR tools: The root cause analysis is included.
  - d. Improved test validation. Carried out through workshops instead of questionnaires.
  - e. Makes the years have a more forward-looking approach: The financial impact of 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.
  - Recommendations from regulators, Internal Audit and the external auditor. These provide relevant information on inherent risk arising from internal and external factors, and enable identification of weaknesses in controls.
  - Other specific instruments that permit a more detailed analysis of technology risk, such as control of critical incidences in systems and cyber-security events.

#### **d) Operational risk information system**

HERACLES is the corporate operational risk information system. This system has risk self-assessment modules, event registration, a risk and assessment map, indicators of both operational risk and of internal control, mitigation and reporting *systems* and scenario analysis applicable to all Group companies.

#### **e) Business Continuity Plan**

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



The basic objective consists of the following:

- Minimising possible injury to persons, as well as adverse financial and business impacts for the Group, resulting from an interruption of normal business operations.
- Reducing the operational effects of a disaster by supplying a series of pre-defined, flexible guidelines and procedures to be employed in order to resume and recover processes.
- Resuming time-sensitive business operations and associated support functions, in order to achieve business continuity, stable earnings and planned growth.
- Re-establishing the time-sensitive technology and transaction-support operations of the business if existing technologies are not operational.
- Safeguarding the public image of, and confidence in, the Group.
- Meeting the Group's obligations to its employees, customers, shareholders and other third-party stakeholders.

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

Specifically, information is prepared on the following subjects:

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

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

#### **The role of insurance in operational risk management**

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

These guidelines include the following activities:

- Identification of all risks at the Group that could be covered by insurance, as well as new insurance cover for risks already identified in the market.
- Establishment and implementation of criteria for quantifying insurable risk, based on the analysis of losses and in loss scenarios that make it possible to determine the Group's level of exposure to each risk.
- Analysis of the cover available in the insurance market, as well as preliminary design of the terms and conditions that best suit the requirements previously identified and evaluated.
- Technical assessment of the level of protection provided by a policy, the cost and levels of retention that would be assumed by the Group (deductibles and other items borne by the insured) for the purpose of deciding whether to contract it.
- Negotiation with insurance providers and contract awards in accordance with the relevant procedures established by the 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.

### Cyber risk

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

In the event of a cyber incident, the main cyber risks for Santander Consumer Finance consist of three elements:

- Unauthorized access to or misuse of information or systems (e.g., theft of business or personal information).
- Theft and financial fraud.
- Business interruption (e.g., sabotage, extortion, denial of service).

In 2019, 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.

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 policies 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.

The main instruments and processes established for the control of cybersecurity risk are:

- Compliance with cyber-risk appetite: the objective of this process is to ensure that the cyber-risk profile is in line with the risk appetite. Cyber-risk appetite is defined by a series of metrics, risk statements and indicators with corresponding tolerance thresholds and where existing governance structures are used for monitoring and escalation, including risk committees and cybersecurity committees.
- Identification and assessment of cybersecurity risk: The cyber-risk identification and assessment process is a key process to anticipate and determine the risk factors that could cause cyber-risk and estimate their likelihood and impact. Cyber risks are identified and classified in line with the control categories defined in the latest industry-relevant security standards (such as ISO 27k, NIST Cybersecurity Framework, etc.). The methodological catalogue includes methods used to identify, qualify and quantify cyber-risks, and to evaluate the controls and corrective measures taken by the first line of defence. Cyber-risk assessment tests are a key tool for identifying and assessing cybersecurity risks at Santander Consumer Finance entities. Cybersecurity and technology risk assessment must be updated when reasonably necessary, taking into account changes in information systems, confidential or business information, and the Entity's business operations.
- Control and mitigation of cyber-risk: processes relating to an assessment of the effectiveness of risk control and mitigation. Once cyber risks have been assessed and mitigation measures defined, these measures are included in a Santander Consumer Finance cybersecurity risk mitigation plan. Residual risks are identified and formally accepted. Due to the nature of cyber-risks, risk mitigation plans are regularly reassessed. A key process in the face of a successful cybersecurity attack is the business continuity plan. Santander Consumer Finance has mitigation strategies and measures in place in connection with business continuity management plans and disaster recovery. These measures also address cyberattacks, based on defined policies, methods and procedures.

