Santander Consumer Bank

# Financial Statements at 31 December 2018

Company subject to the direction and coordination of
Santander Consumer Finance S.A. pursuant to art. 2497 bis of the Italian Civil Code

General information

# General information

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| **Head office** | Corso Massimo D'Azeglio 33/E<br>Tel: 011/63.19.111 – Fax 011/63.19.119 |
| **Shareholder structure** | Santander Consumer Finance S.A.<br>(Santander Group) 100% |

## Directors and officers

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| **Board of Directors** | |
| Chairman | Ettore Gotti Tedeschi |
| Chief Executive Officer | Alberto Merchiori |
| Directors | Pedro De Elejabeitia Rodriguez<br>Adelheid Maria Sailer-Schuster<br>David Turiel Lopez<br>Antonella Tornavacca<br>Patrizia Rizzo |
| **Board of Statutory Auditors** | |
| Chairman | Walter Bruno |
| Acting Auditors | Maurizio Giorgi<br>Franco Riccomagno |
| Substitute Auditors | Luisa Girotto<br>Marta Montalbano |
| **General Manager** | Alberto Merchiori |
| **Independent Auditors** | PricewaterhouseCoopers S.p.A. |

## History and Ownership

Santander Consumer Bank S.p.A. (hereinafter also Santander Consumer Bank or the Bank) was founded in November 1988 with the name of Finconsumo S.p.A. on the initiative of ten private banks in the north-west of Italy and their Turin-based subsidiary Leasimpresa S.p.A. with the strategic aim of ensuring its shareholders a presence in the consumer credit market through a specialised entity.

Some key moments in the Company's history:

- 1993, Istituto Bancario San Paolo di Torino (now Banca Intesa Sanpaolo S.p.A.) acquired 15.8% of the Bank;
- 1998, Istituto Bancario San Paolo di Torino and CC-Holding GmbH, the holding company of CC-Bank AG Group, a German bank specialised in consumer credit and a wholly-owned subsidiary of the Spanish group Banco Santander Central Hispano (now Banco Santander S.A.) acquired 50% of the company
- 1999, the company set up Fc Factor S.r.l., specialised in the purchase and management of doubtful loans;
- 2001 Finconsumo S.p.A. became Finconsumo Banca S.p.A.;
- 2003 Santander Consumer Finance S.A., parent company of Santander Group's consumer credit business in Europe, acquired 20% of Banca Sanpaolo IMI S.p.A. (now Banca Intesa Sanpaolo S.p.A.) and 50% of CC-Holding GmbH;
- 2004, Santander Consumer Finance S.A. became 100% shareholder;
- 2006, Finconsumo Banca S.p.A. became Santander Consumer Bank S.p.A.;
- 2006, Santander Consumer Finance Media S.r.l. was set up (with a 65% holding) as a joint venture with the De Agostini publishing group;
- 2011, Santander Consumer Finanzia S.r.l. (formerly FCFactor S.r.l.) was merged with the parent company Santander Consumer Bank S.p.A.;
- 2013, Santander Consumer Unifin S.p.A. (formerly Unifin S.p.A.) joined the Santander Consumer Bank Banking Group after the sole shareholder Santander Consumer Finance S.A. subscribed the increase in capital decided by Santander Consumer Bank S.p.A. by contributing its investment in Santander Consumer Unifin S.p.A.;
- 2015, Santander Consumer Unifin S.p.A. was merged with the parent company Santander Consumer Bank S.p.A.;
- The joint venture Banca PSA Italia S.p.A. was formed, held 50% with Banque PSA Finance, belonging to the Peugeot Group;
- 2016, the joint venture Banca PSA Italia S.p.A. became operational through a capital increase subscribed 50% by Santander Consumer Bank S.p.A. and 50% by the shareholder Banque PSA Finance through the transfer of the business segment;
- The purchase by Accedo S.p.A. (Intesa San Paolo Group) of a business segment made up of a network of sole agents and the relevant sales agreements with leading companies was completed.
- 2018, the procedure to liquidate and remove from the Register of Companies the company Santander Consumer Finance Media S.r.l., a joint venture formed in 2006 with the publishing group DeAgostini, was completed.

Santander Consumer Bank S.p.A. acquired from the Italian subsidiary of the company of the Santander Group, Ingenierìa de Banking Software S.L., a branch of the company represented by activities for the management and planning of projects related to information systems.

Banca PSA Italia S.p.A. acquired from Banque PSA Finance S.A. 100% of the shareholding in PSA Renting S.p.A., which became part of the Santander Consumer Bank Group through the indirect shareholding by Santander Consumer Bank S.p.A.

# Corporate Governance

# Corporate Governance

The system of corporate governance adopted by Santander Consumer Bank S.p.A. is based on the central role of the Board of Directors, the proper management of conflicts of interest, the transparency in the communication of corporate decisions and the efficiency of its system of internal control.

The system was established to strengthen the minimum standards of corporate governance and organisation and ensure the Group's "sound and prudent management" (art. 56 of Consolidated Banking Act), as last defined by the Bank of Italy in its update of Circular 285 of 17 December 2013, with the inclusion of Chapter 1 "Corporate Governance" in Part One, Title IV of the Circular (the "Rules"). By including this chapter, the Supervisory Authority outlined a regulatory framework that gives the organisation a central role in defining corporate strategies and policies for the management and control of the risks that are typical of banking activities.

The internal control system is also intended to ensure the reliability, accuracy, trustworthiness and timeliness of financial reporting.

In defining its organisational structure to make it comply with current regulations, Santander Consumer Bank S.p.A. intended to achieve the following objectives: (i) a clear distinction between functions and responsibilities; (ii) an appropriate balance of powers; (iii) a balanced composition of the corporate bodies; (iv) an integrated and effective system of controls; (v) monitoring of all business risks; (vi) remuneration mechanisms consistent with the policies of risk management and long-term strategies; (Vii) reliability, accuracy, trustworthiness and timeliness of financial reporting.

Santander Consumer Bank S.p.A. has adopted a traditional governance model that consists of the following main corporate bodies:

- Board of Directors
- Board Committees
- Chairman of the Board of Directors
- Chief Executive Officer
- General Management
- Shareholders' Meeting
- Board of Statutory Auditors
- Internal Standing Committees

The functions and powers of the corporate bodies are governed by law, the articles of association and the resolutions passed by the competent bodies.

The articles of association are available at the Company's head office and on its website (www.santanderconsumer.it).

## The Board of Directors

The Board of Directors is appointed by the Shareholders' Meeting for a maximum of three years.

It elects a Chairman, and possibly a Deputy Chairman, from among its members. It can also appoint a Chief Executive Officer, establishing his powers; if appointed, the Chief Executive Officer also holds the position of General Manager.

The Board can also appoint a General Manager and one or more Deputy General Managers.

The current Board of Directors, which was appointed for the period 2018-2020, is made up as follows:

- Ettore Gotti Tedeschi (Chairman)
- Alberto Merchiori (Chief Executive Officer)
- Pedro De Elejabeitia Rodriguez (Director)
- Patrizia Rizzo[1] (Independent Director)
- Antonella Tornavacca (Director)
- Adelheid Maria Sailer-Schuster (Independent Director)
- David Turiel Lopez (Director)

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[1] co-opted by the Board of Directors' meeting of 22.01.2019, pursuant to Article 2386 of the Italian Civil Code

Alberto Merchiori also holds the position of General Manager.

The Board of Directors is made up of representatives of the Santander Group's Spanish top management, which ensures that the Parent/Subsidiary relationship is extremely effective, as it shortens the chain of transmission of information in the exercise of the Parent's management and coordination activities.

In accordance with art. 13 of the articles of association, the members of the Board of Directors, of which one out of four needs to be an independent member, must satisfy the independence requirements laid down therein. The Independent Directors ensure a high level of debate within the Board and make a significant contribution to the formation of Board decisions.

The Board of Directors is responsible for determining the criteria for the coordination and management of the Santander Consumer Bank Group companies, consisting of Santander Consumer Bank S.p.A., and Banca PSA Italia S.p.A., given the removal from the Turin Companies' Register on 24 December 2018 of the subsidiary Santander Consumer Finance Media S.r.l. in liquidation. It exercises all of the functions pertaining to overall governance of the Group, dealing effectively with the various different issues that form part of its mandate.

With particular regard to the subsidiary Banca PSA Italia S.p.A., management and coordination activities are ensured not only by the presence of three members of the Board of Directors and one member of the Board of Statutory Auditors appointed by Santander Consumer Bank S.p.A., but also by (i) the participation of representatives of Santander Consumer Bank S.p.A. within the internal committees of Banca PSA Italia S.p.A., (ii) the planning of regular meetings between the main business functions of the two companies, (iii) the exchange of information and reporting on relevant subjects (i.e. profit and loss performance and capital planning, collection, LCR and AML performance), (iv) the review and validation of the documentation to be submitted for examination and approval by the Board of Directors of Banca PSA Italia S.p.A. (RAF, ILAAP, ICAAP, policies and procedures) and (v) support in the examination and implementation of regulations and projects developed at Group level.

As regards the internal control system, beyond the routine activities of direction and supervision, increasing attention is being given to the various activities involved in implementing procedures to allow periodic checks on the system's adequacy and effectiveness.

Special care is taken in the correct identification of business risks and their mindful management, also by making changes to the organisational structures where the critical points of certain processes are located, as well as by establishing so-called first-level controls.

In carrying out its mandate, the Board of Directors deals with and takes decisions regarding the key aspects of the Group, always bearing in mind the strategic direction and goals of the Santander Group:

- determining short and medium term management options and approving projects of strategic importance, as well as company policies (strategic plan, operational plans, projects);
- establishing the Bank's orientation to the various types of risk, also in relation to the returns that are expected to be earned by the business (RAF – Risk Appetite Framework);
- approving the capital allocation procedures and the macro-criteria to be used in implementing the investment strategies;
- approving the budget and overseeing the results of operations;
- preparing the periodic reports on operations and annual financial statements, with related proposals for the distribution of profits for the subsequent Shareholders' Meeting;
- examining and approving transactions of particular importance from an economic, financial and risk point of view;
- reporting to the shareholders at General Meetings;
- approving the organisational structure and related regulations, analysing aspects of their adequacy with respect to the business;
- approving the system of delegated powers;
- defining and approving risk management policies;
- approving the audit, compliance and risk management plans and examining the results of the activities carried out by these functions.

The Board of Directors is also responsible for:

- the setting up of Board committees;
- establishing and defining the operating rules of internal standing committees;
- examining and approving territorial development plans.

During 2018, the Board met thirteen times with a participation rate of 92%.

## Board Committees

**Nominations Committee**

As required by the Rules, the Bank has set up a Nominations Committee, the composition of which, its mandate, its powers (consultative, investigative, advisory) and the resources made available thereto are governed by the Regulations for the functioning of the Nominations Committee.

The Nominations Committee supports the Board of Directors and the General Manager in the management of the processes relating to the nomination or co-option of directors, self-assessment of the corporate bodies, verification that the Board members meet the requirements of integrity, professionalism and independence and the definition of succession plans for those holding senior executive positions; the Committee also supports the Risk Committee in the identification and proposal of heads of corporate control functions to be appointed by the Board of Directors.

The Nominations Committee is composed as follows:

- Patrizia Rizzo (Chairman)
- Adelheid Maria Sailer-Schuster
- Ettore Gotti Tedeschi

**Remuneration Committee**

As required by the Rules, the Bank has set up a Remuneration Committee, the composition of which, its mandate, its powers (consultative, investigative, advisory) and the resources made available thereto are governed by the Regulations for the functioning of the Remuneration Committee.

The Remuneration Committee's duties are (i) advisory as regards compensation of staff, the remuneration and incentive schemes of which are decided by the Board of directors, and (ii) consultative as regards the determination of the criteria for the compensation of all key personnel; it also ensures proper implementation of the rules on the remuneration of the heads of corporate control functions, in close collaboration with the Board of Statutory Auditors, it ensures the involvement of the pertinent corporate functions in the process of preparation and monitoring of remuneration and incentive policies and practices, and it provides appropriate feedback to the corporate bodies, including the shareholders' meeting, on the work that it has carried out.

The Remuneration Committee is composed as follows:

- Adelheid Maria Sailer-Schuster (Chairman)
- Pedro De Elejabeitia Rodriguez
- Patrizia Rizzo

**Risk Committee**

As required by the Rules, the Bank has set up a Risk Committee, the composition of which, its mandate, its powers (consultative, investigative, advisory) and the resources made available thereto are governed by the Regulations for the functioning of the Risk Committee.

The Risk Committee provides support to the Board of directors concerning risks and the internal control system, with a particular focus on activities that are instrumental and necessary for a correct and effective determination of the RAF (risk appetite framework) and of risk management policies; without prejudice to the sphere of competence of the Remuneration Committee, the Risk Committee also ascertains whether the incentives under the remuneration and incentive scheme of the Bank are consistent with the RAF.

The Risk Committee is composed as follows:

- Adelheid Maria Sailer-Schuster (Chairman)
- Patrizia Rizzo
- David Turiel Lopez

## The Chairman of the Board of Directors

The Chairman promotes the effective functioning of the system of corporate governance, ensuring a balance of power with respect to the Chief Executive Officer, if appointed, and to the executive directors and acts as the interlocutor for the internal control bodies.

The Chairman also ensures the effectiveness of Board discussions and makes sure that the decisions reached by the Board are the result of adequate debate and contribution by its members

## The Chief Executive Officer

The Chief Executive Officer/General Manager is responsible, among other things, for making lending decisions on the basis of the powers attributed to him, he is the head of personnel, he is the Bank's representative in all court matters, he is the direct interlocutor with the Statutory Auditors, the Independent Auditors and the Bank of Italy, he orders routine inspections, investigations and administrative inquiries in accordance with the audit plan or on the proposal of the competent function.

## General Management

The duties and powers of General Management are governed by internal regulations, which give it a key role in the management of the Group, as well as acting as the link between the Board of Directors and the operational functions, and between the Parent Company and its subsidiaries.

At 31 December 2018, the following were members of General Management: the Chief Executive Officer and General Manager Alberto Merchiori, Andrea Prioreschi (Head of Information Technology and Processes), Pier Marco Alciati (Head of Sales and Marketing), Antonella Tornavacca (Head of Risk), Ida Lo Pomo (Head of Collection), Miguel Silva (Head of Administration and Control), Davide Spreafico (Head of Institutional Relations, Legal and Compliance) and Luis Ignacio Oleaga Gascue (Head of Finance).
The members of General Management directly oversee all functional areas of the Bank and ensure complete implementation of the strategic guidelines in the management and operating decisions made by them. The decision-making process is developed in relation to the roles and powers of each member of General Management, under the constant coordination of the Chief Executive Officer/General Manager.

General Management has the following functions, among other things:

- it interacts with the structures of the Santander Group in the preparation of the strategic plan for approval by the Board of Directors, as well as for important business matters or for studies and projects of considerable strategic value;
- it interacts with the structures of the Parent Company Santander Consumer Finance S.A. for the development of operational plans subsequently submitted for approval by the competent bodies, as well as to discuss the results and problems concerning the various executive activities;
- it oversees implementation of the global strategies approved by the Board of Directors, ensuring the company's consistency in terms of investment policies, use of organisational resources and enhancement of personnel;
- it identifies and defines, within the strategic guidelines set by the Board of Directors, the actions for repositioning the organisational and governance model, as well as important project initiatives, to be approved by the administrative bodies, supervising their implementation;
- it formulates preliminary analyses to define the objectives of risk management and the expected returns from the various business activities;
- it oversees all contacts with the markets and with institutional investors;
- it promotes all initiatives likely to enhance corporate ethics as a fundamental value of the internal and external conduct of the Group.

## The Shareholders' Meeting

The Shareholders' Meeting is the body that expresses the will of the shareholders through its resolutions. The resolutions passed in accordance with the law and the articles of association are binding on all shareholders, including those who were absent or in dissent.

The Shareholders' Meeting has exclusive competence for resolutions concerning the approval of:

I. the remuneration of corporate bodies appointed thereby, inclusive of any proposal to award compensation to the Chairman of the Board of Directors exceeding that envisaged by current regulations;
II. the remuneration and incentive policies for members of the Board of Directors, employees or external collaborators (who are not linked to the Company via an employment contract), inclusive of any proposal to set a limit to the ratio of variable to fixed components of remuneration for any individual that exceeds a ratio of 1:1, but, in any case, not higher than 2:1;
III. share-based compensation plans (such as stock options) in favour of members of the Board of Directors, employees or external collaborators who are not linked to the Company with a contract of employment, and members of the Board of Directors, employees or external collaborators of companies forming part of the Santander Consumer Bank Banking Group;
IV. the criteria for ex ante agreement on the compensation payable in the event of early termination of the employment relationship or early termination of office (golden parachute) of Company employees or Board members.

## The Board of Statutory Auditors

The current Board of Statutory Auditors, which was appointed for the period 2018-2020, is made up as follows:

- Walter Bruno – Chairman;
- Maurizio Giorgi – Acting Auditor;
- Franco Riccomagno – Acting Auditor;
- Luisa Girotto – Substitute Auditor;
- Marta Montalbano – Substitute Auditor.

The duties institutionally assigned to the Board of Statutory Auditors aim to monitor the formal and substantial correctness of the administration, as well as to offer itself as a qualified point of reference for the Supervisory Authorities and the Independent Auditors. At present, the Statutory Auditors carried out their work by performing direct test checks and acquiring information from members of the Administrative Bodies and representatives of the Independent Auditors.

In particular, their main activities include:

- monitoring compliance with laws and the articles of association in accordance with sound management principles and that proper strategic, management control has been carried out by the Bank over the Banking Group companies;
- verifying the adequacy of the organisational structure, paying special attention to the internal control system, ensuring that it functions properly;
- examining important problems and critical aspects that emerge from internal audit activities, monitoring the action taken to resolve them.

The Board of Statutory Auditors can attend meetings of the Board of Directors; it meets as often as required for the performance of the functions attributed to it and, in any case, at least once a quarter, as laid down by law.

It is not responsible for auditing the accounts for legal purposes, which is up to the Independent Auditors. The Independent Auditors are required to verify, during the year, that the accounts are kept correctly and that all transactions and other operational events are reflected correctly in the accounting records. They also check that the figures shown in the separate and consolidated financial statements agree with the accounting records and the checks performed, and that the accounting documents comply with the rules governing them.

## The Internal Standing Committees

As part of an adequate system of corporate governance aimed at ensuring (i) timely analysis of issues and opportunities related to the evolution of the business and (ii) the protection of all stakeholders' interests, the Board of Directors has set up the internal committees listed below.

These Committees may have an advisory and consulting role in specific areas of competence, or - in accordance with the powers delegated to them by the Board of Directors by virtue of a specific resolution or within the scope of the corporate policies approved by the board - a deliberative role.

## The Management Committee

This Committee is mainly entrusted with control functions to ensure proper execution of the decisions taken by the Strategic Oversight Body, as well as their adoption by the business's operations in general, as well as by individual departments and Group companies; the Committee is also responsible for continuous monitoring of the Santander Consumer Bank Group and for providing relevant information to the management bodies.

It is essentially an advisory and consulting body that provides supports to the Administrative Body. In particular, the Committee assists the Chief Executive Officer and the General Manager in implementing the Group's strategy and development plan and in decisions that may affect the Group's balance sheet and income statement; it also monitors projects for the development of new products and services and business plans managed by the Human Resources Unit.

The Committee consists of the Chief Executive Officer and General Manager, the Head of Information Technology and Processes, the Head of Risk, the Head of Sales and Marketing, the Head of Administration and Control, the Head of Collection, the Head of Finance, the Head of Institutional Relations, Legal and Compliance, the Head of Internal Audit and the Head of Human Resources and Organisation.

The Committee meets regularly, on a weekly basis.

## The Money Laundering Analysis Committee

The Money Laundering Analysis Committee represents, within the Santander Consumer Bank Group, the main point of reference in the prevention of money laundering and financing of terrorism. The Committee is granted deliberative powers within the scope of the corporate policies approved by the Board of Directors.

The Committee consists of the Chief Executive Officer and General Manager, the Head of Information Technology and Processes, the Head of Sales and Marketing, the Head of Administration and Control, the Head of Institutional Relations, Legal and Compliance, the Head of Finance, the Head of Internal Audit, the Head of Compliance and Conduct, the Head of Corporate and Regulatory Affairs, the Head of the Risk Control Unit and the Head of Customer Protection and Anti-Money Laundering.

The Committee's main functions are as follows:

- to define policies and rules of conduct for the Group's various bodies and entities involved in anti-money laundering (AML) issues and their coordination;
- to supervise all aspects of AML, in order to take appropriate preventive measures;
- to collaborate in deciding on the content of training courses on the prevention of money laundering;
- to support the Head of SOS in assessing suspicious transactions that have to be reported to the competent authorities;
- to determine which sensitive transactions need to be analysed and reviewed.

The Committee meets on a quarterly basis.

## The Executive Risk Control Committee

The activities of the Senior Risk Committee are mainly geared to risk monitoring so as to have a complete overview of business risks (credit, structural and operational). It is made up of: the Chief Executive Officer and General Manager, the Head of Risk, the Head of Sales and Marketing, the Head of Information Technology and Processes, the Head of Institutional Relations, Legal and Compliance, the Head of Collection - CBU, the Head of Administration and Control, the Head of Finance, the Head of the Risk Control Unit, and the Head of Compliance and Conduct.

Where necessary, the meetings are also attended by: the Head of Credit Policies and Credit Decision System, the Head of the Branch Network, the Head of the Agent Network, the Head of the Captive Network, the Head of Treasury, the Head of Financial Management, the Head of the CBU-CQS.

The Committee meets on a quarterly basis.

## The Executive Risk Committee

This is the body that has the powers for the daily management of risk within the limit of the powers granted by the Board of Directors.

It consists of the Chief Executive Officer and General Manager, the Head of Risk, the Head of Sales and Marketing, the Head of Finance, and the Head of Administration and Control.

Where necessary, the meetings are also attended by: the Head of Collection, the Head of Credit Policies and Credit Decision System, the Head of Wholesale Analysis and the Head of Retail Analysis

Meetings are also attended by the Head of Compliance and Conduct and the Head of the Risk Control Unit as permanent invitees, but without the right to approve transactions and risk limits. The Head of Risk has the right of veto over the decisions of the Committee.

The Committee meets regularly, on a weekly basis.

## The Financial Risk Management Committee (ALCO)

This body's objective is to support the management bodies in monitoring financial risks. In particular, within the scope of the powers conferred upon it by the Board of Directors, it has decision-making power in the management of the exchange rate and liquidity risk within preset limits and in deciding which measures are necessary to ensure the correct balance between profitability and risk, and analyses the evolution and macro-economic trend of the target market with a particular focus on interest rates; it also plans and monitors the steps needed to maintain the capital adequacy of Group companies.

It is made up of the Chief Executive Officer and General Manager, the Head of Finance, the Head of Administration and Control, the Head of Risk, the Head of Planning and Control, the Head of Treasury and Capital Management, the Head of Financial Management.

Meetings are also attended by the Head of the Risk Control Unit as a permanent invitee, but without the right to contribute to decision making.

Meetings are also attended, if invited to do so, by persons designated by the Finance department of the parent company Santander Consumer Finance S.A. and the Head of the Parent Company's Structural Risks Department.

It normally meets on a monthly basis.

## The Internal Audit Committee

It monitors and evaluates on an ongoing basis the adequacy, efficiency and effectiveness of internal controls and identifies any steps that ought to be taken to improve the overall functioning of the control system. It analyses any critical aspects that have been identified for their economic impact and/or risk profile.

It reports directly to the Board of Directors, which is ultimately responsible for the internal control system.

It is made up of the Chief Executive Officer and General Manager, the Head of Institutional Relations, Legal and Compliance, the Head of Administration and Control, the Head of Risk, the Head of Internal Audit, the Head of Compliance and Conduct and the Head of the Risk Control Unit.

The Statutory Auditors and Management may also be invited to attend meetings, depending on the topics being discussed, as well as outside specialists (outsourcers, consultants).

The Committee meets on a quarterly basis.

## The Compliance and Conduct Committee

The Legal & Compliance Committee is delegated the monitoring and analysis of the relationship between the Bank and its customers; within this ambit, it examines the performance of the areas dedicated to customer care, as well as any complaints received from customers, proposing suitable solutions.

The Committee is also assigned the task of:

- Overseeing and regularly assessing the adequacy of the Compliance and Conduct Function and the implementation of the annual compliance plan and proposing any necessary improvements. This activity includes, inter alia, overseeing: (i) compliance with the general code of conduct and other codes; (ii) the adoption of measures following checks by the Supervisory Authority; and (iii) the effectiveness of the model for the prevention of criminal liability as regards the Bank.
- Providing support and advice to the Board of Directors as regards the relationship with the Supervisory Authorities in the matter of regulatory compliance; monitoring the status of implementation of the recommendations made by the Internal Audit Service.

The Committee is composed of the Chief Executive Officer and General Manager, the Head of Sales and Marketing, the Head of Information Technology and Processes, the Head of Legal and Institutional Relations, the Head of Collection, the Head of Administration and Control, the Head of Commercial Planning and Terms, the Head of Operational Marketing and Insurance, the Head of Legal and Corporate Affairs, the Head of Compliance and Conduct, the Head of Risk Control and the Head of After-Sales Service.

The Committee meets on a quarterly basis.

## Internal Control Coordination Committee

This Committee acts as a mediation and exchange body between the corporate control functions and carries out monitoring and control activities on aspects relating to the internal control system of Santander Consumer Bank S.p.A.

The Committee consists of the Head of Internal Audit, the Head of the Risk Control Unit, the Head of Risk, the Head of Administration and Control, the Head of Planning and Control, the Head of Institutional Relations, Legal and Compliance, and the Head of Compliance and Conduct.

The Committee meets on a quarterly basis.

## PIF, Cost Monitoring and Suppliers Committee

This Committee has the task of monitoring overheads to keep them in line with the pro tempore approved budget, as well as reviewing and approving the criteria regarding the supplier management process. The Committee is granted deliberative powers within the scope of the corporate policies approved by the Board of Directors.

The Committee consists of the Chief Executive Officer and General Manager, the Head of Information Technology and Processes, the Head of Administration and Control and the Head of Planning and Control.

Where necessary, the managers of accounts and/or the Managers of the remaining Departments take part in the meetings.

The Head of the Legal, Compliance and Institutional Relations, the Head of Risk and the Head of Business Process Governance also take part in any meetings that relate to issues concerning the introduction and monitoring of suppliers.

The Committee meets on a monthly basis with reference to the approval (PIF) and monitoring of costs. Any matters relating to the introduction and monitoring of suppliers are also examined by the Committee at least quarterly.

## Collection Committee

It analyses the evolution of collection measures at the various stages, coordinates the action taken by the Collection Business Unit (CBU) with other areas dedicated to loan recovery, and analyses and defines improvement strategies. The Committee is granted deliberative powers within the scope of the corporate policies approved by the Board of Directors.

The Committee consists of the Chief Executive Officer and General Manager, the Head of Collection, the Head of Risk, the Head of Information Technology and Processes and the Head of Compliance and Conduct.

Meetings are also attended by the Head of the Risk Control Unit as a permanent invitee, but without the right to approve transactions.

It normally meets on a monthly basis.

## The Operational Risk Committee

This is a body which is responsible for monitoring all the aspects related to operational and technological risk.

It defines and approves policies and the model of operational and technological risk management, evaluates the measures that may be considered relevant to strengthen the measures to prevent such risks, monitors management tools, improvement initiatives, the development of projects and any other activity relating to operational and technological risk control. It also reviews the efficiency and effectiveness of action plans to prevent the recurrence of events that caused operating losses, as well as strengthening internal controls.

The Committee consists of the Chief Executive Officer and General Manager, the Head of Information Technology and Processes, the Head of Risk, the Head of Collection, the Head of Administration and Control, the Head of Sales and Marketing, the Head of Institutional Relations, Legal and Compliance, the Head of Compliance and Conduct, the Head of Human Resources and Organisation, the Head of the Risk Control Unit and a person designated by Operational and Technological Risk.

The Committee meets ten times a year.

## Information Technology and Cyber Security Committee

The role of the Information Technology Committee is to assess and submit proposals to the Board of Directors on IT strategy and also to oversee the key elements that impact IT and the quality of the services provided. It also monitors technological risks, including cyber risks, and proposes mitigation actions.

The Committee consists of the Chief Executive Officer and General Manager, the Head of Information Technology and Processes, the Chief Information Officer (Head of IT), the Head of IT Governance, the IT/Cyber Security Representative, the Head of Risk, the Head of Sales and Marketing, the Head of Collection - CBU, the Head of Finance, the Head of Administration and Control, the Head of Institutional Relations, Legal and Compliance, the Head of Internal Audit, the Head of Strategic Marketing & Digital Innovation and the Head of Human Resources and Organisation.

The Committee meets nine times a year.

## Human Resources and Culture Committee

The Human Resources and Culture Committee is an advisory and consulting body responsible for monitoring all aspects relating to human resources and culture.

The Committee consists of the Chief Executive Officer and General Manager, the Head of Information Technology and Processes, the Head of Risk, the Head of Sales and Marketing, the Head of Administration and Control, the Head of Collection, the Head of Finance, the Head of Institutional Relations, Legal and Compliance, the Head of Internal Audit and the Head of Human Resources and Organisation.

The Committee meets on a quarterly basis.

## The Supervisory Board set up in accordance with Legislative Decree 231/2001

The Supervisory Board is responsible for ensuring constant and independent surveillance of the Group’s operations and processes in order to prevent or detect abnormal and risky behaviour or situations. The same body is entrusted with the task of updating the Model of Organisation, Management and Control in the event there is a need to adapt to new regulations or changed conditions in the business. With regard to the latter, and in order to ensure effective and efficient implementation of the Model, the Supervisory Board is assisted by the Heads of Department of each area of activity in which there have been found possible risks of the crimes identified by law, who are required to make periodic checks of the adequacy of the Model, as well as to communicate any change in management processes in order to update the Model on a timely basis.

The Supervisory Board is appointed by the Board of Directors. The functions of the Supervisory Board are defined in special regulations.

The Board currently in office - up to the Shareholders’ Meeting that will be convened to approve the financial statements at 31 December 2020 - is composed of the Chairman of the Board of Statutory Auditors of Santander Consumer Bank S.p.A., an external member and the Head of Compliance.

The Chairman of the Board of Statutory Auditors also acts as the Chairman of the Supervisory Board.

The Supervisory Board meets at least on a quarterly basis.

## Report on corporate governance and the ownership structure

Pursuant to Article 123-bis of Legislative Decree No. 58 of 24 February 1998, which requires the disclosure of information, as detailed by paragraph 2 b) of the aforementioned article, regarding "*the main features of risk management and internal control systems in place for the financial reporting process, inclusive of at consolidation level, where applicable*", that issuers of securities admitted to trading on regulated markets must provide the market, it should be noted that the risk management system and the internal control system are designed to ensure the reliability, accuracy, trustworthiness and timeliness of financial reporting.

Using methods defined by the Spanish parent company, the Bank periodically identifies and assesses the risks to which it is exposed and which are inherent to its business activities. The outcome of this analysis shows a medium-low risk profile, a summary of which is provided below.

| Risk | SCB | Banca PSA Italy |
|---|---|---|
| Credit Risk | Medium-Low | Medium-High |
| Structural Risk | Low | Low |
| Operational Risk | Medium-High | Low |
| Model Risk | Medium-High | High |
| Liquidity Risk | Medium-Low | Low |
| Business Model and Strategy | Medium-Low | Medium-Low |

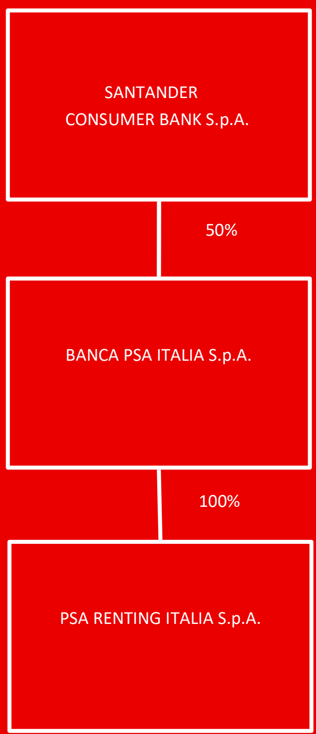
In addition to the foregoing, for further information concerning the procedures for monitoring and updating the risk management system, reference is made to Part E of the Notes to the Consolidated Financial Statements and the Separate Financial Statements of Santander Consumer Bank (for the Consolidated Financial Statements reference is made to Section 2 - 1.1 Credit risk and to Section 1.5 Operational risks. For the Separate Financial Statements reference is made to Section 1 Credit Risk and Section 5 Operational risks).

## Other aspects

Pursuant to Article 6 of Legislative Decree No. 254 of 30 December 2016, which transposes European Directive 2014/95/EU, concerning the reporting of non-financial information, the Santander Consumer Bank Group, while remaining within the scope of application of the Decree, as a public-interest entity in possession of the size and capital requirements, benefits from the exemption provided for by the abovementioned Article. Non-financial information is therefore not reported since it is prepared by the parent company Banco Santander, subject to the same regulatory obligations.

Consolidated Financial Statements of the Santander Consumer Bank Group





# Report on Group operations

# Report on operations

## The macroeconomic scenario

In 2018 the international economy[2] continued to grow, despite the weakening of world trade prospects. Risks to the global economic outlook are high. The start of negotiations between the United States and China did not dispel the uncertainty associated with the possibility that new protectionist measures may affect international trade in the coming months. Moreover, uncertainty regarding future economic relations between the United Kingdom and the European Union remain high in the wake of the vote by the UK Parliament which did not ratify the negotiated agreement reached in November by the government.

In the main advanced economies, economic activity showed differing trends: in the final part of the year the growth rate remained strong in the United States and turned positive in Japan, after the sharp fall in GDP recorded in the third quarter as a result of the natural disasters that struck the country. In the United Kingdom, expansion remained in line with the first half average.

Among the major emerging economies, in China the slowdown in economic activity, which began at the start of 2018, continued also in recent months, in spite of the fiscal stimulus measures introduced by the government.

According to OECD forecasts, in 2018 the global economy would have grown by 3.7%, a tenth of a point more than in the previous year and in 2019 global GDP should increase by 3.5%.

Oil costs fell considerably during the year, mainly due to supply factors such as the increase in production in the United States, Saudi Arabia and Russia, as well as the stability of exports from Iran, as a result of the temporary easing of the sanctions applied by the United States in this country. Prices were subsequently affected by the less optimistic expectations on oil demand arising from the prospect of a global economic slow-down.

As expected, in December the Federal Reserve raised the target range for the federal funds interest rate by 25 basis points; for next year, the prices of futures on federal funds and the expectations of the Federal Open Market Committee (FOMC) point to a gradual increase of the benchmark rates.

A slowdown in world trade is therefore anticipated, with trends that reflect current trade tensions between the countries.

Activity in the Eurozone[3] slowed down, in part due to temporary factors, but also to a decline in the expectations of companies and the weakness of foreign demand. Eurozone GDP grew by 0.2% in the third quarter of 2018 compared to the previous period, a marked slowdown compared to the spring months.

Activity grew in France and decreased in Germany and Italy, due in part to the entry into force of the Worldwide Harmonised Light Vehicles Test Procedures (WLTP), concerning emissions in the automotive sector. This legislation brought both production and the registration of motor vehicles to a standstill, with a particularly pronounced impact in Germany and in Italy due to the importance of the sector and the related activities in these countries.

In December, the €-coin indicator developed by the Bank of Italy, which provides an estimate of core trends for European GDP, fell once again reaching 0.42, the lowest level since the end of 2016.

Inflation fell in the autumn months, reaching 1.6% by the end of the year as a result of the decline in energy prices. Averaged out over the year, inflation was 1.7% (1.5% in 2017). The underlying component remains weak, but inflation could be supported by the wage increases recorded in some countries since the middle of 2017. According to Eurosystem projections issued in December, inflation should fall to 1.6% in 2019, then gradually rise over the following two years.

At the end of 2018, the net purchases of assets within the framework of the Expanded Asset Purchase Programme (APP) came to an end. The Council reiterated that in order to strengthen inflation dynamics in the medium term, significant monetary stimulus is still required. Even after the end of net purchases, this support will continue to be guaranteed by the large amounts of securities in the portfolio, the reinvestment of the capital repaid on securities maturing and the low level of interest rates which, according to Council expectations, will remain at the current levels at least until the summer of 2019 and, in any case, for as long as necessary.

On the basis of seasonally-adjusted data corrected for the accounting effect of securitisations, in the three months ending in November loans to non-financial companies in the Eurozone continued to expand. Loans to households, which remain in demand in nearly all the major countries, continued to grow over the three months (3.5%).

After the losses recorded in the autumn, share prices have recovered in recent weeks, in parallel with the start of the trade negotiations between China and the United States. The euro depreciated against the dollar, and signals from the market indicate further weakening.

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[2] Bank of Italy, Economic Bulletin, Issue 1/2019

[3] Ibidem

In Italy[4], the expansion in economic activity in effect for over three years was interrupted in the third quarter when GDP fell by 0.1% compared with the previous period, in particular due to the fall in investment and a slight decrease in household expenditure. Temporary factors also had an effect on demand, in particular the standstill on production and business activities in the automotive sector caused by the introduction of new legislation on emissions. Italian exports, on the other hand, accelerated, registering an increase greater than that of imports, and GDP growth in 2018 was 1.0%.

In the third quarter, household consumption, which has been gradually slowing since the beginning of the year, fell by 0.1% compared with the previous period. The choices of families were affected by the uncertainty of income conditions: after the marked acceleration in the spring months, disposable income net of inflation fell by 0.2% on the previous quarter, reflecting the less favourable employment dynamics, while the propensity to save continued to rise. Consumption in the last quarter remained weak, in line with the recent job market dynamics. Car registrations partly recovered from the sharp drop in September, when they suffered as a result of the entry into force of the legislation on emissions. At the same time, confidence among households, while remaining on the high side, reflected less favourable expectations as regards the general economic situation and employment. In the third quarter of 2018, Italian household debt in relation to disposable income remained largely unchanged, well below the average for the Eurozone, while in relation to GDP, debt remained equal to 41.0% (57.7% in the Eurozone).

As regards the job market, after the marked growth seen in the spring, the number of employees decreased by 0.3% in the summer quarter, and in the two-month period from October to November remained largely unchanged. After the downturn observed in the summer, the unemployment rate in the two-month period from October to November reached levels similar to those observed at the end of spring.

Inflation fell in the final months of 2018, reflecting the decline in energy prices seen from October, but pressure on prices, resulting from the increase in wages and salaries, which returned to growth in the private sector and are expected to gradually strengthen in the course of 2019, could increase.

Credit supply conditions remain relaxed on the whole, despite some signals of tightening coming from companies. The cost of credit remains low and the banks show good capitalisation conditions and high stability as regards their funding sources. In the third quarter of 2018, the flow of new impaired loans on total loans remained very low and the incidence of impaired loans on total loans granted continued to decrease.

The budgetary manoeuvre increased the 2019-2021 deficit by more than half a point per year on average compared to its trend value. Net debt should therefore reach 2.0% of GDP in 2019, thus halting the drop seen since 2014. Following a review of this manoeuvre, the European Commission decided not to launch an excessive deficit procedure against Italy at this stage. Over the next two years, the net debt planned by the Government should be reduced again, reaching 1.5% of GDP in 2021.

It is expected that for the three-year period 2019-2020, international trade patterns will reflect trade tensions and the uncertainty surrounding the medium-term outlook for the global economy, which remains very high.

In the last few weeks, with the partial return of the uncertainty linked to the discussion with the European Commission on budgetary balances for the coming years, risk premiums on yields of Italian government bonds decreased, albeit remaining higher than the average observed in the years 2016-17.

In a nutshell, the scenario outlined Italy by the latest projections is the following:

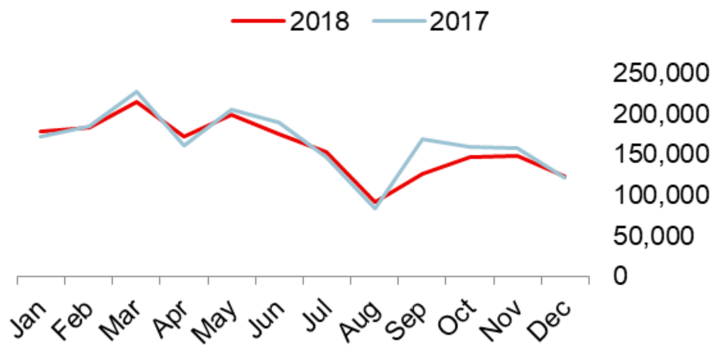
- **Monetary policy.** Monetary conditions should remain accommodative, in line with the guidelines expressed by the Governing Council of the ECB. On the financial markets, short-term rates, negative in 2019 and in 2020, will rise in 2021 to 0.1%.
- **GDP.** Estimates anticipate growth of 0.6% in GDP in 2019, 0.9% in 2020 and 1.0% in 2021.
- **Inflation.** Inflation is expected to be 1.0% in 2019, slightly lower than last year. It should rise on average 1.5% over the next two years, mainly as a result of the acceleration in private sector wage growth, underpinned by the gradual improvement in the inflation expectations incorporated into new contracts.

[4] Ibidem

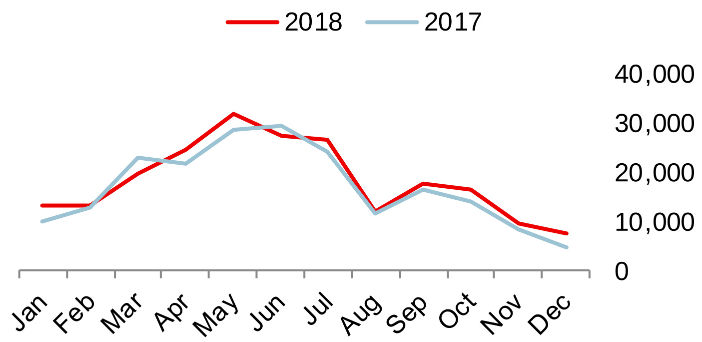
## Industry trends

New car registrations decreased in 2018 (-3.3%), with 1,923,718 cars, driven above all by the negative performance of the company and private sector[5]. On the other hand, there was a positive trend in new vehicle registrations which reached 219,465 units (+7.4%)[6], and in changes of ownership of vehicles excluding transfers to dealers (+4.7%)[7].

### Car registration




### Motor vehicles registration




As regards the car leasing market, there was an increase compared to the previous year (+4.1%), with Euro 15.6 billion of new loans[8]. The increase was mainly driven by segments in which the Santander Consumer Group operates, namely, cars (+0.8%) and commercial vehicles (+7.3%)[9].

[5] UNRAE data at 31/12/2018

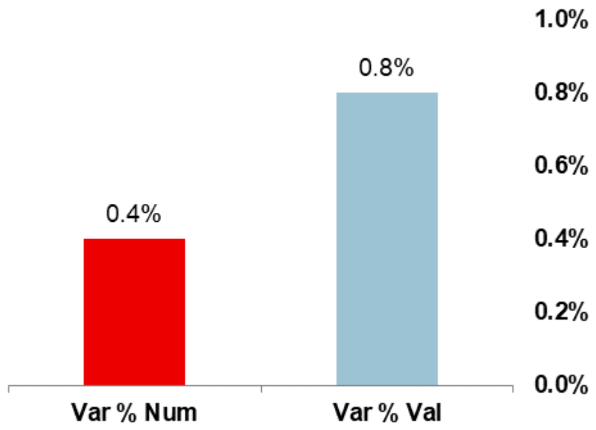
[6] ANCMA data at 31/12/2018 for vehicles over 50 cc

[7] ACI data at 31/12/2018

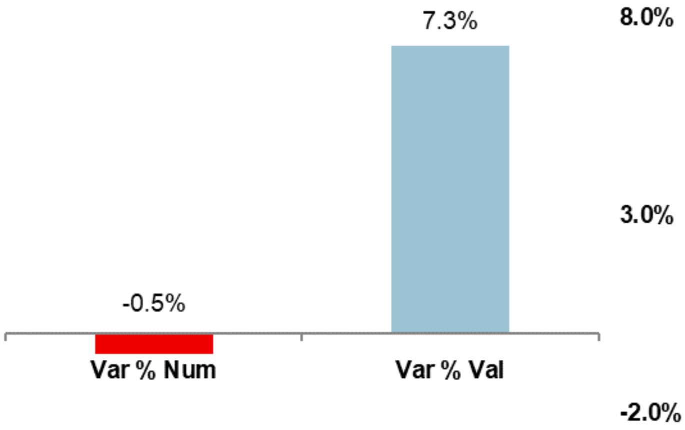
[8] Assilea data at 31/12/2018

[9] Ibidem

Car leasing (Gen-Dec '18vs'17)




Commercial vehicles Leasing (Gen-Dec '18vs'17)




In 2018, credit risk remained stable[10]: as regards consumer credit, in September 2018 the default rate (i.e. the dynamic credit risk indicator that measures new non-performing loans and delays of 3 or more instalments in the last year of data collection) of retail credit considered in its entirety (property mortgages and consumer credit) was confirmed at 1.9%.

Forecasts for the next two years indicate that flows of loans to households will continue to grow, albeit at increasingly slower rates. In a context of increased uncertainty in the macroeconomic framework, trends in consumer credit and mortgage loans will be increasingly anchored to the dynamics of consumption and the property market.

After three years of double-digit growth, consumer credit flows closed 2018 with a smaller increase compared to 2017, and will slow down further over the next two years. Specifically, the dynamics will gradually realign with those of durable consumption, for which recourse to credit is more common. The good economic conditions of households will keep the growth of purchases of durable goods, albeit at a more moderate pace compared to previous years, within the prediction interval, fuelling the demand for credit to finance expenditure, at least in part. At the same time, the increased financial stability of households will contribute to increasing the potential number of borrowers that will have access to credit despite lending policies that will remain cautious.

## Strategic guidelines and outlook for 2019

Against the background of the dynamic outlined above, Santander Consumer Bank Group operations are geared to a sustainable growth of profits aimed at creating value for shareholders, to an ability to independently generate capital and to a conscious assumption and management of risks. More specifically:

- **Customers.** To collaborate long-term and strengthen relationships with existing customers/partners, in addition to seeking new opportunities for collaboration in different channels, maintaining market share and preserving its position in the reference market.
- **Shareholders.** To ensure steady, adequate and sustainable growth with value creation (RoRWA).

[10] Observatory on retail credit (https://www.prometeia.it/news/osservatorio-credito-dettaglio-45-edizione)

- **Funding management.** Collection activities aimed at supporting customer disbursement activities, with a focus on increasing the diversification of sources of finance, aiming to limit financial risks.
- **Control/optimisation of operating costs**, ensuring their growth is lower than the growth in revenue.
- **Digitalisation.** Fully digitalise the sales process in order to create competitive advantages and to automate procedures and improve the Group's online visibility.
- **Effective risk management.** Constant monitoring of the quality of the managed portfolio and maintaining a steady level in dispute using an effective strategy of acceptance and recovery.
- **Capital.** Ability to generate capital independently and achieve levels of capitalisation in line with current regulations, with constraints imposed by the Supervisory Authority, or with the objectives of the Santander Group.
- **Internal culture.** Updating, developing and strengthening business skills and know-how, nurturing talent and encouraging internal mobility.
- **Community and environment.** Continuously supporting the communities in which the Group operates: schools and universities through work experience/internship programmes, financial education and active participation in academic events; support for voluntary associations, in addition to internal eco-sustainability initiatives and sustainable mobility incentives.