- Monitoring, supervision and notification of cyber-risk: Santander Consumer Finance controls and monitors cyber-risk in order to regularly analyse the information available on the risks accepted in the course of the Group's activities. For this purpose, Key Risk Indicators (KRIs) and Key Performance Indicators (KPIs) are monitored to assess whether risk exposure is in line with authorised risk appetite.
- Escalation and reporting: Proper escalation and reporting of cyberthreats and cyberattacks is another key process. Santander Consumer Finance has tools and processes for detecting internal threats and potential hazards in its infrastructure, servers, applications and databases. Notification includes the preparation of reports and the presentation to the relevant committees of the information required to assess exposure to cyber-risk and the cyber-risk profile and to take the decisions and measures required. In this regard, reports are prepared on the cyber-risk situation for the management committees, Mechanisms also exist for independent internal escalation for the bank's management team of technological and cybersecurity incidents and, where required, for the corresponding regulator.

### **Compliance and conduct risk**

The compliance function includes all issues relating to regulatory compliance, prevention of money laundering and terrorist financing, governance of products and consumer protection and reputational risk.

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

The SCF's objective in the area of compliance and conduct risk is to minimise the probability that non-compliance and irregularities occur and, in the event of such occurrence, that they are identified, assessed, reported and quickly resolved.

SCF continues to transform the Compliance function with the aim of achieving by the end of 2019 complete alignment with the Santander Group's standards in terms of management policies, procedures and methods at all its units.



**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: geographic 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 150 million euros, 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 2019 of the distribution of customer loans by activity (carrying value, not including advances) is as follows:

	TOTAL	Without collateral	Of which: mortgage collateral (e)	Of which: 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%
<b>1. Public authorities</b>	122,387	122,387	-	-	-	-	-	-	-
<b>2. Other financial corporations and individual entrepreneurs (financial business)</b>	262,800	223,617	1,692	37,491	1,476	836	493	35,855	523
<b>3. Non-financial companies and individual entrepreneurs (non-financial business activity) (broken down by purpose)</b>	27,286,915	15,473,979	296,801	11,516,135	2,407,261	82,787	57,969	7,730,026	1,534,893
3.1 Real estate construction and development (including land)	57,529	45,824	-	11,705	4,595	370	1,294	3,197	2,249
3.2 Civil engineering	23,627	-	-	23,627	23,627	-	-	-	-
3.3 Large corporations	11,812,925	6,969,936	93,478	4,749,511	978,981	30,186	12,537	3,817,053	4,232
3.4 SMEs and individual entrepreneurs	15,392,834	8,458,219	203,323	6,731,292	1,400,058	52,231	44,138	3,909,776	1,528,412
<b>4. Other households (broken down by purpose)</b>	66,364,246	55,154,305	5,080,648	6,129,293	1,994,907	1,777,023	1,033,069	4,220,094	2,184,848
4.1 Housing units	4,911,033	548,128	4,356,164	6,741	1,109,491	1,381,231	993,744	336,389	542,050
4.2 Consumer loans	61,024,638	54,435,095	507,484	6,082,059	801,440	315,453	4,719	3,833,899	1,634,032
4.3 Other purposes	428,575	171,082	217,000	40,493	83,976	80,339	34,606	49,806	8,766
<b>5. TOTAL</b>	94,036,348	70,974,288	5,379,141	17,682,919	4,403,644	1,860,646	1,091,531	11,985,975	3,720,264
<b>MEMORANDUM ITEMS</b>									
Refinancing, refinanced and restructured operations (*2)	302,572	265,883	36,590	99	2,837	6,429	8,699	6,149	12,575

In addition, the Consumer Group has granted advanced to customers in the amount of 612,944 thousand euros; hence, total loans and advances to customers amounts to 94,649,292 thousand euros.