As part of this mission and strategic direction, the expectations for 2019 take into consideration:

- Further growth in loans granted in the car sector, thanks to agreements with "captive" manufacturers and the PSA Peugeot Citroen Group, and in the personal loans sector, thanks to cross-selling activities and the expected developments on digital channels.
- A gradual stabilisation of the managed portfolio, with an increasing focus on the Car sector.
- Confirmation of current profitability levels, in a context of declining margins, offset by a careful policy to control operating expenses and the cost of risk.

## The Sales Network

As regards consumer credit, the Santander Consumer Bank Group recorded an increase in volumes compared to the previous year, with a good performance in the automotive sector (+19.2%) and in personal loans (+8.9%), while it recorded a drop in salary assignment (-17.2%) and in specific-purpose loans (-9.7%).

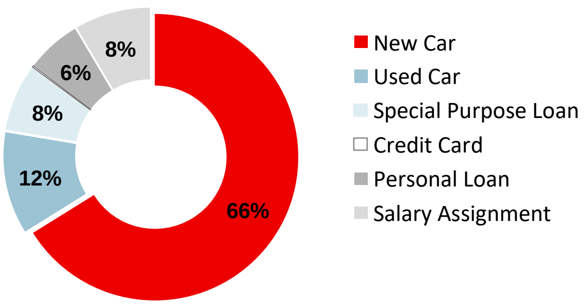
In the automotive sector, the Parent Company Santander Consumer Bank recorded an increase of 15.2%, with a significant impact by brands relating to Captive Agreements, while Banca PSA Italia contributed in the total amount of Euro 985 million (+24.7% compared to the previous year).

The decrease in salary assignment products is mainly due to a very competitive market linked to the presence of competitors with more aggressive financial positions, while the poorer performance of special-purpose loans was influenced by a revision of the strategy of the Parent Company, linked to the direct sales.

| Group Santander Consumer Bank | dec '18 | dec '17 | % 18/17 |
|---|---|---|---|
| (Million euros) | | | |
| New Business Totale* | *2,901.8* | 2,600.0 | 11.6% |
| Total car | *2,253.5* | 1,890.8 | 19.2% |
| *New Car* | *1,919.3* | *1,597.8* | *20.1%* |
| *Used car* | *334.2* | *293.0* | *14.1%* |
| Special Purpose Loan | *218.2* | 241.7 | -9.7% |
| Credit Card | *5.6* | 6.1 | -8.1% |
| Personal Loan | *177.6* | 163.0 | 8.9% |
| Salary Assignment | *246.9* | 298.4 | -17.2% |

* without Top Up and Refinancing

### December 2018 – New Business (w/o) Stock Finance




## Financial management - The macroeconomic scenario and the financial markets

With reference to the performance of equity securities, after two years of continual increases in the prices of financial assets, 2018 was characterised by strong volatility and was therefore a particularly challenging year for investors, especially during the last quarter. The geopolitical factors underpinning this volatility can be summarised as follows.

While in the US tax cuts by President Donald Trump contributed to an acceleration in GDP growth, the Eurozone context was significantly different, with a marked slowdown in growth. This lack of synchronicity led to significant disturbance with repercussions on global growth.

In addition, the end of stimulus policies in the United States and in the Eurozone, together with the increased trade tensions between the USA and China (the “trade-conflict”), generated concerns among investors.

Against this background, the stock market suffered particularly.

In past years, in a scenario of record-low interest rates and with central banks engaged in an expansionary policy, companies tightened their budgets and took advantage of an increase in consumer demand.

Furthermore, the low interest rates put downward pressure on gains on bond assets, further reinforcing demand for shares.

In 2018, with rates expected to increase in the short term and with the uncertainties linked to the economic scenario post central-bank stimulus, investors began to speculate on a narrowing of corporate profits, generating strong volatility on stock prices.

In the last three months of the year, the VIX index ("volatility index") reached its maximum level close to 25%. The higher the level of the VIX, the higher the expectation by investors that an adverse could occur within the next six months. Concerns linked to Chinese growth weighed on the index.

The uncertainty caused by the United Kingdom's failure to finalise a deal for its controversial exit from the European Union led to further disruption in the international geopolitical context at the end of the year.

In Europe, the main driver was the slowdown in economic growth and the victory in Italy of opposition forces, who went on to form a coalition government.

This led to a fall in the 10Y German Bund yield from 0.42% to 0.31%, despite the ECB announcing the end of monetary stimulus.

Conversely, the yield on Italian government bonds (BTPs) increased from 2% to 3.21% when the coalition government announced a budget proposal in line with European Union expectations.

At the end of the year, Italy subsequently reached an agreement with the EU on the deficit/GDP ratio, avoiding the so-called "infringement procedure" on its debt. Yield on BTPs consequently fell to around 2.75%, but always under strong pressure.

On the domestic front, the third quarter of 2018 saw a slowdown in demand that caused a contraction in economic growth in the next quarter.

Investor confidence and the growth of the industrial sector also remain weak. In addition, the negative impact of rising interest rates on the cost of capitalisation of Italian banks resulted in a reduced level of lending with repercussions on the real economy.

Economic growth is expected to be weak in 2019, with demand progressing slowly, public debt increasing, interest rates rising, low productivity and stagnating wages.

Moreover, the unstable political situation could see fears resurfacing in the run up to the forthcoming European elections, exacerbating the climate of mistrust by investors towards a country with high public debt and a banking system that is not considered sufficiently robust.

## The financial management of the Group

The financial management of the Santander Consumer Bank Group is based on the sharing of guidelines and objectives set by the Parent Company that reflect the strategy of the Santander Consumer Finance S.A. Group.

Banca PSA Italia is also supervised and coordinated by Santander Consumer Bank in terms of financing and enjoys decision-making and operational autonomy in compliance with the assigned limits. There are no intragroup funding transactions between the two Italian banks[11].

## The financial management of Santander Consumer Bank

With reference to collection, at the end of 2018 Santander Consumer Bank had net debt of Euro 5,427 million (+1.19% compared to the previous year).

This debt is mainly composed of structured funding, Group funding, customer deposits and bond issues.

At 31 December 2018, the amount resulting from having participated in ECB auctions had fallen to Euro 872 million (TLTRO-II), as a result of the full repayment of TLTRO-I, in September 2018, for Euro 723 million.

The Bank also finalised a new securitisation transaction, obtaining Euro 330 million from the sale of part of the Senior class A security.

Finally, in December 2018, the Bank finalised a repurchase transaction, with quarterly duration, for an amount of Euro 109 million with an institutional investor.

Medium- to long-term liabilities include loans granted by the Spanish Parent Company and subordinated loans provided by Santander Consumer Group companies and by the Santander Group. The Spanish parent company also provides short-term liabilities.

[11]Intercompany loans are obtained directly from Santander Consumer Finance S.A.

The increase in retail customer deposits was smaller compared with the previous year, from approximately Euro 972 million at the end of 2017 to approximately Euro 1,074 million at December 2018. Further details on funding results are provided in the Deposit accounts section of the separate financial statements.

Between October and November 2018, bonds totalling Euro 113 million reached maturity. As at the reporting date, outstanding EMTN issues represented a total of Euro 151 million (approximately 2.8% of the total).

On the whole, the cost of funding decreased in 2018 as a result of the use of more economic forms of financing and the reduction of interest rates and spreads paid.

Finally, the Bank has a portfolio of highly liquid securities, for the purposes of compliance with the regulatory requirements for short-term liquidity. This portfolio, consisting of Italian government bonds, amounted to Euro 354 million at the end of 2018.

### The financial management of Banca PSA

Intercompany loans are Banca PSA's main source of financing. During the year, the Bank met part of its financing needs from external sources in accordance with the strategy agreed with the Spanish Parent Company. These sources mainly relate to the securitisation transaction completed in February 2018, resulting in funding of Euro 675 million.

In terms of the structure of financing sources, there was an increase of 20% in the amounts due to credit institutions to sustain the growth in assets, while the amounts due to customers increased by 13%, mainly represented by compensation accounts with dealers and time deposit accounts, and other liabilities.

During the year, Banca PSA took steps to improve its financial stability by continuing to lengthen the average term to maturity of its funding, thus avoiding the concentration of maturity dates.

Finally, Banca PSA has a portfolio of highly liquid securities, for the purposes of compliance with the regulatory requirements for short-term liquidity. This portfolio, consisting of Italian government bonds, amounted to Euro 30 million at the end of 2018.

## Other facts worth mentioning

With regard to the main risks and uncertainties to which the Group is exposed, in accordance with the provisions of Article 2428 of the Italian Civil Code, it should be noted that the Group's operating results, financial position and cash flows could be influenced by the general macro-economic framework and by financial market trends and the performance of the reference sector, as described in detail previously.

With regard to the information required by the Italian Civil Code on the Group's objectives and policies in financial risk management, as per paragraph 6-bis of Article 2428 of the Italian Civil Code, as well as in relation to the use of financial instruments, for a detailed analysis reference should be made to Part E of the Notes to the separate and consolidated financial statements.

Group companies operate in full managerial autonomy in accordance with the strategic and operational guidelines issued by the Parent Company Santander Consumer Finance S.A., which carries out management and coordination activities pursuant to Article 2497 bis of the Italian Civil Code and Article 23 of Legislative Decree 385 of 1 September 1993, as updated to incorporate the amendments introduced by Legislative Decree 223 of 14 November 2016.

Management and coordination activities generally produce positive effects on the business and its results, as they permit economies of scale by using professional skills and specialised services with continuous improvements in quality, allowing the Bank to focus its resources on managing the core business.

The notes are supplemented by an appendix that summarises the key figures from the latest approved financial statements of the entity that carries out management and coordination activities (Santander Consumer Finance S.A.); the Parent Company Santander Consumer Bank does not own any treasury shares either directly or through trust companies or nominees.

In the course of financial year 2018, activities were performed that did not qualify as research and development at the time of writing this report.

Given the nature of its activity, the Group has not caused any environmental damage nor is it likely to ever cause environmental damage. In order to further reduce this impact, note that these financial statements will only be available in an electronic format, with the exception of copies that have been filed in accordance with the law.

Related party disclosures are provided in the notes accompanying the main balance sheet and income statement items that are affected, as well as in Part H which is specifically on related-party transactions. This information is considered exhaustive with respect to the requirements of Article 2428 of the Italian Civil Code and IAS 24.

All transactions with related parties are carried out at arm's length, taking into account the quality and type of services rendered.

Lastly, note that no transactions have been carried out with persons other than related parties, that could be considered atypical or unusual, outside the normal course of business or that would significantly impact on the economic and financial position of Santander Consumer Bank or its Group.

With regard to the going-concern assumption, note that in accordance with the instructions provided in Document no. 4 of 3 March 2010 issued jointly by the Bank of Italy, Consob and Isvap, regarding "Information to be provided in financial reports on impairment tests, on debt covenants, on debt restructuring and on the fair value hierarchy", which makes reference to the corresponding document no. 2, again issued jointly by these three Authorities on 6 February 2009, the Group has a reasonable expectation that it will remain in operation for the foreseeable future and has therefore prepared its financial statements on a going-concern basis.

Since the end of the year and up to the date of approval of the draft financial statements by the Board of Directors, there have been no events or transactions that could have a significant impact on the results explained in this report. The draft financial statements therefore reflect all events that affected the Group's operations in 2018.

## Reconciliation of the Parent Company's shareholders' equity and net income (loss) with the consolidated shareholder's equity and net income (loss)

| | Shareholders' equity | of which: Result at 12.31.2018 |
|---|---|---|
| **Balances of the Parent Company at 12.31.2018** | **816,403,557** | **79,475,902** |
| Effect of consolidation of subsidiaries | 44,549,802 | 18,848,700 |
| Minority interests | 167,489,514 | 18,848,700 |
| **Consolidated balances at 12.31.2018** | **1,028,442,874** | **117,173,302** |

## Comments on the results and key figures in the consolidated financial statements

The following table shows the key economic and operating figures for the year, with comparative figures from the previous year (in millions of euros) compared with the total average assets (TAA).

| Million euros | 2018 | % ATM | 2017 | % ATM | Changes | |
|---|---|---|---|---|---|---|
| | | | | | absolute | % |
| **Net investment margin** | **306.4** | **3.3%** | **293.1** | **3.4%** | **13.3** | **4.5%** |
| Net fee and commission | 60.6 | 0.6% | 46.3 | 0.5% | 14.3 | 30.9% |
| Net insurance management | 0.0 | 0.0% | 0.0 | 0.0% | 0.0 | -- |
| **Commercial margin** | **367.0** | **3.9%** | **339.5** | **3.9%** | **27.5** | **8.1%** |
| Dividend | 0.0 | 0.0% | 0.0 | 0.0% | 0.0 | -- |
| Net income (loss) financial assets and liabilities held for trading and FV adjustment in hedge accounting | 0.2 | 0.0% | 0.4 | 0.0% | (0.2) | (50.0%) |
| Gains and losses on disposal of financial assets and liabilities | (0.1) | 0.0% | 31.3 | 0.4% | (31.4) | (100.3%) |
| Net income (loss) on assets and liabilities measured at fair value | 0.0 | 0.0% | (0.7) | 0.0% | 0.7 | (100.0%) |
| **Operating income** | **367.1** | **3.9%** | **370.4** | **4.3%** | **(3.3)** | **(0.9%)** |
| other operating income (charges) | 17.1 | 0.2% | 15.1 | 0.2% | 2.0 | 13.2% |
| Administrative costs: | (153.9) | -1.6% | (149.9) | -1.7% | (4.0) | 2.7% |
| payroll costs | (60.0) | -0.6% | (56.4) | -0.6% | (3.6) | 6.4% |
| other administrative costs | (93.9) | -1.0% | (93.5) | -1.1% | (0.4) | 0.4% |
| Depreciation | (6.1) | -0.1% | (4.3) | 0.0% | (1.8) | 41.9% |
| **Net operating margin** | **224.3** | **2.4%** | **231.3** | **2.7%** | **(7.0)** | **(3.0%)** |
| Impairment losses on financial assets | (37.7) | -0.4% | (49.4) | -0.6% | 11.7 | (23.7%) |
| Other provisions | (9.8) | -0.1% | (18.0) | -0.2% | 8.2 | (45.6%) |
| Profit (Loss) on Equity investments | (0.1) | -0.1% | 0.0 | 0.0% | (0.1) | -- |
| Adjustments to goodwill | 0.0 | 0.0% | 0.0 | 0.0% | 0.0 | -- |
| Gains (losses) on disposal of investments | 0.0 | 0.0% | 0.0 | 0.0% | 0.0 | -- |
| **Total profit or loss before tax** | **176.8** | **1.9%** | **164.0** | **1.9%** | **12.8** | **7.8%** |
| Tax | (59.6) | -0.6% | (55.2) | -0.6% | (4.4) | 8.0% |
| Net profit or loss | 117.2 | 1.2% | 108.8 | 1.3% | 8.4 | 7.7% |
| **Consolidated income (loss) of the period** | **117.2** | **1.2%** | **108.8** | **1.3%** | **8.4** | **7.7%** |
| **Holdings income (loss) of the period** | **98.3** | **1.0%** | **91.4** | **1.1%** | **6.9** | **7.5%** |

In the year in question, there was an increase in the Group's interest margin from Euro 293.1 million in 2017 to Euro 306.4 million in 2018, due to interest that remained largely unchanged (-0.9%) and a marked reduction in interest expense (-26.3%), favoured by the drop in rates and spreads paid to the market which resulted in a lower cost of funding.

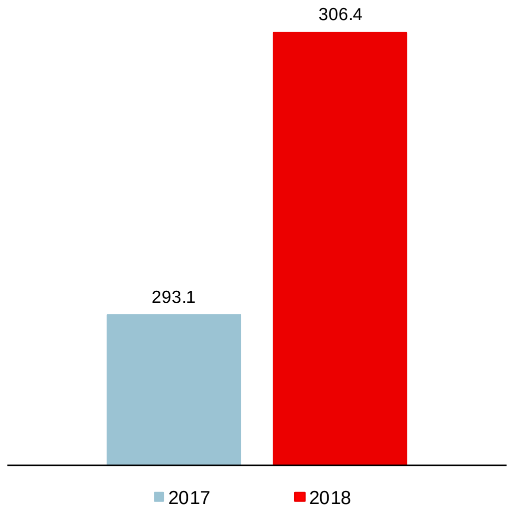
Net commissions increased significantly from Euro 46.3 million to Euro 60.6 million. Commission income linked to insurance products placed with customers financed by the Group increased (+14.1%), while commission expense remained more or less stable (+1.3%).

The item Gains on disposal or repurchase of loans represents the balance net of receivables sold without recourse by the Parent Company, insignificant with respect to that resulting from sales in the previous year.

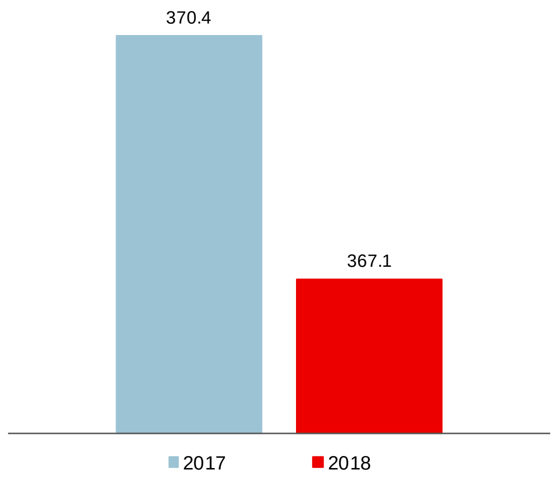
Operating income was largely in line with the previous year (-0.9%), falling from Euro 370.4 to 367.1 million due to the dynamics described above.

Adjustments on loans decreased (-23.6%), from Euro 49.4 to 37.7 million, mainly due to the effect of the sale of the portfolio by the Parent Company in the previous year and the gradual change in the mix of the portfolio managed by the Group, characterised by an increased focus on the Car sector.

## Net Investment Margin




## Net income




Administrative expenses increased slightly (+2.7%), from Euro 149.9 million to Euro 153.9 million, including increased personnel costs (+6.5%) and stable overheads.

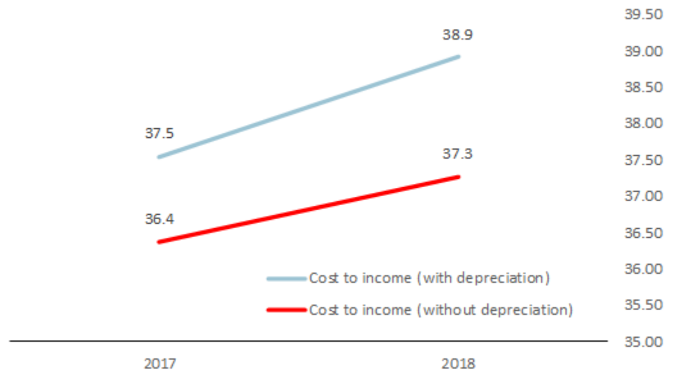
Net provisions for risks and charges decreased significantly, mainly due to the decrease compared to the previous year in complaints from customers of the Parent Company.

The above aspects led to a result before tax of Euro 176.8 million and a net profit of Euro 117.2 million, of which Euro 98.3 million attributable to the Parent Company.

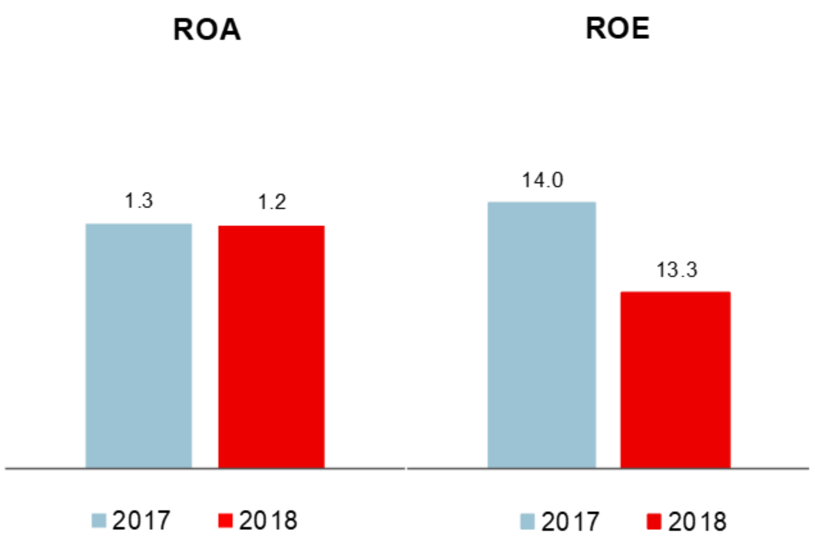
The cost-to-income ratio, calculated as the ratio between the sum of administrative costs and other net operating income

(with and without depreciation and amortisation) and operating income, increased compared with the previous year from 37.6% (36.4% without depreciation and amortisation) to 38.9% (37.3% without depreciation and amortisation).

## Cost to income

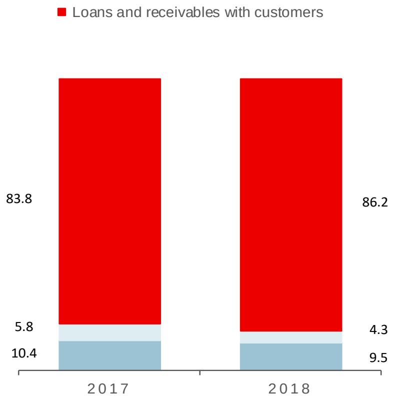


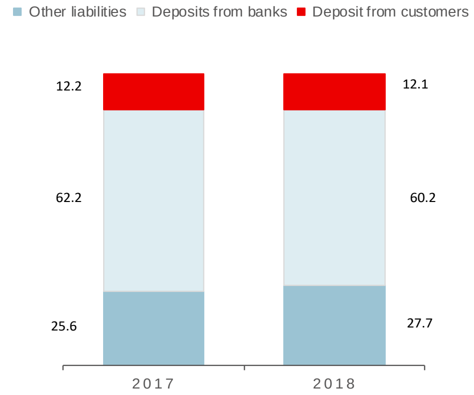

As a result of the above mentioned trends, the ROA (Return On asset) remained substantially in line with the previous year (1.2%), while the ROE (Return on Equity) decreased to 13.3% due to the effect of the increase in Group Equity aimed at enhancing capital strength (CET1 equal to 12.1%).




As regards the asset mix, customer loans increased, mainly due to the increase in Group lending (particularly in the Car sector), while the loans to credit institutions and other assets decreased in absolute terms and in relation to total assets.

Regarding the structure of sources of funds, on the other hand, amounts due to credit institutions increased in absolute terms, consisting mainly of demand and time deposit accounts offered by the Parent Company, while the percentage of liabilities remained stable. In relation to total liabilities, the amounts due to credit institutions decreased as a result of lower borrowings by the Parent Company, while other liabilities increased.




As regards the change in loans to customers of the Group, the total increased compared to the previous year (+9.6%). Analysing the details by product, there was an increase in Car loans (+17.1%), leasing (+31.3%), stock financing (+11.8%) and special-purpose loans (+34.4%). Salary assignment (-7.4%), personal loans (-9.2%) and credit cards (-29.1%) were down.

The decrease relative to “Other loans to customers” (-19.3%) is due to the decrease in liquidity on postal current accounts.

“Other components of amortised cost” mainly relate to net amounts of contributions and commissions that are paid when a loan is granted but for which the income statement effect thereof is deferred over the expected residual life of the loan.

| Amounts in millions of Euro | Total | | Change | |
|---|---|---|---|---|
| | 2018 | 2017 | Amounts | ( % ) |
| Car loan | 4,092 | 3,495 | 597 | 17.1% |
| Special-purpose loan | 292 | 217 | 75 | 34.4% |
| Personnel loan | 705 | 777 | (72) | (9.2%) |
| Cards | 6 | 9 | (3) | (29.1%) |
| Leasing | 390 | 297 | 93 | 31.3% |
| Salary assignment | 1,509 | 1,630 | (121) | (7.4%) |
| Stock financing | 1,574 | 1,408 | 166 | 11.8% |
| Other loans to customers | 6 | 8 | (2) | (19.3%) |
| Other components of amortised cost | 91 | 63 | 28 | 45.2% |
| **Gross loans to customers** | **8,667** | **7,904** | **763** | **9.7%** |
| Provision for loan losses | (298) | (266) | (32) | 12.1% |
| **Net loans to customers** | **8,369** | **7,638** | **731** | **9.6%** |

## Santander Consumer Finance Media S.r.l. in liquidation

In 2018 the company, which went into liquidation from 11 December 2014, was removed from the Companies Register and has therefore left the consolidation scope.

The residual assets at the end of the liquidation process were paid to the shareholders, net of Assets and Liabilities not yet settled.

## Banca PSA Italia S.p.A.

The mission of Banca PSA Italia S.p.A., born from a partnership between Santander Consumer Bank S.p.A. and Banque PSA Finance SA, is to support the sale of cars and commercial vehicles produced by industrial partners, through the development of consumer credit activities, financial support to the dealer network, and credit facilities for the management of company fleets. The marketing policies used to meet the needs of consumers and the distribution network aim to provide a complete financial offering, starting from the development of the financial product and the services connected thereto, right up to its promotion and distribution on the market.

Banca PSA Italia develops and manages the products and the distribution processes relating to the main lines of business of the company: financing to the dealer networks and instalment loans/leasing to the end customer.

With a view to continuous improvement, Banca PSA Italia has developed processes for sales, management during the life of the financing, and 're-contact' during contract renewal, all focused on customer satisfaction.

In the course of 2018, the Bank granted financing totalling Euro 938 million, improving on its own forecasts of 5.2%.

Loans granted by Banca PSA and intended for the purchase of new vehicles represented 29.2% of the PSA Group vehicles registered in 2018.

In terms of breakdown by product type, more than 80% of the year's lending relates to financing for the purchase of new vehicles, 12% to finance lease transactions, and the remaining 8% to financing for the purchase of used vehicles.

The loan portfolio, gross of adjustment provisions, increased by 16.2% in 2018, reaching Euro 2,859 million (Euro 2,441 million in 2017), and breaks down as follows: car loans 54%, leasing 9%, loans to Corporate Dealers for stock financing 37% (note for the latter the growth of 10% compared to the previous year).

The Company, in this third year of activity, saw an improvement in all indicators, economic and financial, due to the profitability of new production, good credit quality, and the containment of costs.

Of note in 2018 is the allocation to reserves of the 2017 profit in order to meet the regulatory capital ratios in the face of the portfolio growth recorded both in the retail segment (vehicle loans) and the corporate segment (stock finance).

Against this highly dynamic background, 2018 closed with a net profit of Euro 36,762 thousand with an increase with respect to 2017 of 5.8% (2017 net profit Euro 34,761 thousand).

This result was generated by the net loan portfolio of Euro 2,835 million which, together with the sale of ancillary services, contributed with an average income of 3.73% (-0.79 basis points compared to 2017).

## PSA Renting Italia S.p.A.

The company operates in the field of long term rental of vehicles hired through the Peugeot network of Dealers and Branches, the Citroen network of Dealers and Branches and through the channel of direct sales to small and medium-sized enterprises.

As from 1 January 2018, the company is a subsidiary of Banca PSA Italia S.p.A. and is subject to management and coordination activities by Santander Consumer Bank S.p.A., as a result of the latter exercising the call option on 50% of PSA Renting.

The company operates within the guidelines established annually by the Group and reflected in the budget for the year approved by the Parent Company Banca PSA Italia S.p.A.. During the year, no transactions were completed, expressly supported by the Parent Company, that led to economic effects other than those normally feasible within the scope of business activities.

It is also recalled that during 2018 the Company changed head office and the new address is Via dei Solteri 105, Trento.

The technical characteristics of the contracts confirmed the trend of steady growth of the average amount granted, which in 2018 totalled Euro 16.1 thousand, reflecting the increase in the average sales price of the PSA range and the shift in interest towards more profitable segments at the expense of those with less substantial margins, such as for example rent-to-rent. This shift in production also led to a marked increase in the average duration of long-term leasing contracts, which in 2018 was 30.4 months.

The fleet as at 31 December 2018 consisted of 4,296 vehicles, with a clear predominance of the Peugeot brand (64.7% of the total fleet).

Revenues from production, reported in the separate financial statements provided by the company, amounted to Euro 21.2 million and are essentially made up of lease payments received from customers. Costs for services amounted to Euro 9.6 million and are mainly represented by registration costs, Euro 0.6 million, costs for vehicle tax, Euro 0.8 million, insurance costs, Euro 4.8 million, and maintenance costs, Euro 2.2 million, while the costs for personnel seconded by Banca PSA to PSA Renting amounted to Euro 0.5 million in 2018. 2018 closed with a net profit of Euro 1.5 million.

Estimates for 2019 anticipate the car market being almost stable compared to 2018. Estimates relating to automotive trademarks of the PSA Group confirmed the trend of growth in terms of market share already seen in the last few years. The commercial performance of PSA Renting, characterised by a significant growth in 2018, seems to be confirmed for 2019.

Santander Consumer Bank

Independent Auditors'Report on the consolidated financial statements at 31 December 2018

# Independent Auditors' Report on the consolidated financial statements at 31 December 2018

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## *Independent auditor's report*

*in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014*

To the Shareholders of Santander Consumer Bank SpA

## *Report on the Audit of the Consolidated Financial Statements*

### *Opinion*

We have audited the consolidated financial statements of Santander Consumer Bank Group (the Group), which comprise the consolidated balance sheet as of 31 December 2018, the consolidated income statement, consolidated statement of comprehensive income, statement of changes in consolidated shareholders' equity, consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2018, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15.

### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of Santander Consumer Bank SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*PricewaterhouseCoopers SpA*

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C .F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

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*Key Audit Matters*

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

| *Key Audit Matters* | *Auditing procedures performed in response to key audit matters* |
|---|---|
| **First-time application of IFRS 9**<br><br>*Notes to the consolidated financial statements:*<br>*Part A – Accounting policies*<br>*Part E – Information on risks and related hedging policies*<br>*Annex 1 – Reconciliation statements of the Consolidated Financial Statements*<br><br>Starting from 1 January 2018 the Santander Consumer Bank Group (hereinafter also the "Group") adopted the accounting standard IFRS 9 "Financial Instruments" which governs the classification and measurement of financial instruments, as well as the determination of related impairment losses.<br><br>IFRS 9 introduces new rules for classifying and measuring financial assets which are based on the methods whereby such assets are managed (*Business Model*) and on the contractual cash flow characteristics of the instrument, while with reference to the evaluation of financial assets other than those measured at fair value through profit & loss and off-balance-sheet exposures (guarantees and commitments), the new standard replaced the model to determine impairments under IAS 39 which was based on the "incurred loss" with a valuation model consisting in the "Expected Credit Loss" ("ECL").<br><br>The result is that IFRS 9, beside introducing significant changes in the classification and measurement criteria, brings significant operating impacts requiring new models and additional parameters, information and assumptions, which have therefore increased the degree of subjectivity and uncertainty. | In conducting our audit we paid special attention to understanding and evaluating the activities planned and performed by the Group for the application of the new accounting standard, as well as the governance and the set of control activities implemented by management and the Risk Management function.<br><br>Considering that IFRS 9 was adopted on 1 January 2018, our audit procedures covered the opening balances in order to verify the effects of the transition from IAS 39. These procedures consisted, among other things, in assessing that the accounting selections, the adjustments made and the information disclosures provided were in accordance with the new standard's requirements.<br><br>With specific regard to classification and measurement, our audit procedures, which were also carried out with the support of our PwC network experts, included, *inter alia*:<br><br>• understanding and critical analysis of the policies, procedures and solutions adopted by the Group with reference to significant matters, such as the definition of the Business Model, analysis of the contractual cash flows and evaluation methods, in order to assess their compliance with the new standard;<br>• review of the completeness and accuracy of the new accounting categories based on the Business Model defined and on the results of the analysis of the contractual cash flows (*SPPI* test – "Solely Payments |

The Group presented the impact on the opening shareholders' equity arising from the adoption of IFRS 9 in appropriate reconciliation statements appended to the notes to the consolidated financial statements.

Due to the reasons above, although the quantitative impacts recognised in a special equity reserve were limited, we considered the first-time application of IFRS 9 as a key matter in the audit of the consolidated financial statements of the Santander Consumer Bank Group as at 31 December 2018.

of Principal and Interest");

- independent review of the SPPI test in relation to a sample of financial assets selected taking into account the different products held in portfolio.

With reference to the new calculation criteria for impairment losses, our audit procedures that were performed also with the support of our PwC network experts, included among others:

- understanding and critical analysis of the new policies, methods and relevant assumptions, as well as the models implemented with the aim of checking their reasonableness, appropriateness and compliance with IFRS 9. These activities covered the methods and models adopted to measure the "Significant increase in credit risk" (SICR) and the allocation of the assets to the various stages of risk, as well as those to determine the Expected Credit Loss (ECL);
- checks on the SICR models, allocation to the various risk stages and ECL defined and on the methods to determine the main estimate parameters behind them, in order to verify the adequate implementation and determination thereof;
- analyses aimed at verifying the correctness of the data feeding the models and the correct determination of the main parameters and estimate elements (Probability of Default, Loss Given Default and Exposure at Default);
- critical analysis of the findings of the reviews carried out by the internal functions in charge of controls and remedy actions that might have been put in place.

Finally, we examined the completeness and adequacy of the consolidated financial statement disclosures.

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**Evaluation of loans and advances to customers for loans measured at amortised cost**

*Report on operations of the Group: Comments on the results and key figures in the consolidated financial statements*

*Notes to the consolidated financial statements:*
*Part A – Accounting policies*
*Part B – Information on the consolidated balance sheet, section 4*
*Part C – Information on the consolidated income statement, section 8*
*Part E – Information on risks and related hedging policies*

Loans and advances to customers for loans, which at 31 December 2018 represented a considerable share of item 40 b) "*Financial assets measured at amortised cost – Loans and advances to customers*", show a balance of Euro 8,369 million, accounting for about 86 per cent of total assets in the consolidated financial statements. The net value adjustments to loans and advances to customers for loans charged to the year amounted to Euro 38 million and represent the best estimate made by the directors in order to reflect the expected credit losses on the loan portfolio at the balance sheet date on the basis of the applicable accounting standards.

We focused our attention on the evaluation of these loans as part of our audit work, considering the significance of the financial statement value and changes in the estimate criteria introduced during the year as a consequence of the application of IFRS 9 "Financial Instruments"; this evaluation process therefore represents a key audit matter since it is one of the most significant and complex estimates in the preparation of the consolidated financial statements of the Group.

The evaluation models adopted by the Group further to the implementation of IFRS 9 for determining the expected value adjustments are characterised by a high degree of subjectivity and require complex processes of estimation of a number of variables. The use of significant

In performing our audit we took into consideration the internal control relevant to the preparation of the consolidated financial statements in order to define appropriate audit procedures in the circumstances. Specifically, in order to address this key audit matter, we obtained an understanding and assessed the administrative and accounting process behind the valuation of loans and advances to customers and carried out a validation of the operating efficacy of the key controls.

Special focus was given to understanding and verifying the appropriateness of the policies, procedures and models used to measure the significant increase in credit risk (SICR), as well as the methods to determine and estimate the main parameters used within these models with regard also to the changes during the financial year due to the adoption of IFRS 9.

We performed specific audit procedures regarding the methodological basis for the evaluation models adopted and the examination of the reasonableness of the parameters and variables being estimated and used in the context of these models, also through performing ad-hoc quantitative checks, including the activities performed on the completeness and accuracy of the data input into these models.

In order to assess the reasonableness of the directors' conclusions over the evaluation of loans, we considered their classification in the financial statements according to the categories under the applicable financial reporting and regulatory framework, as well as the overall statistical evaluation method of a significant part of the portfolio. We then selected a sample of individual positions and checked them for reasonableness of classification based on available information about the debtor status and other evidence, in addition to checking the correct application of the above-reported risk parameters.

| | |
|---|---|
| assumptions especially deserves attention in relation to the review of the significant increase in credit risk (*SICR*), the elaboration and determination of risk parameters which incorporate the use of macro-economic scenarios and prospective information, together with the identification of objective evidence of deterioration. | Furthermore, we selected a sample of loans that were analysed in depth and verified the reasonableness of the assumptions made with reference to the identification and quantification of expected future cash flows from the full recovery of loans, to the evaluation of the guarantees backing these exposures and the estimate of the recovery times. |

### *Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements*

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate the parent company Santander Consumer Bank SpA or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

### *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained 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;

- We obtained 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;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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;
- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

### *Additional Disclosures required by Article 10 of Regulation (EU) No. 537/2014*

On 30 March 2016, the shareholders of Santander Consumer Bank SpA in general meeting engaged us to perform the statutory audit of the Company's and consolidated financial statements for the years ending 31 December 2016 to 31 December 2024.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

## *Report on Compliance with other Laws and Regulations*

### *Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98*

The directors of Santander Consumer Bank SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Santander Consumer Bank Group as of 31 December 2018, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Santander Consumer Bank Group as of 31 December 2018 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of the Santander Consumer Bank Group as of 31 December 2018 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

## *Exemption from preparing the non-financial statement*

As set out in the report on operations, the directors of Santander Consumer Bank SpA opted for the exemption from preparing the non-financial statement pursuant to article 6, para. 2, of Legislative Decree No. 254 of 30 December 2016.

Milan, 11 March 2019

PricewaterhouseCoopers SpA

*Signed by*

Marco Palumbo
(Partner)

*This report has been translated into English from the Italian original solely for the convenience of international readers.*

# Consolidated financial statements

## Consolidated Balance Sheet

In euros

| | Balance sheet - Assets | 12/31/2018 | 12/31/2017 |
|---|---|---|---|
| 10. | Cash and cash balances | 1,769 | 3,401 |
| 20. | Financial assets designated at fair value through profit or loss | 4,525,909 | 1,032,653 |
| | a) Financial assets held for trading | 4,525,909 | 1,032,653 |
| 40. | Financial assets measured at amortised cost | 9,170,245,651 | 8,633,726,535 |
| | a) Loans and advances to banks | 416,531,710 | 529,141,150 |
| | b) Loans and advances to customers | 8,753,713,941 | 8,104,585,385 |
| 50. | Hedging derivatives | | 961,286 |
| 60. | Changes in fair value of portfolio hedged items (+/-) (+/-) | 4,702,567 | (409,761) |
| 90. | Property, plant and equipment | 5,824,083 | 1,602,652 |
| 100. | Intangible assets | 11,149,356 | 10,264,072 |
| 110. | Tax assets | 247,715,250 | 240,581,687 |
| | a) current | 43,570,927 | 38,492,029 |
| | b) deferred | 204,144,323 | 202,089,658 |
| 120. | Non current assets and disposal groups classified as held for sale | 1,800 | 3,000 |
| 130. | Other assets | 265,543,265 | 225,842,338 |
| | **Total Assets** | **9,709,709,650** | **9,113,607,863** |

| | Liabilities and Shareholders' equity | 12/31/2018 | 12/31/2017 |
|---|---|---|---|
| 10. | Financial liabilities valued at amortised cost | 8,172,148,751 | 7,644,504,544 |
| | a) Deposits from banks | 5,842,003,567 | 5,670,768,884 |
| | b) Deposits from customers | 1,173,866,403 | 1,109,651,151 |
| | c) Debt securities in issue | 1,156,278,781 | 864,084,509 |
| 20. | Financial liabilities held for trading | 5,026,915 | 1,117,411 |
| 40. | Hedging derivatives | 5,945,034 | 3,122,227 |
| 60. | Tax liabilities | 65,208,284 | 49,584,240 |
| | a) current | 65,152,913 | 49,440,956 |
| | b) deferred | 55,371 | 143,284 |
| 80. | Other liabilities | 403,393,450 | 462,491,176 |
| 90. | Provision for employee severance pay | 4,252,305 | 4,298,817 |
| 100. | Provisions for risks and charges | 25,292,037 | 29,144,104 |
| | a) commitments and guarantees given | 88,765 | |
| | b) other | 25,203,272 | 29,144,104 |
| 120. | Valuation reserves | (409,424) | (418,506) |
| 150. | Reserves | 189,405,596 | 104,056,562 |
| 160. | Share premium | 632,586 | 632,586 |
| 170. | Share capital | 573,000,000 | 573,000,000 |
| 190. | Minorities shareholders’ equity (+/-) | 167,489,515 | 150,648,262 |
| 200. | Net Profit (Loss) for the year (+/-) | 98,324,601 | 91,426,440 |
| | **Total liabilities and Shareholders' Equity** | **9,709,709,650** | **9,113,607,863** |

# Consolidated Income Statement

In euros

| | | 12/31/2018 | 12/31/2017 |
|---|---|---|---|
| 10. | Interest and similar income | 352,382,083 | 355,437,187 |
| | of which: interest income calculated using the effective interest method | 348,277,060 | 351,704,209 |
| 20. | Interest expenses and similar charges | (45,949,534) | (62,316,267) |
| **30.** | **Net interest margin** | **306,432,549** | **293,120,920** |
| 40. | Fee and commission income | 121,610,381 | 106,565,581 |
| 50. | Fee and commission expenses | (61,019,029) | (60,228,297) |
| **60.** | **Net fee and commission** | **60,591,352** | **46,337,284** |
| 80. | Net income financial assets and liabilities held for trading | (662,430) | (246,894) |
| 90. | Net hedging gains (losses) on hedge accounting | 845,851 | 598,911 |
| 100. | Gains and losses on disposal of: | (70,743) | 31,339,096 |
| | a) Financial assets at amortised cost | (70,743) | 31,399,096 |
| 110. | Net gains on financial assets/liabilities at fair value through profit or loss | | (731,940) |
| | b) other financial assets mandatorily at fair value | | (731,940) |
| **120.** | **Operating income** | **367,136,579** | **370,417,377** |
| 130. | Net losses / recoveries on credit risk relating to | (37,704,404) | (49,376,710) |
| | a) financial assets at amortised cost | (37,704,404) | (49,376,710) |
| **150.** | **Net profit from financial activities** | **329,432,175** | **321,040,667** |
| **180.** | **Net profit from financial and insurance activities** | **329,432,175** | **321,040,667** |
| 190. | Administrative costs: | (153,902,294) | (149,888,747) |
| | a) payroll costs | (60,026,389) | (56,377,243) |
| | b) other administrative costs | (93,875,905) | (93,511,504) |
| 200. | Net provisions for risks and charges | (9,751,929) | (17,974,544) |
| | a) commitments and financial guarantees given | (49,560) | |
| | b) other net provisions | (9,702,369) | (17,974,544) |
| 210. | Net adjustments / writebacks on property, plant and equipment | (1,120,572) | (637,317) |
| 220. | Net adjustments / writebacks on intangible assets | (4,934,917) | (3,696,704) |
| 230. | Other operating income/expenses | 17,085,879 | 15,139,632 |
| **240.** | **Operating costs** | **(152,623,833)** | **(157,057,680)** |
| 250. | Gain (Losses) of equity investments | (54,912) | |
| **290.** | **Total profit or loss before tax from continuing operations** | **176,753,430** | **163,982,987** |
| 300. | Tax income of the year from continuing operations | (59,580,129) | (55,217,392) |
| **310.** | **Total profit or loss after tax from continuing operation** | **117,173,301** | **108,765,595** |
| **330.** | **Profit or loss for the year** | **117,173,301** | **108,765,595** |
| 340. | Minority profit (loss) of the year | 18,848,700 | 17,339,155 |
| **350.** | **Parent Company's profit (loss) of the year** | **98,324,601** | **91,426,440** |

It should be noted that the comparative information is displayed according to the new formats pursuant to Circular 262, 5th update, and have not been restated in such a way as to distort the comparison. Further details on the balances of the previous financial year are set out in *Annex 1* to the Financial Statements.

## Statement of Consolidated Comprehensive Income

In euros

| | Voci | 12/31/2018 | 12/31/2017 |
|---|---|---|---|
| **10.** | **Net Profit (Loss) for the year** | **117,173,302** | **108,765,595** |
| **70.** | Defined benefit plans | 154,787 | (31,213) |
| **140.** | Financial assets (different from equity instruments) at fair value through other comprehensive income | | 294,159 |
| **170.** | **Total of other comprehensive income after tax** | **154,787** | **262,946** |
| **180.** | **Other comprehensive income (Item 10 + 170)** | **117,328,089** | **109,028,541** |
| **190.** | Minority consolidated other comprehensive income | 18,908,270 | 17,452,483 |
| **200.** | **Parent Company's consolidated other comprehensive income** | **98,419,817** | **91,576,058** |

## Statement of changes in Consolidated Shareholders' Equity

In euros

# Financial year 2018

| | | | | Allocation of prior | | Changes during the year | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Transactions on shareholders' equity | | | | | | | | | |
| | Balance at 12.31.2017 | Changes in opening balances | Balance at 1.1.2018 | Reserves | Dividends and other allocations | Changes in reserves | Issue of new shares | Purchase of treasury shares | Extraordinary distribution of dividends | Changes in equity instruments | Derivatives on treasury shares | Stock options | Changes of ownership interesrs | Comprehensive income for 2018 | Group shareholders' equity at 12.31.2018 | Minority interests at 12.31.2018 |
| **Share capital:** | **645,604,500** | | **645,604,500** | | | | | | | | | | **(2,450,000)** | | **573,000,000** | **70,154,500** |
| a) ordinary shares | 645,604,500 | | 645,604,500 | | | | | | | | | | (2,450,000) | | 573,000,000 | 70,154,500 |
| b) other shares | | | | | | | | | | | | | | | | |
| **Share premium reserve** | **12,404,771** | | **12,404,771** | | | | | | | | | | | | **632,586** | **11,772,185** |
| **Reserves:** | **152,854,784** | **(5,087,458)** | **147,767,326** | **108,765,595** | | **(354,729)** | | | | | | | **(248,148)** | | **189,405,596** | **66,524,447** |
| a) retained earnings | 69,839,966 | (5,087,458) | 64,752,508 | 108,765,595 | | (354,729) | | | | | | | (248,148) | | 148,448,357 | 24,466,869 |
| b) other | 83,014,818 | | 83,014,818 | | | | | | | | | | | | 40,957,239 | 42,057,579 |
| **Valuation reserves** | **(284,306)** | **(90,222)** | **(374,529)** | | | | | | | | | | | **154,787** | **(409,424)** | **189,682** |
| **Equity instruments** | | | | | | | | | | | | | | | | |
| **Treasury shares** | | | | | | | | | | | | | | | | |
| **Net profit (loss) for the period** | **108,765,595** | | **108,765,595** | **(108,765,595)** | | | | | | | | | | **117,173,302** | **98,324,601** | **18,848,700** |
| **Shareholders' equity** | **768,697,082** | **(5,670,087)** | **763,026,995** | | | **(354,729)** | | | | | | | **(138,723)** | **98,419,817** | **860,953,359** | |
| **Minorities interests** | **150,648,262** | **492,407** | **151,140,669** | | | | | | | | | | **(2,559,425)** | **18,908,270** | | **167,489,515** |