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

The breakdown at 30 June 2019 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	Americas	Rest of the world	Total
Credit institutions –	1,394,753	6,780,285	-	170,797	<b>8,345,835</b>
Central banks					
Public administrations	1,453,334	871,302	-	21,459	<b>2,346,095</b>
<i>Of which:</i>					
<i>Central government</i>	1,402,937	800,656	-	-	<b>2,203,593</b>
<i>Other public administrations</i>	50,397	70,646	-	21,459	<b>142,502</b>
Other financial institutions	17,027	302,611	9,936	148,922	<b>478,496</b>
Non-financial institutions and individual entrepreneurs					
.	2,660,924	23,722,819	-	1,710,390	<b>28,094,133</b>
<i>Of which:</i>					
<i>Real estate construction and development</i>	-	57,530	-	-	<b>57,530</b>
<i>Civil engineering</i>	-	23,628	-	-	<b>23,628</b>
<i>Large companies</i>	734,890	10,995,519	-	608,832	<b>12,339,241</b>
<i>SMEs and individual entrepreneurs</i>	1,926,034	12,646,142	-	1,101,558	<b>15,673,734</b>
Other households and non-profit institutions serving households	12,625,021	48,996,627	38	4,768,624	<b>66,390,310</b>
<i>Of which:</i>					
<i>Residential</i>	2,002,438	2,918,575	-	-	<b>4,921,013</b>
<i>Consumer</i>	10,548,937	45,720,755	38	4,768,624	<b>61,038,354</b>
<i>Other purposes</i>	73,646	357,297	-	-	<b>430,943</b>
<b>Total</b>	<b>18,151,059</b>	<b>80,673,644</b>	<b>9,974</b>	<b>6,820,192</b>	<b>105,654,869</b>

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

#### *EVENTS AFTER THE REPORTING PERIOD*

Since 30 June 2019 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		Annual interest rate (%)	Maturity date
	30-06-19	31-12-18		
<b>Euros:</b>				
May 2016 issue	-	500,000	0.125	May 2019
July 2007 issue	150,000	150,000	5.135	July 2022
May 2019 issue	450,000	-		May 2022
<b>Balance at 30 June</b>	<b>600,000</b>	<b>650,000</b>		

The aggregate nominal value of outstanding mortgage covered bonds at 30 June 2019 and 30 December 2018 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 2019			
	Less than 3 years	Between 3 and 5 years	Between 5 and 10 years	Over 10 years
Issued through public offerings:	450,000	150,000	-	-
Not issued in public offers, including nominative, private, withheld and FAFA	-	-	-	-
	<b>450,000</b>	<b>150,000</b>	-	-

	Thousands of euros			
	Residual maturity at 31 December 2018			
	Less than 3 years	Between 3 and 5 years	Between 5 and 10 years	Over 10 years
Issued through public offerings:	500,000	150,000	-	-
Not issued in public offers, including nominative, private, withheld and FAFA	-	-	-	-
	<b>500,000</b>	<b>150,000</b>	-	-

At 30 June 2019 and 31 December 2018, the breakdown of the Bank's mortgage loans, based on their eligibility in respect of mortgage market calculations, is as follows:

	Thousands of euros	
	Par value	
	30-06-19	31-12-18
Total mortgage-backed loans and credits	1,776,840	1,943,360
Mortgage participations issued	-	-
Mortgage transfer certificates issued	-	-
Mortgage loans pledged in guarantee for financing received	-	-
Loans backing mortgage bonds issues and covered bond issues	1,776,840	1,943,360
i) Ineligible mortgage loans and credits	677,768	770,271
- They meet eligibility requirements, except for limits established in Article 5.1. of Royal Decree 716/2009	677,768	76
- Others	-	770,195
ii) Eligible mortgage loans and credits	1,099,072	1,266,328
- Non-computable amounts	-	-
- Computable amounts	1,099,072	1,173,089
a) Mortgage loans and credits covering issues of mortgage bonds	-	-
b) Mortgage loans and credits covering issues of mortgage covered bonds	1,099,072	1,173,089