## Financial year 2017

| | | | | Allocation of prior year results | | Changes during the year | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Transactions on shareholders' equity | | | | | | | | | |
| | Balance at 12.31.2016 | Changes in opening balances | Balance at 1.1.2017 | Reserves | Dividends and other allocations | Changes in reserves | Issue of new shares | Purchase of treasury shares | Extraordinary distribution of dividends | Changes in equity instruments | Derivatives on treasury shares | Stock options | Changes of ownership interesrs | Comprehensive income for 2017 | Group shareholders' equity at 12.31.2017 | Minority interests at 12.31.2017 |
| **Share capital:** | **645,604,500** | | **645,604,500** | | | | | | | | | | | | **573,000,000** | **72,604,500** |
| a) ordinary shares | 645,604,500 | | 645,604,500 | | | | | | | | | | | | 573,000,000 | 72,604,500 |
| b) other shares | | | | | | | | | | | | | | | | |
| **Share premium reserve** | **12,404,771** | | **12,404,771** | | | | | | | | | | | | **632,586** | **11,772,185** |
| **Reserves:** | **55,192,735** | | **55,192,735** | **69,213,108** | | **1,948,944** | | | | | | | **26,500,000** | | **104,056,562** | **48,798,223** |
| a) retained earnings | 626,860 | | 626,860 | 69,213,108 | | | | | | | | | | | 63,099,323 | 6,740,644 |
| b) other | 54,565,875 | | 54,565,875 | | | 1,948,944 | | | | | | | 26,500,000 | | 40,957,239 | 42,057,579 |
| **Valuation reserves** | **(547,252)** | | **(547,252)** | | | | | | | | | | | **262,946** | **(418,506)** | **134,199** |
| **Equity instruments** | | | | | | | | | | | | | | | | |
| **Treasury shares** | | | | | | | | | | | | | | | | |
| **Net profit (loss) for the period** | **91,913,108** | | **91,913,108** | **(69,213,108)** | **(22,700,000)** | | | | | | | | | **108,765,595** | **91,426,440** | **17,339,155** |
| **Shareholders' equity** | **692,746,553** | | **692,746,553** | | **(16,600,000)** | **974,472** | | | | | | | | **91,576,058** | **768,697,082** | |
| **Minorities interests** | **111,821,307** | | **111,821,307** | | **(6,100,000)** | **974,472** | | | | | | | **26,500,000** | **17,452,485** | | **150,648,262** |

## Consolidated Cash Flow Statement (indirect method)

In euros

| A. OPERATING ACTIVITIES | Amount 12/31/2018 | Amount 12/31/2017 |
|---|---|---|
| **1. Liquidity generated from operations** | **128,115,254** | **107,327,000** |
| - net profit for the year (+/-) | 117,173,302 | 108,765,595 |
| - net gains/losses on financial assets held for trading and | (162,455) | |
| - financial assets/liabilities designated at fair value through profit and loss (+/-) | 122,584 | |
| - gains (losses) from hedge accounting (+/-) | 119,493 | (767,017) |
| - net adjustments on impairment (+/-) | 47,837,907 | (101,826,658) |
| - impairment/recoveries to property and equipment and intangible assets (+/-) | 6,054,288 | 4,332,421 |
| - net provisions for risks and charges and other costs/income (+/-) | 8,113,003 | 22,432,895 |
| - uncollected net premiums (-) | | |
| - other uncollected insurance income/expenses (-/+) | | |
| - unsettled taxes and tax credit (+/-) | (38,309) | 25,366,587 |
| - unpaid duties, taxes and tax credits (+/-) | 1,200 | 1,600 |
| - impairment/write-backs after tax on discontinued operations (-/+) | | |
| - other adjustments (+/-) | (51,105,761) | 49,021,579 |
| **2. Liquidity generated/absorbed by financial assets** | **(611,970,974)** | **(663,137,732)** |
| - financial assets held for trading | (3,367,673) | (210,566) |
| - financial assets designated at fair value through profit and loss | | |
| - financial assets mandatorily designated at fair value | | |
| - financial assets measured at amortised cost | (572,297,913) | (646,262,868) |
| - other assets | (36,305,388) | (16,664,297) |
| **3. Liquidity generated/absorbed by financial liabilities** | 501,290,438 | 578,996,649 |
| - financial liabilities measured at amortised cost | **564,810,769** | **537,776,909** |
| - financial liabilities held for trading | 3,653,149 | 210,566 |
| - financial liabilities designated at fair value through profit and loss | | |
| - other liabilities | (67,173,480) | 41,009,173 |
| **Net liquidity generated/absorbed by operating activities** | **17,434,717** | **23,185,918** |
| **B. INVESTING ACTIVITIES** | | |
| **1. Liquidity generated by** | **114,255** | **295** |
| - sale of equity investments | | |
| - dividends collected on equity investments | | |
| - sale of property and equipment | 114,255 | 295 |
| - sale of intangible assets | | |
| - sale of lines of business | | |
| **2.Liquidity absorbed by** | **(17,550,604)** | **(6,587,303)** |
| - purchase of equity investments | (6,094,000) | |
| - purchase of property and equipment | (5,362,850) | (805,800) |
| - purchase of intangible assets | (5,739,025) | (5,781,503) |
| - purchase of lines of business | (354,729) | |
| **Net liquidity generated/absorbed by investing activities** | **(17,436,349)** | **(6,587,008)** |
| **C. FUNDING ACTIVITIES** | | |
| - issue/purchase of treasury shares | | |
| - issue/purchase of equity instruments | | |
| - dividends distributed and other allocations | | (16,600,000) |
| - sale/purchase of minority control | | |
| **Net cash generated/absorbed by financing activities** | | **(16,600,000)** |
| **NET CASH GENERATED/ABSORBED IN THE YEAR** | **(1,632)** | **(1,090)** |

**Key:**

(+) generated

(-) absorbed

## Reconciliation

| *Items* | Amount | |
|---|---|---|
| | 12/31/2018 | 12/31/2017 |
| Cash and cash equivalents at beginning of year | 3,401 | 4,491 |
| Net liquidity generated/absorbed in the year | (1,631) | (1,091) |
| Cash and cash equivalents: foreign exchange effect | | |
| Cash and cash equivalents at end of year | 1,769 | 3,401 |

Santander Consumer Bank

# Notes to the Consolidated Financial Statements

# Part A – Accounting policies

## A.1 – General information

### Section 1 – Declaration of compliance with International Financial Reporting Standards

Pursuant to Legislative Decree 38 of 28 February 2005, the Consolidated Financial Statements of Santander Consumer Bank have been prepared in compliance with the IAS/IFRS issued by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission, as established by Regulation no. 1606 of 19 July 2002.

The IFRS were applied with reference also to the “framework for the preparation and presentation of financial statements” (the framework), with particular regard to the fundamental principle.

The Consolidated Financial Statements for the year ended 31 December 2018 have been prepared in accordance with Circular 262/05 (hereinafter also the ‘Circular’) as subsequently amended by the 5th update of 22 December 2017 “Guidelines for the preparation of the financial statements and the consolidated financial statements of banks and financial companies holding banking groups” issued by the Bank of Italy, in the exercise of the powers established by Article 9 of Legislative Decree no. 38/2005 and with the Regulation of 22 December 2005. These Instructions establish binding rules governing the financial statements and how they are to be prepared, including the contents of the notes.

In preparing the Financial Statements, the IAS/IFRS in force at 31 December 2018 have been applied (including the SIC and IFRIC interpretations), as endorsed by the European Commission.

### Section 2 – Basis of preparation

The financial statements consist of the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders’ equity, cash flow statement and the notes to the financial statements and are also accompanied by the directors’ report on the operations, results and financial position of the Santander Consumer Bank Group.

In accordance with the provisions of art. 5 of Legislative Decree 38/2005, the Financial Statements have been prepared using the euro as the functional currency.

The amounts in the financial statements are expressed in euros, whereas unless otherwise specified, those in the notes and the report on operations are expressed in thousands of euros.

The Financial Statements are prepared in accordance with the general principles laid down in IAS 1 and the specific accounting standards endorsed by the European Commission, as described in Part A.2 of these notes. In particular, these financial statements have been prepared on a going concern basis (IAS 1 para. 25 and para. 26), in accordance with the principle of accrual accounting (IAS 1 para. 27 and para. 28) and in compliance with the consistency of presentation and classification of items in the financial statements (IAS 1 para. 29). The assets and liabilities, income and expenses have not been offset unless required or permitted by a standard or interpretation (IAS 1 para. 32).

No exceptions have been made to the application of IAS/IFRS.

The following criteria were taken into account for the drafting of the financial statements:

*a) Going concern*

Assets, liabilities and off-balance sheet transactions are measured according to their function, since they are expected to continue in operation for the foreseeable future;

*b) Accrual principle*

Costs and revenues are recognised, irrespective of the moment in which the amount is paid/received, for the period over which they are accrued and in accordance with the matching criterion;

*c) Aggregation and relevance*

All groupings of items of a similar nature or function, unless they are insignificant, are shown separately.

*d) Prohibition of offsetting*

Assets and liabilities, costs and revenues are not offset against each other, unless this is required or permitted by an International Financial Reporting Standard or an interpretation or by the schedules and instructions drawn up by the Bank of Italy for the financial statements of banks;

*e) Comparative information*

Comparative information is shown by reporting, in addition to the figures for the reporting period, also the corresponding data for comparison reported at 31 December 2017.

It should be noted that the Santander Consumer Bank Group has made use of the exemption from the requirement to restate comparative data provided for by paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 "First-Time Adoption of International Financial Reporting Standards", according to which in the first financial statements in which the new principle applies the requirement to restate comparative data on a uniform basis is waived. It follows that the balances related to the statement of financial position and to the income statement relating to the previous year, since they were drawn up in accordance with the previous accounting standard IAS 39, are not completely comparable with the new accounting categories and with the relevant assessment criteria introduced by the new standard IFRS 9.

For this reason, also taking into account that in adopting the 5th update of Circular No. 262 (adopted in particular to transpose IFRS 9 "Financial Instruments" and the consequent changes introduced in other international accounting standards, including IFRS 7 "Financial Instruments: Disclosures", as well as the new standard IFRS 15 "Revenue from contracts with customers") the Bank of Italy gave the competent corporate bodies the independence to choose the form and content of the information relating to the IFRS 9 transition, the Santander Consumer Bank Group decided to show the comparative information in accordance with the new formats pursuant to the Circular even though the balances from the previous financial year, both relating to the statement of financial position and to the income statement, have not been determined since the balance sheet items have not been restated in such a way as to distort the comparison. The information contained in the tables in Part B and Part C of the Notes affected by reclassifications, has been shown for comparison but without restatement of the data since the items affected have not been restated in such a way as to distort the comparison. For the information contained in Part E of the Notes, no comparative data has been shown so as not to distort the data comparison, except for the disclosure not substantially impacted by the regulatory update.

Further details on the balances of the previous financial year are set out in Annex 1 to these Financial Statements.

The report on operations and the notes provide the information required by International Accounting Standards, by Italian law and by the Bank of Italy, as well as other non-mandatory information considered necessary to give a true and fair view of the Group's situation.

The preparation of financial reports requires the use of estimates and assumptions that may have a significant effect on the amounts recognised in the balance sheet and income statement, and on the disclosure of contingent assets and liabilities reported in the Financial Statements. The development of such estimates involves the use of available information and the adoption of subjective judgements based on past experience, which are used to formulate reasonable assumptions for recording corporate events. By their nature, the estimates and assumptions used can vary from year to year, which means that it cannot be excluded that in future years the figures in the Financial Statements may differ significantly due to changes in the subjective judgements used.

The main situations in which management has to make subjective judgements include the following:

1. the quantification of impairment losses on receivables and financial assets generally;
2. the use of valuation models for determining the fair value of financial instruments not quoted in active markets;
3. assessing whether the value of intangible assets is fair;
4. quantifying personnel provisions and provisions for risks and charges;
5. making estimates and assumptions regarding the recoverability of deferred tax assets.

**Contents of the consolidated financial statements**

**Consolidated Balance sheet and Consolidated Income statement**

The formats used for the balance sheet and income statement are made up of items, sub-items and other details. In the income statement, revenues are shown without a sign, whereas costs are shown in brackets.

**Statement of comprehensive income**

The statement of changes in comprehensive income is presented in the manner prescribed by the Bank of Italy, based on the information required by IAS 1.

"Net profit (loss) for the year" is the same amount shown in item 350 of the income statement.

The "other comprehensive income after tax" includes changes in the value of assets recorded during the year with contra-entry to the valuation reserves (net of tax).

**Statement of changes in shareholders' equity**

The statement of changes in shareholders' equity is presented in the manner prescribed by the Bank of Italy. It shows the composition and changes in shareholders' equity accounts during the year, divided into share capital, capital reserves, retained earnings and the result for the year.

**Cash flow statement**

The cash flow statement for the current and previous years has been prepared using the indirect method, whereby cash flows from operating activities are represented by the result for the year adjusted for non-monetary transactions.

Cash flows are broken down into those generated by operating activities, investing activities and financing activities.

In this statement, the cash flows generated during the year are shown without a sign, whereas those absorbed are shown in brackets.

**Contents of the notes to the financial statements**

The notes include the information set out in Bank of Italy Circular no. 262/2005 and subsequent amendments, as well as the additional disclosures required by International Accounting Standards. To reflect in full the formats laid down by the Bank of Italy, we also show the headings of sections on items with zero balances in both years.

## Section 3 – Scope of consolidation and consolidation method

### 1. Investments in subsidiaries

| Company name | Head office | Registered Office | Nature of holding: Type of relationship (1) | Nature of holding: Parent company | Nature of holding: % held | % of votes (2) |
|---|---|---|---|---|---|---|
| **A. Company** | | | | | | |
| **A.1 Fully Consolidated** | | | | | | |
| 1. Banca PSA Italia S.p.A. | Milano | Milano | 3 | Santander Consumer Bank S.p.A. | 50% | |
| 2. PSA Renting Italia S.p.A. | Milano | Trento | 3 | Banca PSA Italia S.p.A. | 100% | |

Key

(1) Type of relationship:

1 = majority of voting rights at ordinary shareholders' meeting

2 = significant influence at ordinary shareholders' meetings

3 = agreements with other shareholders

4 = other forms of control

5 = joint management pursuant to art. 26, paragraph 1, of Legislative Decree 87/92

6 = joint management pursuant to art. 26, paragraph 2, of Legislative Decree 87/92

(2) Voting rights at ordinary shareholders' meeting, distinguishing between actual and potential.

### 2. Main considerations and assumptions for the determination of the scope of consolidation

The Consolidated Financial Statements include Santander Consumer Bank and the companies controlled thereby, in accordance with the concept of control envisaged by IFRS 10.

The scope of consolidation includes Banca PSA Italia S.p.A, PSA Renting Italia S.p.A. and the segregated funds pertaining to the SPE Golden Bar S.r.l. (Securitisation) and Auto Abs Italian Loans 2018-1 S.r.l..

According to IFRS 10, an entity controls an investee if and only if all of the following requirements are met:
1) the entity has the power to direct the relevant activities, i.e. the activities that significantly affect the investee's returns;
2) the entity is exposed, or has rights, to variable returns from its involvement with the investee;
3) the entity has the ability to use its power over the investee to affect the amount of the investor's returns.

The analysis performed on the existence of control over the companies included in the scope of consolidation took account of the factors set out below.

The parent company Santander Consumer Bank and Banque PSA Finance each hold 50% of the share capital of Banca PSA Italia S.p.a. and the existence of control by Santander Consumer Bank was determined based on the following assumptions.

The company was set up under a framework agreement entered into between Santander Consumer Finance Group and Peugeot Group, through its subsidiary Banque PSA Finance.

The subsidiary offers a wide range of consumer financial services focused on the automotive sector.

As previously stated, based on IFRS 10, a company controls an investee if it has the ability, by means of a legal or substantial right, to significantly impact management decisions that affect the amount of the investor's returns and where it is exposed to variable returns.

In assessing the existence of control, identification was made of the relevant activities, that is, the activities that significantly affect the investee's returns, and the manner in which decisions are made in relation to these activities.

Activities identified as relevant, in a company that operates in the investee's sector, are financing activities, inclusive of ALM, risk management and commercial management.

Under the framework agreement executed by both Groups, by means of a casting vote, Santander Consumer Bank has the power to direct two of the three strategic areas: financing activities and risk management.

The above factors have led the two shareholders to conclude that Santander Consumer Bank exercises control over PSA Italia S.p.A. and that Banque PSA Finance exercises a significant influence thereover.

In January 2018, Banca PSA Italia acquired the entire shareholding of PSA Renting. As such, the parent company Santander Consumer Bank controls it through the indirect shareholding of 50% in Banca PSA.

It should also be noted that the shareholding of 65% in Santander Consumer Finance Media S.r.l. in liquidation has been cancelled as a result of the conclusion of the liquidation procedure and the removal of the company from the Companies Register.

As regards the analysis performed of the impact of IFRS 10 on securitisations transactions, on account of the contractual structure thereof and of the role played by both Santander Consumer Bank and Banca PSA as originator and servicer of the transactions, who have the power, under the related contracts, to direct the relevant activities that impact the results of the securitised portfolios, and, as subscribers of the respective Junior securities, are exposed to the returns on the portfolios, it has been concluded that the portfolios need to be consolidated.

It has been deemed that there are no such requirements for the respective SPEs Golden Bar S.r.l and Auto Abs Italian Loans 2018-1 S.r.l, given that they are not subject, either from an equity interest or a contractual point of view, to control by the Group.

The following is a list of the owners of the segregated funds included in the consolidation:

| Company name | Head office |
|---|---|
| **A. Companies** | |
| 1. Golden Bar (Securitisation) S.r.l. | Turin |
| 2. Auto Abs Italian Loans 2018-1 S.r.l. | Conegliano (TV) |

## 3. Investments in subsidiaries with significant minority interests

### 3.1 Minority interests, minority voting rights and dividends distributed to holders of minority interests

| Company name | Minorities interests % | Minorities votes availability % (1) | Dividends paid to minorities |
|---|---|---|---|
| Banca PSA Italia S.p.A. | 50% | 50% | 50% |
| PSA Renting Italia S.p.A. | 50% | 50% | 50% |

(1) Available votes during the ordinary meeting

## 3.2 Investments with significant minority interests: accounting information

| Company Name | Total Assets | Cash and cash equivalents | Financial assets | Tangible and intangible assets | Financial liabilities | Equity | Interest margin | Net interest and other banking income | Operating expenses | Profit (loss) from continuing operations before tax | Profit (loss) from continuing operations after tax | Profit (loss) from dismissing assets activity after tax | Prof (loss) for the period (1) | Other income elements after tax (2) | Consolidated comprehensive income (3) = (1) + (2) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Banca PSA Italia S.p.A. | 3,218,075 | 1 | 2,993,330 | 188 | 2,693,258 | 334,194 | 84,271 | 101,410 | (40,339) | 59,015 | 36,762 | | 36,762 | 119 | 36,881 |
| PSA Renting S.r.l | 80,493 | | 64,360 | | 65,424 | 6,879 | 2,447 | 8,438 | (7,380) | 625 | 935 | | 935 | | 935 |

## 4. Significant restrictions

With reference to the requirements of IFRS 12, paragraph 13, there are no legal, contractual or regulatory restrictions on the ownership structure that significantly limit the ability of the Parent Company to access or use assets and settle liabilities of the Group.

## 5. Other Information

### Consolidation method

### Full consolidation method

The Consolidated Financial Statements are prepared under the full consolidation method, which involves line-by-line inclusion of the subsidiary's balance sheet and income statement aggregates.

After showing separately the minority interests' share of equity and the result for the year, the value of the investment is eliminated against the residual value of the subsidiary's net equity.

Any differences arising from this operation are recognised in equity as a consolidation reserve.

All intercompany assets, liabilities, income and expenses are eliminated.

In the 2018 consolidated financial statements, the full consolidation method, which involves line-by-line inclusion of companies' Balance Sheet and Income Statement aggregates, was used to consolidate the cover pool of the SPE Auto ABS Italian Loan 2018-1 S.r.l..

In the 2017 consolidated financial statements, a summary method was used to consolidate the cover pool of the SPE Auto Abs Italian Loans Master S.r.l. due to restrictions associated with the warning system.

As a result of this change, for clarity, the comparative balance relating to the financial statements drawn up at 31 December 2017 was also restated. For a better understanding of the changes made, below is a reconciliation of the 2017 consolidated financial statements and the proforma resulting from said changes.

| | Items | 12/31/2017<br>Deposited consolidated balance | Reclassified balance | 12/31/2017<br>Proforma balance |
|---|---|---|---|---|
| 40 a) | Financial assets measured at amortised cost - Loans and advances to banks | | 63,587 | 529,141 |
| | 60. Loans and advances to banks (ex IAS 39) | 465,554 | | |
| 10 b). | Financial liabilities measured at amortised cost - deposits from customers | | 536,432 | (1,109,651) |
| | 20. deposits from customers (ex IAS 39 | (1,646,083) | | |
| 10 c) | Financial liabilities at amortised cost - Debt securities in issue | | (600,019) | (864,085) |
| | 30. Debt securities in issue (ex IAS 39) | (264,065) | | |

## Section 4 - Subsequent events

Pursuant to IAS 10, these financial statements were authorised for publication by the Board of Directors on 25 February 2019.

Since the end of the year and up to the date of approval of the draft financial statements by the Board of Directors, there have been no events or transactions that could have a significant impact on the results explained in this report. The draft financial statements therefore reflect all events that affected the Group’s operations in 2018.

## Section 5 - Other aspects

Complete copies of the last Financial Statements with the Reports on Operations of the companies that at 31 December 2018 were subsidiaries or associates, and that their respective Boards of Directors will submit for approval of their shareholders' meeting by 30 April 2019, will be deposited at head office.

The related reports of the Board of Statutory Auditors and Independent Auditors will also be deposited. The prior year Financial Statements of these companies will also be deposited.

Information on the activities and results achieved by the subsidiaries in 2018 is included in the report accompanying the Financial Statements.

The Financial Statements are audited by PricewaterhouseCoopers S.p.A., pursuant to the Resolution of the Shareholders' Meeting of 30 March 2016, which appointed this firm to perform the audit for the nine years from 2016 to 2024.

Listed below are changes to international accounting standards or related interpretations, approved by the European Commission, that have become effective as from 1 January 2018:

- **IFRS 15** - Revenue, in replacement of IAS 18 - Revenue, establishes the criteria and timing for the recognition of revenue from contracts to customers (Reg. EU 2016/1905 and 2017/1987). In 2018, the Group performed a preliminary assessment and this work focused on the applicability of the new principle to the different types of contracts, as well as the study of possible management and accounting consequences. Generally speaking, the accounting treatment of the cases analysed is in line with the provisions of the new standard and there are consequently no significant impacts at accounting level;
- **IFRS 9** - Financial Instruments, in replacement of IAS 39 - Financial Instruments: Recognition and Measurement, establishes the new criteria for the recognition and measurement of financial instruments, as well as the transition from an incurred losses to an expected losses impairment model (EU Reg. 2016/2067);
- **IFRIC 22** - Foreign Currency Transactions and Advance Consideration, the interpretation clarifies the accounting for transactions that include the receipt or payment of advances in foreign currency (EU Reg. 2018/519);
- **IAS 40** - Investment Property - Transfers of investment property, the changes clarify when an undertaking is authorised to change the status of a property that was not a "property investment" or vice versa (EU Reg. 2018/400);
- **IFRS 2** - Share-based Payment, clarifies how companies should apply the standard in certain specific cases (EU Reg. 2018/289);
- **Amendments to IAS 28** Investments in associates and joint ventures, IFRS 1 First-time Adoption of International Financial Reporting Standards and IFRS 12 Information on holdings in other entities, the aim of the annual improvements is to resolve non-urgent issues relating to inconsistencies in IFRS or clarifications of terminology, which were discussed by the IASB in the course of the project cycle (EU Reg. 2018/182);
- **Amendments to IFRS 4**, seek to remedy the temporary accounting consequences of the timing difference between the date of entry into force of IFRS 9 and the date of entry into force of the new IFRS 17 on insurance contracts that replaces the IFRS 4 (EU Reg. 2018/1988).

An analysis of the significant qualitative/quantitative impacts, as a result of the introduction of IFRS 9 in the financial year, is provided below.

### From IAS 39 to IFRS 9

#### 1) Basic Principles

The new standard IFRS 9 Financial Instruments, published in the Official Journal of the European Union of 29 November 2016, entered into force as from 1 January 2018. This standard:

- changes the rules of classification and the subsequent ways of measuring financial assets which, as regards debt instruments will be based on the business model and on the characteristics of the cash flows of the financial instrument, while for equity instruments they will be based on the measurement at fair value through profit and loss, without prejudice to the possibility of making use of the OCI option;
- provides for a new accounting model for impairment based on an expected losses approach rather than an incurred losses approach, as in the current IAS 39, and also introduces, for performing loans, the concept of lifetime expected loss, which could lead to an advance and structural increase of value adjustments;
- makes changes to hedge accounting, rewriting the rules for designating a hedging relationship and verifying its effectiveness with the aim of ensuring greater alignment between the accounting representation of hedges and the underlying management approaches.

#### 2) Recognition and measurement

Financial assets can therefore be classified into three categories, two main (HTC and FVTOCI) and one residual (FVTPL):

- assets measured at amortised cost (HTC);
- assets measured at fair value through other comprehensive income (FVTOCI);
- assets measured at fair value through profit and loss (FVTPL).

The classification of financial assets carried out by the Bank, and more generally by the units forming part of the Group, is performed by assessing the business model and the specific characteristics of the cash flows that are connected to it.

Taking into account that:

a) the first category, Hold to Collect, therefore includes assets that possess the characteristics of a loan, with cash flows relating to the repayment of the nominal amount and of interest at fixed dates connected to a business model whose purpose is to hold the instrument for the entire duration of the loan in order to collect all the cash flows;
b) the second category includes the instruments whose contractual flows are characterised exclusively by the payment of capital and interest. the business model that guides the holding of these instruments is referred to as "Hold to Collect and Sell", the objective being both to collect the contractual flows and to sell the asset.
c) the final category includes assets that cannot be classified in the first two. All assets, therefore, with a business model other than those above, in which the cash flows are secondary while the sale of the asset is the priority.

The Group, having mapped the business areas, taking account of the products sold, the distribution channels and the assets held, its management model and the characteristics of the cash flows of the financial instruments themselves (Solely Payments of Principal and Interests criterion), places its current portfolio of financial assets, both receivables and securities, in the first category, with measurement at amortised cost.

In addition to being carried out on the new portfolio, this exercise was also performed on financial assets present at 31 December 2017, which were reclassified to the new categories.

Financial liabilities have not been reclassified and all payables for cash and technical forms of direct deposits in the form of securities have been categorised under financial liabilities at amortised cost, as per the previous IAS 39.

<u>Objectives and content of the Santander Consumer Bank business model</u>

The Model adopted by the Santander Group involves the granting of credit in its various forms and, in particular, the professional practice of consumer credit and the collection of savings from the public.

The identification of strategic guidelines and the general management of the Bank are the responsibility of the Board of Directors. These guidelines are defined during the preparation of the strategic plan and the subsequent annual budget.

The entire local organisational structure is involved in implementing the strategic planning process, as is the Spanish parent, Santander Consumer Finance, which provides the development guidelines and the general and specific objectives.

The Group's mission is to be the best bank in the world for consumer credit, building loyalty among employees, customers, shareholders and, more generally, the community in which it operates.


The Group's main goal is to allow its customers and employees to achieve their objectives and, in particular:

- to be the best bank to work for, thanks to a solid and innovative internal culture;
- to achieve a lasting partnership with customers/partners;
- to provide ongoing support to the communities in which it operates;
- to maintain solid capital and optimise risk management;
- to increase profitability.

The Bank is managed using a strategy that combines the maximisation of economic results, pursuing income generation without compromise, with maintaining adequate levels of capitalisation and with a conscious and measured assumption of risk.

The main objectives can be summarised as follows:

- achieving lasting partnerships with customers and business partners;
- geographic presence throughout the country in order to be closer to customers;
- innovation and continuous improvement of processes in order to understand and serve customers better;
- promotion of the risk culture at all levels of the organisation;
- optimisation of risk management, keeping the level of disputes stable, even with the increase in volumes, by means of an effective strategy of acceptance and recovery, as well as the minimisation of risk costs in order to ensure the profitability objective (RoRWA);
- maintaining an adequate capital level and a capital structure that is able to cover all the risks to which the Bank is exposed through efficient management and allocation, creating value for shareholders and complying with regulatory requirements;
- make more efficient use of capital and liquidity by optimising the cost of funding, keeping regulatory indicators above the risk propensity limits, increasing financial autonomy and developing of new products;
- transform the internal culture in order to be the best bank to work for, through training, internal communication, incentive systems, operational flexibility and the development of digital systems for employees.

The strategic guidelines are constantly updated and shared with the Santander Group, with the aim of integrating and implementing best business practices.

### Business Activities – Products Distributed and Distribution Channels

The Group's main activity is the supply of consumer credit through a variety of products and distribution channels.

The term consumer credit refers to the market for credit to private individuals and companies. This type of financing is generally intended for the purchase of goods or services and is disbursed in the form of loans or revolving credit.

Specifically, the SCB Group's reference market can be broken down into the following macro-areas:

- Car loans;
- Personal loans;
- Salary and pension assignment;
- Delegation of payment;
- Special-purpose loans;
- Credit cards;
- Leasing;
- Wholesale Stock Financing and Revolving Dealer products;
- Demand Deposit and Time Deposit accounts.

The distribution channels for the marketing of the products are the following:

- Subsidiaries;
- Affiliates;
- Agents;
- Internet.

### 3) Impairment

For activities related to the impairment model, the scope of the financial assets subject to application of the principle has been defined and the methods for estimating risk parameters and for carrying out staging allocation have begun to be defined with the aim of developing models and methods for the purposes of IFRS 9.

Indeed, the new impairment model provided for by IFRS 9 introduces a significant new change related to the analysis of the portfolio and to its classification into three different stages depending on the deterioration in the credit quality observed with respect to the initial recognition and which correspond to the different methods of calculation of the expected loss and interest:

- Stage 1: classified in this stage are loans defined as performing, i.e. loans that have not deteriorated since initial recognition. In this case, the expected loss for the calculation of corrections is measured over a 12-month time period (12-month PD), while interest is calculated on the gross exposure;
- Stage 2: comprises loans that have undergone a significant qualitative worsening compared to initial recognition. For these loans, expected loss is calculated over the lifetime of the loan (lifetime PD), and interest is calculated on the basis of the gross exposure;
- Stage 3: includes impaired assets, i.e. that have objective evidence of deterioration (over 90 days past due). Included in this category are past due non-performing, unlikely to pay and doubtful. In this case a lifetime PD is calculated, while interest is calculated on the basis of the receivable net of impairment.

In this regard, the preliminary methodological choices aimed at determining the expected loss (lifetime probability of default, risk parameters, forward looking information) were made, and the main criteria for the allocation of financial instruments into the various classes of risk proposed by legislation and indicated above were defined.

The method applied for the calculation of expected loss is supported, therefore, by risk analyses that take into consideration, in the calculation models applied, local performance in terms of collection activities, relevant events observed over time and long-term information related to macroeconomic analyses both in ordinary and stress situations.

Analysis of the SICR (significant increase in credit risk) component, the objective of which is to identify positions for which a significant increase in credit risk is determined with respect to initial recognition, in order to proceed to classification to stage 2, is performed by analysing qualitative and quantitative components. Given below is an extract of these components, applied by way of example to the main retail and non-retail portfolios of the Parent Company.

Given below is an extract of these components, applied by way of example to the main retail and non-retail portfolios of the Parent Company.

The main elements identified that result in a significant increase in risk are listed below:

- The presence of a loan more than 30 days past due
- The presence of a past loan more than 30 days past due
- Forborne positions:
  - for which the original terms of the contract have been changed
  - and/or for which the debt has been partially or fully refinanced in order to allow the customer in difficulty to meet the financial commitments undertaken
- Customers being managed by Credit Collection due to legal action or bankruptcy procedures
- Customers with a total overdue amount greater than 5% of the total exposure

For these in particular, the components include the assessment rating, which involves the observation of macroeconomic variables and the monitoring of customer behaviour.

The other component to be taken into account for the calculation of lifetime PD is the RTOB (remaining times on book) variable, which is required to define the maximum time period that will be taken into consideration in terms of the calculation of expected loss. This variable takes into consideration the duration of the contract including any extension periods or early termination.

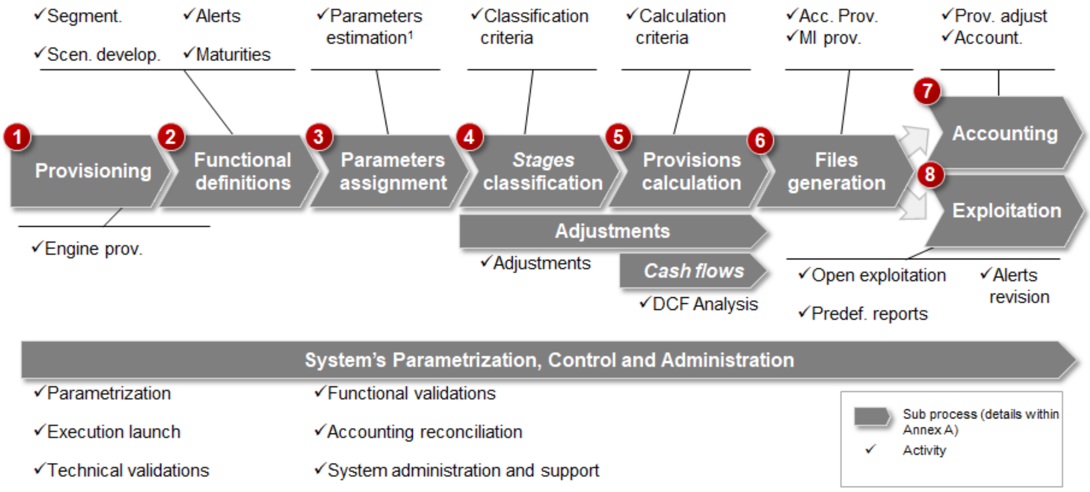
Combining the qualitative/quantitative elements identified and the remaining times on book allows for classification to the second stage in accordance with the IFRS 9 impairment model.
Wholesale portfolios, on the other hand, are classified into stage 2 and 3 using the combination of qualitative/behavioural and quantitative components observed for individual counterparties (DPD 30/90, positions in recovery, etc.)
Anything not falling into categories 2 and 3 is classified to stage 1.

As regards securities owned and inter-bank relations, the new legislation provides for an assessment and impairment process similar to that provided for the loan portfolio.

No significant impacts were observed over the course of the year in relation to the effects resulting from the introduction of the new assessment model, as described above; however, for an in-depth analysis please refer to Annex 1 of these Financial Statements, where the effects related to the first application of the standard are described in detail.

From an operational point of view, implementation of the model involved revising internal business processes, making it necessary to implement appropriate IT tools and create specific dedicated professional profiles within the areas involved in all units of the Group. The operational processes and the IT facilities provided guarantee the quality and integrity of the data processed. In addition, the internal control model has been enhanced with new specific controls, implementation of which will continue in 2019 with a view to continuously improving and optimising the process. The updates made to the governance and monitoring processes developed, which involved the individual functions and the governing bodies of Group companies, guarantee compliance with the new provisions.

Below is a representation of the process developed according to the guidelines of the Spanish Parent Company.




#### 4) Other aspects

Finally, as regards the adoption of the new hedging model, the Group has chosen to continue to apply the existing requirements provided for by IAS 39.

As regards liabilities, the classification and measurement criteria provided by IAS 39 remain substantially unchanged with the entry into force of IFRS 9, meaning there is no need for values to be reclassified and restated on the basis of the new principle.

Listed below are the relevant international accounting standards approved by the European Commission, that became effective as at the balance sheet date:

- **IFRS 16** – Leases, in force from 1 January 2019 (EU Reg. 2017/1986)
- **IFRS 17** – Insurance Contracts, in force from 1 January 2021 (EU Reg. 2017/1988)
- **IFRIC 23** – Uncertainty over income tax treatments, in force since 1 January 2019 (EU Reg. 2018/1595)
- **Amendments to IFRS 9** Financial Instruments - Prepayment features with negative compensation, in force since 1 January 2019 (EU Reg. 2018/498).

An analysis of the significant qualitative/quantitative impacts, as a result of the introduction of IFRS 16 in the next financial year, is provided below.

**From IAS 17 to IFRS 16 – Basic Principles**

The main new aspects introduced by IFRS 16 relate to:

- The widening of the scope of application of the rules on leasing. The standard requires entities to identify whether a contract is (or contains) a lease, based on the concept of control of use of an identified asset for a period of time; as a result, rent or leasing contracts, previously not treated as leasing, can be included;
- The introduction of a single model of accounting for lease contracts by the lessee, with the consequent elimination of the distinction between operating leases and financial leases; the model requires the recognition in assets of a right to the use of the asset subject to leasing, classified on the basis of the nature of the underlying asset, and a financial liability, as a direct contra-entry. Any depreciation and impairment of the right of use is recorded in the income statement, as is any interest expense on the financial liability;
- The revision of the information relating to leasing contracts and their accounting treatment.

The model of accounting for lease contracts by the lessor remains, instead, unchanged.

**From IAS 17 to IFRS16 – Implementation and expected estimates**

IFRS 16 was implemented as part of a corporate project by the Spanish Group that involved the various units in a year-long analysis process led by corporate guidelines and involving a parallel run divided into different phases.

The main expected effects in terms of Right of Use (ROU) and connected liabilities are approximately Euro 21.5 million and relate to the rental of premises used by Group companies to carry out their activities and the hire of cars for employees.

The expected overall economic impact for 2019 will relate to the items Interest expense and Adjustments to property and equipment, which will increase respectively due to the discounting of liabilities and the depreciation charge; conversely, the costs recorded in the item Other administrative expenses will decrease in the amount of approximately Euro 4.5 million. Finally, below are the main standards currently awaiting approval:

- Amendment to IAS 19
- Amendment to IFRS 3
- Amendments to IAS 1 and IAS 28 on the definition of materiality.

## A.2 – Main captions in the financial statements

This section explains the accounting policies used to prepare the 2018 Financial Statements. The Group's accounting policies are explained with reference to the classification, recognition, measurement and derecognition of assets and liabilities. A description of the economic effects is given for each of these stages, where relevant.

### 1 – Financial assets at fair value through profit and loss

#### Recognition

Financial assets held for trading are initially recognised on the subscription date. They are recognised at fair value without considering transaction costs or income directly attributable to the instrument concerned.

#### Classification

All financial assets not classified in the portfolio of financial assets at fair value through comprehensive income and in the portfolio of financial assets measured at amortised cost are classified in this category. Derivatives traded, in connection with securitisation transactions represented as an asset if the fair value is positive, are shown in the sub-item financial assets held for trading. If the fair value is negative, they are posted in financial liabilities held for trading. These contracts are not subject to net settlement by either counterparty.

According to the general rules provided for by IFRS 9 in relation to reclassification of financial assets (with the exception of equity securities for which no reclassification is allowed), no reclassifications to other categories of financial assets are permitted except in the event that the entity changes its business model for the management of financial assets. In these cases, which are expected to be highly infrequent, financial assets may be reclassified from the 'at fair value through profit and loss' category to one of the other two categories provided for by IFRS 9 (Financial assets measured at amortised cost or financial assets at fair value through comprehensive income). The transfer value is represented by the fair value at the time of the reclassification and the effects of the reclassification operate prospectively from the date of reclassification. In this case, the effective interest rate of the reclassified financial asset is determined on the basis of its fair value at the date of reclassification and that date will be considered the date of initial recognition for the assignment to the various stages of credit risk (stage assignment) for the purposes of the impairment test.

#### Measurement and recognition of components affecting the income statement

Subsequent to initial recognition, financial assets and liabilities held for trading are measured at fair value. The effects of the application of this criterion are recognised in the income statement. For the determination of fair value, estimates and valuation models are used based on prices quoted on an active market.

#### Derecognition

Financial assets are only derecognised if the sale involves the substantial transfer of all the risks and benefits related to the assets. On the other hand, if a portion of the risks and benefits of the financial assets transferred has been retained, they continue to be recognised, even if ownership of the assets has been transferred.

Financial liabilities are derecognised when they expire or are settled.

### 2 – Financial assets at fair value through comprehensive income

The Group does not have any financial assets at fair value through comprehensive income.

## 3 – Financial assets measured at amortised cost

### Recognition

Financial assets measured at amortised cost are initially recognised on the payout date, with reference to the fair value of the financial instrument concerned. This is represented by the amount paid out including costs/revenues that are both directly attributable to the individual loans and identifiable from the start of the transaction, even if they are settled at a later time.

### Classification

Financial assets measured at amortised cost include loans to customers and banks, whether granted directly or acquired from third parties, which are placed in a Hold to Collect business model and have passed the SPPI test as provided for by IFRS 9. Loans also include lease receivables covered by IAS 17, as well as the previously sold loans relating to securitisation transactions for which the condition for the transfer of risks and benefits referred to in IFRS 9 in the matter of derecognition, as well as in accordance with IFRS 10 in the matter of consolidated financial statements, has not been met.

According to the general rules provided for by IFRS 9 in relation to reclassification of financial assets, no reclassifications to other categories of financial assets are permitted except in the event that the entity changes its business model for the management of financial assets. In these cases, which are expected to be highly infrequent, financial assets may be reclassified from the 'amortised cost' category to one of the other two categories provided for by IFRS 9 (Financial assets measured at fair value through comprehensive income or Financial assets measured at fair value through profit and loss). The transfer value is represented by the fair value at the time of the reclassification and the effects of the reclassification operate prospectively from the date of reclassification. Gains or losses arising from the difference between the amortised cost of a financial asset and its fair value are recognised in profit or loss in the event of reclassification to Financial assets measured at fair value through profit and loss and to Equity, in the appropriate valuation reserve, in the event of reclassification to Financial assets measured at fair value through comprehensive income.

### Measurement and recognition of components affecting the income statement

After initial recognition, these assets are measured at amortised cost, corresponding to the initial cost less/plus principal repayments, net adjustments/recoveries and amortisation - calculated using the effective interest method - of the difference between the amount paid out and the amount repayable on maturity, which is generally attributable to the costs/income directly allocated to the individual loans. The effective interest rate is the rate that equates the present value of future cash flows of loans, for principal and interest, to the amount granted, including costs/income attributable to the loan. This accounting method, using a financial logic, allows distribution of the economic effect of costs/income over the estimated residual life of the loan.

Loans are assessed at the end of each accounting period to identify any objective evidence, arising from events subsequent to initial recognition, that their value may be impaired, following the procedures set out in Part E – Information on risks and related hedging policies.

### Derecognition

Apart from those situations where the impairment of the loans reduces their fair value to zero, the assets sold are only eliminated from the balance sheet if their disposal leads to the transfer of substantially all of the risks and benefits associated with them. This situation takes place in the case of a transfer without recourse with respect to non-performing loans, the economic effects of which are recorded in item 100 (gains/losses on disposal or repurchase of loans) in the income statement. Conversely, if the risks and benefits relating to loans that have been sold are retained, these continue to be reported as assets in the balance sheet, even if legal ownership of the loans has been effectively transferred. Cancellation also takes place following the expiry of the contractual rights or when the loan is considered permanently unrecoverable.

## 4 – Hedging transactions

### Types of hedges

Hedges are arranged to neutralise losses that may be incurred in relation to a given element or group of elements, as a consequence of a given risk, via profits that would be earned on another element or group of elements should that particular risk crystallise. Of the types of hedges that are allowed, the Group uses, as appropriate, cash flow hedging (CFH) to neutralise the exposure of its liabilities to changes in future cash flows arising from unexpected fluctuations in interest rates, and fair value hedging (FVH) to neutralise changes in fair value of hedged financial assets and liabilities.

As explained in more detail in the section *From IAS 39 to IFRS 9* in the same part of the Financial Statements, the Group uses the option to continue to apply the rules provided by IAS 39, rather than those provided by IFRS 9 which makes changes to hedge accounting, providing for greater alignment between hedging relationships and the underlying risk management strategies.

### Measurement

Hedging derivatives are measured at their fair value. Changes in the fair value of a cash flow hedge (CFH) are recognised directly in equity to the extent of the portion that is determined to be an effective hedge and are recognised in the income statement only when, with reference to the hedged item, the hedging instrument fails to provide an effective hedge. In the case of fair value hedges (FVH), any change in the fair value of the hedging instrument is recognised in the income statement, as are changes in the fair value of the hedged item, with a net effect to reflect the partial ineffectiveness of the hedge.

Hedging transactions are formally documented and subject to regular testing by:

- prospective tests that justify the application of hedge accounting, by demonstrating the expected effectiveness of the hedge;
- retrospective tests that show the effectiveness of the hedge during the period under review.

The tests described here are designed to determine the extent to which the actual results differ from the perfect hedge. If the tests do not confirm the hedge's effectiveness, hedge accounting is interrupted for the ineffective portion and it is reclassified to financial instruments held for trading.

### Recognition of components affecting the income statement

In the case of CFH derivatives, as long as the effectiveness of the hedge remains, changes in the fair value of the hedging derivative are recorded in a specific cash flow hedging reserve with these reserves merely being released on expiry of the derivative or the ineffective portion being transferred to the income statement on failing the effectiveness test. In the case of FVH derivatives, changes in the fair value of the hedging derivative and of the hedged item are recognised in the income statement.
Differentials on hedging derivatives, whether FVH or CFH, are recognised in the income statement on a pro-rata basis.
There are no CFH derivatives as at year end.

## 5 – Equity investments:

No equity investments remain in the balance sheet at the end of the consolidation process. The value of the investments in subsidiaries was eliminated and replaced by their assets, liabilities and shareholders' equity on a line-by-line basis, in accordance with the full consolidation method.

## 6 – Property and equipment

### Recognition

Property and equipment are initially recorded at purchase price, including any directly attributable purchasing costs or costs involved in bringing the asset to working condition.

### Classification

Property and equipment include motor vehicles owned by the company, furniture and furnishings and equipment of any kind. They are property and equipment that are held for use in the production or supply of goods or services or for administrative purposes and expected to be used for a number of years. This category also includes leasehold improvements to fixed assets, which have not been included in other assets as permitted by the Bank of Italy.

### Measurement

Tangible fixed assets are measured at cost less depreciation and any impairment losses. Fixed assets are depreciated systematically over their estimated useful life, taking into account the date of entry into operation of the asset. Any adjustments are recorded in the income statement.

### Derecognition

Property and equipment are derecognised on disposal, or when the assets concerned are permanently taken out of use and no further economic benefits are expected from their disposal.

## 7 – Intangible assets

### Classification

This category includes non-monetary, identifiable intangible assets with a useful life of several years, mainly represented by software. Intangible assets are recognised if they are identifiable and reflect legal or contractual rights.

### Recognition and measurement

Intangible assets are stated at cost, adjusted for any ancillary charges only if it is probable that the future economic benefits attributable to the asset will be realised and if the cost of the asset can be measured reliably. Otherwise, the cost of the intangible asset is recognised in the income statement in the period that the cost is incurred. The cost of intangible assets (classified as assets with a finite duration) is amortised on a straight-line basis over their useful lives. An estimate of recoverable value is made if there is any evidence of asset impairment at the reporting date. The impairment loss, expensed to income, is the difference between the carrying amount of an asset and its recoverable amount.

### Derecognition

Intangible assets are derecognised on retirement and when no further economic benefits are expected.

## 8 – Non-current assets held for sale and discontinued operations

### Recognition

In this category are recognised non-current assets whose carrying amount will be recovered principally through a sale rather than through its continuing use. This case includes leased assets that have been repossessed as a result of the premature interruption or termination of the period of the contract. The related recognition occurs once the full availability of the asset is ascertained, for an amount equal to the lower of the carrying amount and its fair value net of costs to sell, that meets the requirements of high probability that it will be sold, as well as reduced time lag between initial recognition and subsequent disposal, usually within a year.

### Classification and recognition of components affecting the income statement

Assets that meet the criteria to be classified as non-current assets held for sale are shown separately in the balance sheet.

### Measurement

Assets that meet the criteria to be classified in this category are valued at the lower of their carrying amount and fair value, net of costs to sell. The related adjustment is recorded under impairment losses on property and equipment, as required by the instructions for preparation of the financial statements of banks issued by the Bank of Italy.