(\*) As the Bank has no outstanding mortgage bonds at 30 June 2019 and 31 December 2018, 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			
	30-06-19		31-12-18	
	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	1,776,840	1,099,072	1,855,600	1,137,692
Assumed from other entities	-	-	-	-
Others	-	-	-	-
Currency				
Euro	1,776,840	1,099,072	1,855,600	1,137,692
Other currencies	-	-	-	-
Payment status				
Payment normality	1,708,577	1,075,573	1,786,337	1,113,009
Other status	68,263	23,499	69,263	24,683
Average residual period to maturity				
Up to 10 years	153,234	138,744	157,523	142,808
Between 10 and 20 years	672,902	539,649	707,777	565,474
Between 20 and 30 years	844,231	376,182	875,624	383,103
Over 30 years	106,474	44,497	114,676	46,307
Interest rate				
Fixed	157	3	38	4
Variable	1,776,683	1,099,069	1,855,562	1,137,688
Mixed	-	-	-	-





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				
	30-06-2019				
	Millions of euros				
	Up to 40%	>40%, <= 60%	>60%, <=80%	>80%	Total
Mortgage loans and credits eligible for issuing mortgage bonds and mortgage covered bonds	304	407	387	-	1,098
- Residential	301	400	387	-	1,088
- Other	3	7			10

	LTV ranges				
	31-12-2018				
	Millions of euros				
	Up to 40%	>40%, <= 60%	>60%, <=80%	>80%	Total
Mortgage loans and credits eligible for issuing mortgage bonds and mortgage covered bonds					
- Residential	298	393	435	-	1,126
- Other	4	8	-	-	12

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 31 December 2017	<b>1,224,373</b>	<b>808,816</b>
Reductions in the year	(87,039)	(94,575)
<i>Cancellations on maturity</i>	-	-
<i>Repaid early</i>	(84,537)	(64,545)
<i>Subrogated by other entities</i>	-	-
<i>Others</i>	(2,503)	(30,029)
Period additions	358	3,667
<i>Originated by the Entity</i>	358	3,667
<i>Subrogated from other entities</i>	-	-
<i>Others</i>	-	-
<b>Balance at 30 June 2018</b>	<b>1,137,692</b>	<b>717,908</b>
Reductions in the year	(41,471)	(40,347)
<i>Cancellations on maturity</i>	-	-
<i>Repaid early</i>	(32,171)	(13,389)
<i>Subrogated by other entities</i>	-	-
<i>Others</i>	(9,300)	(26,958)
Period additions	2,851	206
<i>Originated by the Entity</i>	2,851	206
<i>Subrogated from other entities</i>	-	-
<i>Others</i>	-	-
<b>Balance at 30 June 2019</b>	<b>1,099,072</b>	<b>677,767</b>

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 2019, the Bank's share capital consisted of 1,879,546,172 registered shares, with a par value of 3 euros 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 2019, and no treasury shares are held at 30 June 2019.

**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 non-financial information statement must provide: a brief description of the Group's business model and policies and the results of their application; the main risks involved in its activities; and information on its key non-financial operating indicators 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](http://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.

To enter into, modify, subrogate and terminate finance leases on all manner of movable and immovable properties, under the terms and conditions freely determined, and to acquire the properties held under such finance leases, with the sole limit that when the acquisition amount exceeds three hundred thousand five hundred and seven euros, they 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.

2. To verify groupings or subdivisions of properties, demarcations and deeds of declaration of new construction.
3. 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.
4. 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.
5. 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 three hundred thousand five hundred and seven euros 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.
6. 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.).
7. 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.
8. 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.
9. 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.

10. 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.
11. As security for the obligations of third parties and on their behalf, whether said parties are 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, with the sole limit that, if the obligation undertaken by way of guarantee exceeds three million five thousand and sixty euros, 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.
12. 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.
13. 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.
14. 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.
15. 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.
16. 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.
17. 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.

18. To authorise certifications of the Bank's accounting ledgers and documents.
19. To execute and sign the public deeds and private documents required for the aforementioned acts and agreements
20. 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.