### Derecognition

The derecognition of non-current assets held for sale takes place when the asset is sold.

## 9 – Current and deferred taxation

The effects of current and deferred taxation are recognised by applying the current tax rates. Income taxes are recognised in the income statement.

The provision for income taxes is determined on the basis of a prudent estimate of current taxes, deferred tax assets and deferred tax liabilities. In particular, deferred tax assets and liabilities are determined on the basis of temporary differences - without time limits - between the value of an asset or a liability according to statutory criteria and the corresponding values for tax purposes.

Deferred tax assets, representing the future tax benefit deriving from deductible temporary differences or tax losses carried forward, are recognised to the extent that their recovery is likely.

Deferred tax assets and liabilities are systematically assessed to take account of any changes in regulations or tax rates.

## 10 – Provisions for risks and charges

### Classification and recognition

The provisions for risks and charges cover liabilities whose timing and extent are uncertain, when all the following conditions are met:

- a current obligation exists at the balance sheet date, deriving from a past event;
- the origin of the obligation must either be legal (deriving from a contract, regulation or the provisions of law) or implicit (arising when the business causes third parties to expect that commitments will be met, even if these do not fall into the category of legal obligations);
- a financial outflow is likely;
- the extent of the obligation can be estimated reliably.

In addition to the provisions for risks and charges dealt with in IAS 37, the item Provisions for risks and charges also includes the provisions for commitments and guarantees given, determined in accordance with IFRS 9.

### Measurement

Provisions are measured on the basis of reliable forecasts in terms of the expected disbursement, discounted at current market rates when the time element is significant. Provisions are charged to the income statement.

### Derecognition and recognition of components affecting the income statement

The liabilities relating to provisions for risks and charges are eliminated on settlement of the expected amount or in circumstances where the conditions that led to the initial provision no longer exist. Accruals to the provisions in question and their increase due to the passage of time are recognised under "Net provisions for risks and charges" in the income statement.

## 11 – Financial liabilities measured at amortised cost

### Recognition

The initial recognition of these financial liabilities takes place on receipt of the amounts collected or on issue of the debt securities on the basis of their fair value, usually corresponding to the amount collected or the issue price, plus any additional costs/proceeds directly attributable to the individual funding transaction or issue that are not reimbursed by the creditor.

### Classification

Amounts due to banks, amounts due to customers, and debt securities issued cover the various forms of interbank and customer funding and the deposits paid into current accounts with customers and debt securities in issue. The items also include securities issued in connection with securitisation transactions and placed on the market.

### Measurement

After initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method. As an exception, short-term liabilities are measured at the amount collected, as the effect of the time factor is insignificant.

### Derecognition

Financial liabilities are derecognised when they expire or are settled. The repurchase of debt securities issued in prior periods results in their derecognition.

## 12 – Financial liabilities held for trading

### Recognition

Financial liabilities held for trading include derivatives traded in connection with securitisations originated by the Group. They are recognised on the subscription date at fair value, without considering transaction costs or income directly attributable to the instrument concerned.

### Measurement

All liabilities held for trading are measured at fair value with fair value changes recognised in the income statement.

### Derecognition

These liabilities are derecognised when the contractual rights to the cash flows cease or when a liability is sold and substantially all of the risks and benefits associated with it are transferred.

## 13 – Financial liabilities designated at fair value

The Group does not have any financial liabilities designated at fair value.

## 14 – Foreign currency transactions

The Group has not carried out any transactions in foreign currency.

## 15 – Insurance assets and liabilities

The Group does not have any insurance assets and liabilities.

## 16 – Other information

### Treasury shares

There are no treasury shares to be deducted from shareholders' equity.

### Provision for employee termination indemnities

The provision for employee termination indemnities is recognised on the basis of its actuarial value. For the purposes of discounting, the projected unit credit method is used, which involves the projection of future payments based on historical statistical analyses and the demographic curve, and the discounting of these flows on the basis of a market interest rate. The contributions paid in each year are considered as separate units, recorded and evaluated individually in order to determine the final obligation.

According to IAS 19 - Employee Benefits, interest costs (which correspond to the change in the current value with respect to the actuarial estimate at the previous year-end, merely due to the fact that the estimated date of disbursement is getting closer) and service costs (which correspond to the higher cost due mainly to the increase in salaries and in the workforce) are included in personnel costs, while actuarial gains/losses (reflecting any change in the current value caused by changes in macroeconomic scenarios or in interest rate estimates), are recognised in shareholders' equity.

### Share-based payments

Not applicable.

### Revenue recognition

The recognition of revenue related to contracts with customers, excluding revenue related to contracts with customers subject to IFRS 9 and IAS 17, takes place in accordance with IFRS 15.

This envisages a revenue recognition model that is substantially different with respect to the past, since the basic principle refers to the identification of the contractual obligations contained in the contract and the time at which each obligation is fulfilled. It does not distinguish, therefore, between the various types of goods or services rendered but takes into consideration only the fact that the obligation in relation to the customer is made at a given time rather than over the course of time. In principle, the revenue is recognised when a good or service is transferred to a customer, with emphasis on the concept of control.

More generally, the remaining types of revenues are recognised when received or when it is likely that the future benefits will be received and these benefits can be measured reliably. The effects of transactions and other events are recognised when they occur and not when the amount involved is received or paid; they are shown in the accounting records and reported in the financial statements of the periods to which they relate on an accrual basis.

### Fair value measurements

Fair value may be defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As required by IFRS 13, fair value measurement has been adopted for each specific asset or liability. Accordingly, the characteristics of the asset or liability being measured have been taken into account.

Fair value measurement assumes that the sale or transfer of the asset or liability takes place:

- in the principal market for the asset or liability;
- or in the absence of a principal market, the most advantageous market for the asset or liability.

The valuation techniques used have been adapted to the specific characteristics of the assets and liabilities being measured. In choosing the inputs used in valuation techniques, the highest priority is given to observable market data and the lowest priority to internal estimates.

The valuation techniques used by the Group are:

- Market approach. This method uses prices and other relevant information generated by market transactions involving identical or comparable assets.
- Revenue approach. This method converts future amounts (cash flows or income and expenses) to a single current (discounted) amount. When this approach is used, fair value measurement reflects current market expectations about future amounts. This technique involves the use of a net present value calculation.

As regards the impact of the Credit Value Adjustment and the Debit Value Adjustment on the determination of fair value, as far as the consumer credit portfolio is concerned, the counterparty risk is included in the impairment of the portfolio, while, for the measurement of derivatives, the risk is neutralised by means of the daily settlement of positions.

To increase consistency and comparability in fair value measurements, IFRS 13 establishes a hierarchy based on inputs used for the various valuation techniques.

The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. More in detail, the inputs used to measure fair value are categorised as follows:

- Level 1. Fair value is directly observable in active markets that the entity can access at the date of fair value measurement of identical or similar assets or liabilities.
- Level 2. Fair value is determined internally based on directly observable market inputs.
- Level 3. Fair value is determined internally based on unobservable inputs. The company makes use of assumptions determined internally.

### Method of determining amortised cost

The amortised cost of a financial asset is the amount at which it was measured on initial recognition, net of repayments of principal, plus or minus accumulated amortisation (calculated using the effective interest method) of the differences between the initial value and its value on maturity, less any impairment loss.

The effective interest rate is the rate that equates the present value to the contractual flow of future cash payments, either received up to the expected maturity or to the next date that the price is recalculated. To calculate the present value, the effective interest rate is applied to the future cash flows received or paid through the entire life, or for a shorter period under certain conditions (for example, if there is a change in market rates).

After initial recognition, the amortised cost permits the allocation of revenues and costs to decrease or increase the instrument over its entire expected life through the amortisation process.

With particular reference to loans or finance that arise from the consumer finance business, leases and salary assignment and delegation of payment, contributions received from affiliates under special conventions as part of promotional campaigns (consumer contracts and leases at subsidised rates of interest) and preliminary fees in excess of the costs incurred are classified as transaction income; reimbursements of stamp duty and legal fees, on the other hand, are excluded, as they are mere recoveries of expenses. Reimbursements of collection expenses are also excluded from the calculation of the effective interest rate because of the low mark-up compared with the actual charges incurred for the collection of loan repayments.

With reference to costs, commissions and rappels paid to credit intermediaries and insurance premiums relating to salary assignment and delegation of payment are attributed to the financial instrument.

With regard to credit cards, the immateriality of the amounts of associated transaction costs, and the absence of a sinking fund plan known beforehand because of their floating-rate structure, means that the income and expenses associated with such an instrument tend to be excluded from the scope of amortised cost.

As already mentioned in the section relating to the criteria for the measurement of financial assets and liabilities measured at amortised cost, measurement is not applied to financial assets and liabilities whose short duration means the effect of discounting is insignificant, nor to non-performing loans.

### Method of determining the impairment of financial assets

The new impairment model provided for by IFRS 9 requires the classification of loans into three different stages depending on the deterioration in the credit quality observed with respect to the initial recognition and which correspond to the different methods of calculation of the expected loss and interest:

Stage 1: classified in this stage are loans defined as performing, i.e. loans that have not deteriorated since initial recognition. In this case, the expected loss for the calculation of corrections is measured over a 12-month time period (12-month PD), while interest is calculated on the gross exposure;

Stage 2: comprises loans that have undergone a significant qualitative worsening compared to initial recognition. For these loans, expected loss is calculated over the lifetime of the loan (lifetime PD), and interest is calculated on the basis of the gross exposure;

Stage 3: includes impaired assets, i.e. that have objective evidence of deterioration (over 90 days past due). Included in this category are past due non-performing, unlikely to pay and doubtful. In this case a lifetime PD is calculated, while interest is calculated on the basis of the receivable net of impairment.

### Method of determining the impairment of other non-financial assets

Tangible and intangible assets with a defined useful life are subject to impairment testing if there is an indication that the carrying amount of the asset may no longer be recovered in full. The recoverable amount is determined with reference to the fair value of the tangible or intangible asset net of disposal costs or the value in use if determinable and if it is higher than the fair value.

For other tangible and intangible fixed assets (other than goodwill) it is assumed that the carrying amount corresponds to the value in use, as it is determined by an amortisation process estimated on the basis of the actual contribution of the asset to the production process resulting in the determination of a fair value being extremely uncertain. The two values differ, giving rise to impairment, in the event of damages, exit from the production process or other similar non-recurring circumstances.

Receivables classified to Other Assets are subject to impairment losses on the basis of the recoverability of the loan itself.

### Intercompany transactions

Banking and commercial transactions with the Shareholder, with the Parent Company and with other companies of the Santander Group are regulated on an arm's-length basis.

### Securitisations

IFRS 10 introduced a single control model to be applied to all entities, including those previously considered to be special purpose entities under SIC 12. Based on this definition of control, an investor controls an investee when the investor has power over relevant activities, it is exposed to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Accordingly, segregated funds pertaining to special purpose entities, consisting of assets sold but not derecognised, are consolidated on a line-by-line basis.

### Significant subsequent events

There are no significant events worthy of mention subsequent to the close of financial year 2018.

## A.3 – Information on transfers between portfolios of financial assets

### A.3.1 Reclassified financial assets: change in business model, carrying amount, fair value and interest income

The Group has not reclassified any financial assets during the year.

### A.3.2 Reclassified financial assets: change in business model, fair value and effects on comprehensive income

The Group has not reclassified any financial assets during the year.

### A.3.3 Reclassified financial assets: change in business mode and effective interest rate

The Group has not made transfers of portfolios between the different categories of financial assets during the year.

## A.4 – Information on fair value

## Qualitative information

### A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used

The valuation techniques used have been adapted to the specific characteristics of the assets and liabilities being measured. In choosing the inputs used in valuation techniques, the highest priority is given to observable market data and the lowest priority to internal estimates.
The valuation techniques used by the Group are:

- Market approach. This method uses prices and other relevant information generated by market transactions involving identical or comparable assets.
- Income approach. This method converts future amounts (cash flows or income and expenses) to a single current (discounted) amount. When this approach is used, fair value measurement reflects current market expectations about future amounts. This technique involves the use of a net present value calculation.

As regards the impact of the Credit Value Adjustment and the Debit Value Adjustment on the determination of fair value, as far as the consumer credit portfolio is concerned, the counterparty risk is included in the impairment of the portfolio, while, for the measurement of derivatives, the risk is neutralised by means of the weekly settlement of positions.

### A.4.2 Valuation processes and sensitivity

The process used for the determination of the fair value of individual financial statement components is illustrated below.
With respect to balance sheet assets:

- Cash, bank accounts, demand loans and current amounts due from banks. For these items, it is assumed that their fair value corresponds to their carrying amount.
- Short term amounts due from banks. The fair value is calculated by discounting expected cash flows.
- Derivatives: Fair value is determined by means of daily measurement based on expected cash flows.
- Securities portfolio: fair value is based on quoted market prices of financial instruments in active markets, or, if not available, on those for comparable assets.
- Loans to customers:

  Demand loans. It is assumed that their fair value corresponds to their carrying amount.

  Other assets. The fair value of the portfolio is calculated by discounting expected cash flows, net of impairment adjustments, using the average interest rate on loans granted in the month on which the valuation is based for each type of product.

With respect to balance sheet liabilities:

- Due to banks: on demand. It is assumed that their fair value corresponds to their carrying amount.
- Short and medium-to-long term amounts due to banks and debt securities issued: the fair value is calculated by discounting expected cash flows based on an interest rate curve observed directly in the market plus the intercompany spread applicable at the measurement date. For floating rate transactions, expected cash flows do not take account of the variable component that is not capable of being determined at the measurement date.
- Due to customers:
  - Time deposit accounts. Fair value is determined by discounting expected cash flows using the interest rate actually applied to the customer at the measurement date for the same maturities.
  - Current accounts and deposits. For these items, it is assumed that their fair value corresponds to their carrying amount.
- Derivatives: please see the assumptions given for hedging derivatives under balance sheet assets.

## A.4.3 Fair value hierarchy

To increase consistency and comparability in fair value measurements, IFRS 13 establishes a hierarchy based on inputs used for the various valuation techniques.

The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. More in detail, the inputs used to measure fair value are categorised as follows:

- Level 1. Fair value is directly observable in active markets that the entity can access at the date of fair value measurement of identical or similar assets or liabilities.
- Level 2. Fair value is determined internally based on directly observable market inputs.
- Level 3. Fair value is determined internally based on unobservable inputs. The company makes use of assumptions determined internally.

## A.4.4 Other information

There is no further qualitative information to be disclosed in addition to that provided in the foregoing paragraphs.

## Quantitative information

## A.4.5 Fair value hierarchy

### A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: distribution by levels of fair value

| | 12/31/2018 | | | 12/31/2017 | | |
|---|---|---|---|---|---|---|
| | **L1** | **L2** | **L3** | **L1** | **L2** | **L3** |
| 1. Financial assets valued at fair value with through profit or loss | | 4,526 | | | 1,033 | |
| a) financial assets held for trading | | 4,526 | | | 1,033 | |
| b) financial assets designated at fair value | | | | | | |
| c) other financial assets mandatorily at fair value | | | | | | |
| 2. Financial assets at fair value through other comprehensive income | | | | | | |
| 3. Hedging derivatives | | | | | 961 | |
| 4. Property, plant and equipment | | | | | | |
| 5. Intangible assets | | | | | | |
| **Total** | | 4,526 | | | 1,994 | |
| 1. Financial liabilities held for trading | | 5,027 | | | 1,117 | |
| 2. Financial liabilities designated at fair value | | | | | | |
| 3. Hedging derivatives | | 5,945 | | | 3,122 | |
| **Total** | | 10,972 | | | 4,240 | |

**Key:**
L1= Level 1
L2= Level 2
L3= Level 3

The above table shows the comparative balances relating to 2017 not restated using the tables provided by the 5th update of Circular No. 262 since the items affected have not been restated in such a way as to distort the comparison. For further details, please see that indicated in part A, in the section “Basis of preparation”.

As at the reporting date, there were no transfers of assets and liabilities between level 1 and level 2 to be disclosed.

### A.4.5.2 Annual changes in financial assets measured at fair value on a recurring basis (level 3)

The Group does not hold any financial assets measured at fair value (Level 3).

### A.4.5.3 Annual changes in financial liabilities measured at fair value on a recurring basis (level 3)

The Group does not hold any financial liabilities measured at fair value (Level 3).

A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on non-recurring basis: distribution by levels of fair value

| Assets / Liabilities not measured at fair value or measured at fair value on a non-recurring basis | 12/31/2018 | | | | 12/31/2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | VB | L1 | L2 | L3 | VB | L1 | L2 | L3 |
| 1. Financial assets at amortised cost | 9,170,246 | 385,082 | | 8,551,318 | 8,633,727 | 467,055 | | 5,664,181 |
| 2. Property, plant and equipment held for investment | | | | | | | | |
| 3. Non-current assets and disposal groups classified as held for sale | 2 | | 2 | | 3 | | 3 | |
| **Total** | **9,170,247** | **385,082** | **2** | **8,551,318** | **8,633,730** | **467,055** | **3** | **5,664,181** |
| 1. Financial liabilities at amortised cost | 8,172,149 | | | 8,166,110 | 7,644,505 | | | 7,645,016 |
| 2. Liabilities included in disposal group classified as held for sale | | | | | | | | |
| **Total** | **8,172,149** | | | **8,166,110** | **7,644,505** | | | **7,645,016** |

**Key:**
BV= Book value
L1= Level 1
L2= Level 2
L3= Level 3

## A.5 – Information on “Day One Profit/Loss”

The Group does not hold any financial instruments that meet the conditions referred to in paragraph 28 of IFRS 7.

# Part B – Information on the consolidated balance sheet

## ASSETS

### Section 1 – Cash and cash equivalents – Item 10

#### 1.1 Cash and cash equivalents: breakdown

| | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| a) Cash | 2 | 3 |
| b) Demand deposits with Central banks | | |
| **Total** | **2** | **3** |

### Section 2 – Financial assets at fair value through profit and loss - Item 20

#### 2.1 Financial assets held for trading: breakdown by type

These amount to Euro 4,526 thousand (Euro 1,033 thousand at 31 December 2017) and include the positive fair value of derivatives entered into in connection with securitisations by Group companies.

| Voci/Valori | Total 12/31/2018 | | | Total 12/31/2017 | | |
|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | L1 | L2 | L3 |
| **A. Balance-sheet assets** | | | | | | |
| 1. Debt securities | | | | | | |
| 1.1 Structured securities | | | | | | |
| 1.2 Other securietes | | | | | | |
| 2. Equity securites | | | | | | |
| 3. Units in investment funds | | | | | | |
| 4. Loans | | | | | | |
| 4.1 REPOs | | | | | | |
| 4.2 Others | | | | | | |
| **Total (A)** | | | | | | |
| **B. Derivatives** | | | | | | |
| 1. Financial derivates | | 4,526 | | | 1,033 | |
| 1.1 trading | | 4,526 | | | 1,033 | |
| 1.2 linked to fair value option | | | | | | |
| 1.3 others | | | | | | |
| 2. Credit derivates | | | | | | |
| 2.1 trading | | | | | | |
| 2.2 linked to fair value option | | | | | | |
| 2.3 others | | | | | | |
| **Total (B)** | | **4,526** | | | **1,033** | |
| **Total (A+B)** | | **4,526** | | | **1,033** | |

## 2.2 Financial assets held for trading: breakdown by borrower/issuer/counterparty

| Items/Values | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| **A. Financial assets** | | |
| **1. Debt securities** | | |
| a) Central Banks | | |
| b) Governments and other Public Sector Entities | | |
| c) Banks | | |
| d) Other financial companies | | |
| of which: insurance companies | | |
| e) Non financial companies | | |
| **2. Equity instruments** | | |
| a) Banks | | |
| b) Other financial companies | | |
| of which: Insurance companies | | |
| c) Non financial companies | | |
| d) Other issuers | | |
| **3. Units investment funds** | | |
| **4. Loans** | | |
| a) Central Banks | | |
| b) Governments and other Public Sector Entities | | |
| c) Banks | | |
| d) Other financial companies | | |
| of which: insurance companies | | |
| e) Non financial companies | | |
| f) Households | | |
| **Total (A)** | | |
| **B. Derivative instruments** | | |
| a) Central counterparties | | |
| b) Others | 4,526 | 1,033 |
| **Total (B)** | **4,526** | **1,033** |
| **Total (A+B)** | **4,526** | **1,033** |

## 2.3 Financial assets designated at fair value: breakdown by type

The Group does not hold any financial assets designated at fair value.

## 2.4 Financial assets designated at fair value: breakdown by borrower/issuer

The Group does not hold any financial assets designated at fair value.

## 2.5 Financial assets mandatorily measured at fair value: breakdown by type

The Group does not hold any financial assets mandatorily measured at fair value.

## 2.6 Other financial assets mandatorily measured at fair value: breakdown by borrower/issuer

The Group does not hold other financial assets designated at fair value.

## Section 3 – Financial assets at fair value through comprehensive income – Item 30

The Group has not designated any financial assets to this category.

## Section 4 – Financial assets measured at amortised cost – Item 40

### 4.1 Financial assets measured at amortised cost: due from banks, breakdown by type

| Type of transaction/Values | Total | | | | | | Total | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 12/31/2018 | | | | | | 12/31/2017 | | | | | |
| | Balance value | | | Fair value | | | Balance value | | | Fair value | | |
| | Stage 1 and Stage 2 | Stage 3 | of which: purchased or originated credit impaired financial | L1 | L2 | L3 | Stage 1 and Stage 2 | Stage 3 | of which: purchased or originated credit impaired financial | L1 | L2 | L3 |
| **A. Loans to Central Banks** | **44,465** | | | | | **44,465** | **12,169** | | | | | **12,169** |
| 1. Time deposits | | | | X | X | X | | | | X | X | X |
| 2. Compulsory reserves | 44,465 | | | X | X | X | 12,169 | | | X | X | X |
| 3. Repos | | | | X | X | X | | | | X | X | X |
| 4. Others | | | | X | X | X | | | | X | X | X |
| **B. Receivables to banks** | **372,067** | | | | | **372,067** | **516,972** | | | | | **543,956** |
| 1. Loans | 372,067 | | | | | 372,067 | 516,972 | | | | | 543,956 |
| 1.1 Current accounts and demand deposits | 364,585 | | | X | X | X | 510,110 | | | X | X | X |
| 1.2. Time deposits | | | | X | X | X | 167 | | | X | X | X |
| 1.3 Other loans: | 7,482 | | | X | X | X | 6,695 | | | X | X | X |
| - Repos | | | | X | X | X | | | | X | X | X |
| - Finance leases | | | | X | X | X | | | | X | X | X |
| - Others | 7,482 | | | X | X | X | 6,695 | | | X | X | X |
| 2. Debts securities | | | | | | | | | | | | |
| 2.1 Structured | | | | | | | | | | | | |
| 2.2 Other | | | | | | | | | | | | |
| **Total** | **416,532** | | | | | **416,532** | **529,141** | | | | | **556,124** |

Amounts due from Central Banks consist of receivables due from the Bank of Italy relating to the compulsory reserve.

Amounts due from banks refer to:

- credit balances on bank current accounts for Euro 364,585 thousand (Euro 510,110 thousand at 31 December 2017), consisting of cash deposits belonging to the segregated funds of the securitisations (Euro 323,012 thousand);
- other loans, mainly relating to the sums paid by way of guarantee deposit against the negative fair value of derivatives contracts entered into.

The comparative balances have been restated as described in Part A Accounting policies – Section 3 Scope of consolidation and consolidation method, 5. Other information.

For further information about the methodology used for the determination of the fair value of this component, please see Part A Accounting policies – A.4 Information on fair value.

## 4.2 Financial assets measured at amortised cost: due from customers, breakdown by type

| Type of transaction/Values | Total | | | | | | Total | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 12/31/2018 | | | | | | 12/31/2017 | | | | | |
| | Balance value | | | Fair value | | | Valore di bilancio | | | Fair value | | |
| | Stage 1 and Stage 2 | Stage 3 | of which: purchased or originated credit impaired financial assets | L1 | L2 | L3 | Stage 1 and Stage 2 | Stage 3 | of which: purchased or originated credit impaired financial assets | L1 | L2 | L3 |
| **1. Loans** | **8,296,718** | **72,072** | **1,634** | | | **8,134,786** | **7,560,536** | **76,995** | | | | **5,108,057** |
| 1.1. Current accounts | 26,545 | 2,411 | | X | X | X | 30,102 | 1,770 | | X | X | X |
| 1.2. REPOs | | | | X | X | X | | | | X | X | X |
| 1.3. Mortgages | | | | X | X | X | | | | X | X | X |
| 1.4. Credit cards, personal loans and wage assignemnt losses | 3,337,317 | 39,009 | 1,634 | X | X | X | 3,256,753 | 37,993 | | X | X | X |
| 1.5. Financial leasing | 370,313 | 2,860 | | X | X | X | 280,309 | 3,741 | | X | X | X |
| 1.6. Factoring | 450,699 | | | X | X | X | 396,792 | 158 | | X | X | X |
| 1.7. Other loans | 4,111,844 | 27,792 | | X | X | X | 3,596,580 | 33,333 | | X | X | X |
| **2. Debt securities** | **384,924** | | | **385,082** | | | **467,055** | | | **467,055** | | |
| 2.1. Structured | | | | | | | | | | | | |
| 2.2. Other debt | 384,924 | | | 385,082 | | | 467,055 | | | 467,055 | | |
| **Total** | **8,681,642** | **72,072** | **1,634** | **385,082** | | **8,134,786** | **8,027,591** | **76,995** | | **467,055** | | **5,108,057** |

Specifically, the loans include:

- Euro 26,545 thousand (of which, Euro 2,411 thousand non-performing loans) for current accounts balances to customers, mainly relating to advances on current accounts granted to the dealer network, and postal current accounts;
- Euro 3,337,317 thousand (of which Euro 39,009 thousand non-performing loans) for loans to customers arising from financing personal loan transactions, credit cards and loans guaranteed by salary and pension assignment, and other instalment consumer credit;
- Euro 370,313 thousand (of which, Euro 2,860 thousand non-performing loans) for loans to customers for finance leases, recorded at amortised cost;
- Euro 450,669 thousand of loans relating to factoring transactions with car manufacturers;
- Euro 4,111,844 thousand (of which, Euro 27,792 thousand non-performing loans) for loans to customers resulting from financing for car loans and other special-purpose loans.

The total of assets assigned and not derecognised, which, net of impairment adjustments, amounts to Euro 3,272,992 thousand, of which Euro 20,315 thousand is non-performing, was allocated to the various forms of financing, as required by the instructions for preparation of the financial statements. This amount does not include the amount due from the SPE for the proceeds arising from the portfolio involved in the self-securitisation.

Debt securities include the balance of the securities issued by the Italian Treasury Ministry that have been classified, for the purpose of the computation of the regulatory LCR requirements, as high quality liquid assets.

It should be noted that the comparative information is displayed according to the new formats pursuant to Circular 262, 5th update, and have not been restated in such a way as to distort the comparison. Further details on the balances of the previous financial year are set out in *Annex 1* to the Financial Statements.

For further information about the methodology used for the determination of the fair value of this component, please see Part A Accounting policies – A.4 Information on fair value.

### 4.3 Finance leases

| INFORMATION BY LESSOR | Amounts at 12/31/2018 | |
|---|---|---|
| | Minimum lease payments | Present value of minimum lease payments |
| **Finance lease instalments due** | | |
| Up to 12 months | 117,251 | 111,351 |
| 1 to 5 years | 250,129 | 234,604 |
| Beyond 5 years | | |
| **Total** | **367,380** | **345,955** |

The table provides information in accordance with IAS 17, paragraph 47, a) and c) and paragraph 65, as required by the instructions contained in the Bank of Italy's Circular 262 of 22 December 2005. The lease contracts with customers mainly form part of the general category of motor vehicle leasing.

Unearned finance income is equal to Euro 6,738 thousand.

### 4.4 Financial assets measured at amortised cost: due from customers, breakdown by borrower/issuer

| Type of transaction / Values | Total 12/31/2018 | | | Total 12/31/2017 | | |
|---|---|---|---|---|---|---|
| | First and second stage | Third stage | of which: purchased or originated credit impaired financial assets | First and second stage | Third stage | of which: purchased or originated credit impaired financial assets |
| **1. Debts** | **384,924** | | | **467,055** | | |
| a) Governments and other Public Sector Entities | 384,924 | | | 467,055 | | |
| b) Other financial companies | | | | | | |
| of which: insurance companies | | | | | | |
| c) Non financial companies | | | | | | |
| **2. Loans :** | **8,296,718** | **72,072** | **1,634** | **7,560,536** | **76,995** | |
| a) Governments and other Public Sector Entities | 9,687 | 445 | | 11,785 | 1 | |
| b) Other financial companies | 4,604 | 15 | | 11,803 | 22 | |
| of which: insurance companies | 30 | | | 11 | | |
| c) Non financial companies | 2,095,086 | 15,996 | | 2,114,043 | 25,011 | |
| d) Households | 6,187,341 | 55,616 | 1,634 | 5,422,905 | 51,961 | |
| **Total** | **8,681,642** | **72,072** | **1,634** | **8,027,591** | **76,995** | |

### 4.5 Financial assets at amortised cost: gross value and total writedowns

| | | Gross value | | | | Writedown | | | Partial accumulated Write offs |
|---|---|---|---|---|---|---|---|---|---|
| | | Stage 1 | of which: low credit risk | Stage 2 | Stage 3 | Stage 1 | Stage 2 | Stage 3 | |
| Debt securities | | 384,924 | 354,574 | | | | | | |
| Loans | | 8,552,616 | | 236,818 | 294,104 | 59,209 | 16,976 | 222,032 | |
| **Total** | **12/31/2018** | **8,937,540** | **354,574** | **236,818** | **294,104** | **59,209** | **16,976** | **222,032** | **X** |
| **Total** | **12/31/2017** | **8,345,271** | | **276,797** | **278,144** | **41,558** | **23,778** | **201,149** | **X** |
| of which: purchased or originated credit impaired financial assets | | X | X | 1,448 | 2,909 | X | 330 | 2,392 | |

## Section 5 – Hedging derivatives – Item 50

### 5.1 Hedging derivatives: breakdown by type of hedge and level

| | FV 12/31/2018 | | | NV 12/31/2018 | FV 12/31/2017 | | | NV 12/31/2017 |
|---|---|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | | L1 | L2 | L3 | |
| **A. Financial derivatives** | | | | | | | | |
| 1. Fair Value | | | | | | 961 | | 950,908 |
| 2. Cash flows | | | | | | | | |
| 3. Net investment in foreign subsidiaries | | | | | | | | |
| **B. Credit derivatives** | | | | | | | | |
| 1. Fair Value | | | | | | | | |
| 2. Cash flows | | | | | | | | |
| **Total** | | | | | | **961** | | **950,908** |

**Key:**
NV= notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

At the balance sheet date, there are no derivatives with positive fair value.

### 5.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

At the balance sheet date, there are no derivatives with positive fair value.

## Section 6 – Fair value change of financial assets in hedged portfolios – item 60

### 6.1 Remeasurement of hedged assets: breakdown by hedged portfolio

| Remeasurement to hedged assets / Value | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| **1. Positive fair value changes** | **4,703** | **714** |
| 1.1 of specific portfolios: | 4,703 | 714 |
| a) financial assets at amortised cost | 4,703 | 714 |
| b) financial assets at fair value with through other comprehensive income | | |
| 1.2 overall | | |
| **2. Negative fair value changes** | | **(1,124)** |
| 2.1 of specific portfolios: | | (1,124) |
| a) financial assets at amortised cost | | (1,124) |
| b) financial assets at fair value with through other comprehensive income | | |
| 2.2 overall | | |
| **Total** | **4,703** | **(410)** |

The above table shows the change in value of the loan portfolios of the Group companies being hedged on the basis of the Fair Value Hedging Model.

## Section 7 – Equity investments – Item 70

Following the line-by-line consolidation of the subsidiaries Banca PSA Italia S.p.A. and PSA Renting Italia S.p.a., no equity investments have been recognised in the financial statements.

## Section 8 – Technical reserves carried by reinsurers – Item 80

No Group company carries on insurance business.

## Section 9 – Property and equipment – Item 90

### 9.1 Property and equipment used for business purposes: breakdown of assets measured at cost

Property and equipment amount to Euro 5,824 thousand (Euro 1,603 thousand at 31 December 2017) and are made up as follows:

| Activities/Values | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| **1. Owened assets** | **5,824** | **1,603** |
| a) lands | | |
| b) buildings | | |
| c) office furniture and fitting | 657 | 134 |
| d) electronic system | 1,789 | 1,044 |
| e) other | 3,378 | 424 |
| **2. Leased assets** | | |
| a) lands | | |
| b) buildings | | |
| c) office furniture and fitting | | |
| d) electronic system | | |
| e) other | | |
| **Total** | **5,824** | **1,603** |
| of which: obtained by the enforcement of collateral | | |

These are mostly property and equipment of the Parent Company (Euro 5,690 thousand). For further details please refer to the same section of the Separate Financial Statements.

### 9.2 Investment property: breakdown of assets measured at cost

No investment property is held.

### 9.3 Property and equipment used for business purposes: breakdown of revalued assets

There are no items of property and equipment used in operations that have been revalued.

### 9.4 Investment property: breakdown of assets measured at fair value

No investment property is held.

### 9.5 Inventories of property and equipment covered by IAS 2: breakdown

There are no property and equipment obtained through the realisation of the guarantees received or other inventories of tangible assets.

## 9.6 Property and equipment used for business purposes: change in the year

| | Lands | Buildings | Furniture | Electronic systems | Other | Total |
|---|---|---|---|---|---|---|
| **A. Gross opening balance** | | | **3,714** | **9,877** | **8,351** | **21,943** |
| A.1 Total net reduction value | | | (3,580) | (8,833) | (7,927) | (20,340) |
| **A.2 Opening net balance** | | | **134** | **1,044** | **424** | **1,603** |
| **B. Increase:** | | | **670** | **1,312** | **3,473** | **5,455** |
| B.1 Purchasing | | | 670 | 1,312 | 3,473 | 5,455 |
| - of which business combinations | | | | | | |
| B.2 Capitalised expenditure on improvements | | | | | | |
| B.3 Write-backs | | | | | | |
| B.4 Increases in fair value | | | | | | |
| a) in equity | | | | | | |
| b) through profit & loss | | | | | | |
| B.5 Positive exchange differences | | | | | | |
| B.6 Transfer from properties held for investment | | | | | | |
| B.7 Other adjustment | | | | | | |
| **C. Decrease:** | | | **147** | **568** | **518** | **1,234** |
| C.1 Disposal | | | 37 | 13 | 64 | 114 |
| - of which business combinations | | | | | | |
| C.2 Depreciation | | | 110 | 555 | 454 | 1,119 |
| C.3 Impairment losses | | | | | | |
| a) in equity | | | | | | |
| b) through profit & loss | | | | | | |
| C.4 Negative chages in fair value | | | | | | |
| a) net equity | | | | | | |
| b) through profit & loss | | | | | | |
| C.5 Negative exchange difference | | | | | | |
| C.6 Transfer to: | | | | | | |
| a) Property, plant and equipment held for investment | | | | | | |
| b) non-current assets and disposal groups classified as held for sale | | | | | | |
| C.7 Other adjustment | | | | | | |
| **D. Net final balance** | | | **657** | **1,789** | **3,378** | **5,824** |
| D.1 Total net reduction in value | | | (3,324) | (9,320) | (8,317) | (20,960) |
| **D.2 Gross closing balance** | | | **3,981** | **11,108** | **11,695** | **26,784** |
| E. Carried at cost | | | 200 | 105 | 17 | 323 |

Each class of assets is measured at cost. Sub-item E (Carried at cost) shows a zero balance because, in accordance with Bank of Italy's Circular 262/2005, it is only for tangible assets that are carried in the balance sheet at fair value.

## 9.7 Investment property: change in the year

No investment property has been recognised in the financial statements.

## 9.8 Inventories of property and equipment covered by IAS 2: change in the year

There are no inventories of property and equipment covered by IAS 2 in the financial statements.

## 9.9 Commitments to purchase property and equipment

There are no commitments to purchase property and equipment.

## Section 10 – Intangible assets – Item 100

### 10.1 Intangible assets: breakdown by type

Intangible assets amount to Euro 11,149 thousand (Euro 10,264 thousand at 31 December 2017).

| Activities/Values | Total 12/31/2018 | | Total 12/31/2017 | |
|---|---|---|---|---|
| | Finite life | Indefinite life | Finite life | Indefinite life |
| **A.1 Goodwill** | | | | |
| A.1.1 attributable to the group | | | | |
| A.1.2 attributable to minorities | | | | |
| **A.2 Other intangible asset** | **11,149** | | **10,264** | |
| A.2.1 Assets valued at cost | 11,149 | | 10,264 | |
| a) Internally generated intangible assets | | | | |
| b) other assets | 11,149 | | 10,264 | |
| A.2.2 Assets valued at fair value | | | | |
| a) Internally generated intangible assets | | | | |
| b) other assets | | | | |
| **Total** | **11,149** | | **10,264** | |

These are mostly intangible assets of the Parent Company (Euro 11,095 thousand). For further details please refer to the same section of the Separate Financial Statements.

## 10.2 Intangible assets: change in the year

| | Goodwill | Other internally generated intangible assets | | Other intangible assets: others | | Total |
|---|---|---|---|---|---|---|
| | | Finite | Indefinite | Finite | Indefinite | |
| **A. Gross opening balance** | | | | **80,229** | | **80,229** |
| A.1 Total net reduction in value | | | | (69,965) | | (69,965) |
| A.2 Net opening balance | | | | **10,264** | | **10,264** |
| **B. Increases** | | | | **5,820** | | **5,820** |
| B.1 Purchases | | | | 5,820 | | 5,820 |
| B.2 Increments of internal intangible assets | X | | | | | |
| B.3 Write-backs | X | | | | | |
| B.4 Increases in fair value | | | | | | |
| - in equity | X | | | | | |
| - through profit or loss | X | | | | | |
| B.5 Positive exchange differences | | | | | | |
| B.6 Other variations | | | | | | |
| **C. Decreases** | | | | **4,935** | | **4,935** |
| C.1 Disposals | | | | | | |
| C.2 Write-downs | | | | 4,935 | | 4,935 |
| - Amortisations | X | | | 4,935 | | 4,935 |
| - Depreciations | | | | | | |
| + equity | X | | | | | |
| + through profit or loss | | | | | | |
| C.3 Reduction in fair value | | | | | | |
| - in equity | X | | | | | |
| - through profit or loss | X | | | | | |
| C.4 Transfer to non-current assets held for sale | | | | | | |
| C.5 Negative exchange differrences | | | | | | |
| C.6 Other changes | | | | | | |
| **D. Net closing balance** | | | | **11,149** | | **11,149** |
| D.1 Total net write-down | | | | 74,837 | | 74,837 |
| **E. Gross closing balance** | | | | **(85,987)** | | **(85,987)** |
| F. Carried at cost | | | | (100) | | (100) |

Each class of assets is measured at cost. Sub-item F (Carried at cost) shows a zero balance because, in accordance with Bank of Italy's Circular 262/2005, it is only for intangible assets that are carried in the balance sheet at fair value.

## 10.3 Other information

Based on the Bank of Italy's instructions for the preparation of the financial statements, no other information has to be provided in this paragraph.

## Section 11 – Tax assets and liabilities – Asset item 110 and Liability item 60

Current tax assets recognised in asset line item 140 amount to Euro 43,571 thousand (Euro 38,492 thousand in 2017), while current liabilities recognised in liability line item 60 amount to Euro 65,153 thousand (Euro 49,441 thousand in 2017).

### 11.1 Deferred tax assets: breakdown

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| - Balancing the income statement | 203,807 | 201,776 |
| - Balancing net equity | 337 | 314 |
| **Total** | **204,144** | **202,090** |

Deferred tax assets are accounted for with reference to deductible temporary differences, based on the probability that the Company will be able to generate sufficient taxable income in the future for the deferred tax asset to meet the criteria for accounting recognition, as required by IAS 12.

The balance of Euro 204,144 thousand (Euro 202,090 thousand at 31 December 2017) consists of deferred tax assets recognised through the income statement in the amount of Euro 203,807 thousand, mainly attributable to temporary differences arising from the deferred deductibility for IRES and IRAP purposes of adjustments on Parent Company loans. For further details on the breakdown and change in the year, please refer to the same section of the Separate Financial Statements.

### 11.2 Deferred tax liabilities: breakdown

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| - Recognised to the income statement | 45 | |
| - Recognised to the net equity | 10 | 143 |
| **Total** | **55** | **143** |

### 11.3 Changes in deferred tax assets (through income statement)

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| **1. Opening balance** | **201,776** | **211,492** |
| **2. Increases** | **12,509** | **14,207** |
| 2.1 Deferred tax assets of the year | 10,972 | 14,207 |
| a) relating to previous fiscal year | | 82 |
| b) due to change in accounting policies parameters | | |
| c) write-backs | | |
| d) others | 10,972 | 14,125 |
| 2.2 New taxes or increases in tax rates | | |
| 2.3 Other increases | 1,537 | |
| **3. Decreases** | **10,478** | **23,923** |
| 3.1 Deferred tax assets derecognised during the year | 9,045 | 23,923 |
| a) reversals of temporary differences | 9,045 | 23,923 |
| b) write-downs of non-recoverable items | | |
| c) changes in accountable parameters | | |
| d) others | | |
| 3.2 Decreases in tax rates | | |
| 3.3 Other decreases: | 1,433 | |
| a) conversion into tax credit under L. 214/2011 | | |
| b) others | 1,433 | |
| **4. Closing balance** | **203,807** | **201,776** |

### 11.4 Changes in deferred tax assets as per Law 214/2011

| | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| **Opening balance** | **183,795** | **200,309** |
| **2. Increases** | | **386** |
| **3. Decreases** | **1,433** | **16,901** |
| 3.1 Reversals of temporary differences | | 16,901 |
| 3.2 Conversion into tax credits | | |
| a) Due to loss positions arisen from P&L | | |
| b) Due to tax losses | | |
| 3.3 Other decreases | 1,433 | |
| **4. Closing balance** | **182,361** | **183,795** |

The decrease results from the removal from the consolidation scope of Santander Consumer Finance Media.

When the final liquidation financial statements were prepared for the companies, conversion into tax credits was requested, as a result of which Santander Consumer Bank was credited with its share, upon the conclusion of the liquidation, as envisaged by the allotment plan.

### 11.5 Changes in deferred tax liabilities (through the income statement)

| | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| **1. Opening balance** | | |
| **2. Increases** | **522** | |
| 2.1 Deferred tax liabilities during the year | 522 | |
| a) relating to previous years | | |
| b) due to change in accountability criteria | 477 | |
| c) others | 45 | |
| 2.2 New taxes or increases in tax rates | | |
| 2.3 Other increases | | |
| **3. Decreases** | **477** | |
| 3.1 Deferred tax liabilities derecognised during the year | 477 | |
| a) reversals of temporary differences | | |
| b) due to changes in accounta parameters | 477 | |
| c) others | | |
| 3.2 Reduction in tax rates | | |
| 3.3 Other decreases: | | |
| **4. Closing balance** | **45** | |

The increases in deferred tax liabilities recognised through the income statement are a result of the tax effect of the First Time Adoption of IFRS 9 on adjustments to loans of the subsidiary PSA Italia. These were subject to reversal to make them taxable in the current period.

## 11.6 Changes in deferred tax assets (through shareholders' equity)

| | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| **1. Opening balance** | **314** | **436** |
| **2. Increases** | **41** | |
| 2.1 Deferred tax assets during the year | 41 | |
| b) relating to previous years | | |
| b) due to changes in accountable parameters | 41 | |
| c) others | | |
| 2.2 New taxes or increase in tax rates | | |
| 2.3 Other increases | | |
| **3. Decreases** | **18** | **123** |
| 3.1 Deferred tax assets derecognised during the year | 18 | 123 |
| a) reversals of temporary differences | | 123 |
| b) devaluation for appeared irrecoverability | | |
| c) due to changes in accountable parameters | | |
| d) others | 18 | |
| 3.2 Reduction in fiscal rates | | |
| 3.3 Other decreases: | | |
| **4. Closing balance** | **337** | **314** |

## 11.7 Changes in deferred tax liabilities (through shareholders' equity)

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| **1. Opening balance** | **143** | **133** |
| **2. Increases** | **6** | **22** |
| 2.1 Deferred tax liabilities during the year | 6 | 22 |
| a) relating to previous years | | |
| b) due to changes in accountable criteria | | |
| c) others | 6 | 22 |
| 2.2 New taxes or increase in tax rates | | |
| 2.3 Other increases | | |
| **3. Decreases** | **139** | **12** |
| 3.1 Deferred tax liabilities derecognised during the year | 139 | 12 |
| a) reversals of temporary differences | | 12 |
| b) due to changes in accountable criteria | 41 | |
| c) others | 99 | |
| 3.2 Reduction in tax rates | | |
| 3.3 Other decreases: | | |
| **4. Closing balance** | **10** | **143** |

## 11.8 Other information

Based on the Bank of Italy's instructions for the preparation of the financial statements, no other information has to be provided in this paragraph.

## Section 12 – Non-current assets held for sale and discontinued operations and associated liabilities – Asset item 120 and Liability item 70

### 12.1 Non-current assets held for sale and discontinued operations: breakdown by type

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| **A. Assets held for sale** | | |
| A.1 Financial assets | | |
| A.2 Equity investments | | |
| A.3 Property, Plant and Equipment | 2 | 3 |
| of which: obtained by taking possession of collateral | | |
| A.4 Intangible assets | | |
| A.5 Other non current assets | | |
| **Total A** | **2** | **3** |
| of which carried at cost | | |
| of which carried at fair value level 1 | | |
| of which carried at fair value level 2 | 2 | 3 |
| of which carried at fair value level 3 | | |
| **B. Discontinued operations** | | |
| B.1 Financial assets designated at fair value through profit or loss | | |
| - Financial assets held for trading | | |
| - Financial assets designated at fair value | | |
| - Other financial assets mandatorily designated at fair value | | |
| B.2 Financial assets at fair value through other comprehensive income | | |
| B.3 Financial assets at amortised cost | | |
| B.4 Equity investments | | |
| B.5 Property, Plant and Equipment | | |
| of which: obtained by taking possession of collateral | | |
| B.6 Intangible assets | | |
| B.7 Other assets | | |
| **Total B** | | |
| of which carried at cost | | |
| of which carried at fair value level 1 | | |
| of which carried at fair value level 2 | | |
| of which carried at fair value level 3 | | |
| **C. Liabilities associated with assets held for sale** | | |
| C.1 Deposits | | |
| C.2 Securities | | |
| C.3 Other liabilities | | |
| **Total C** | | |
| of which carried at cost | | |
| of which carried at fair value level 1 | | |
| of which carried at fair value level 2 | | |
| of which carried at fair value level 3 | | |
| **D. Liabilities linked to discontinued operations** | | |
| D.1 Financial liabilities at amortised cost | | |
| D.2 Financial liabilities held for trading | | |
| D.3 Financial liabilities designated at fair value | | |
| D.4 Provisions | | |
| D.5 Other liabilities | | |
| **Total D** | | |
| of which carried at cost | | |
| of which carried at fair value level 1 | | |
| of which carried at fair value level 2 | | |
| of which carried at fair value level 3 | | |

### 12.2 Other information

There is no further information that needs to be disclosed to comply with IFRS 5, paragraph 42.

## Section 13 – Other assets – Item 130

### 13.1 Other assets: breakdown

The balance of “Other assets”, amounting to Euro 265,543 thousand (Euro 225,842 thousand at 31 December 2017), is made up as follows:

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Advances to suppliers | 24,422 | 12,466 |
| VAT receivables | 4,673 | 2,663 |
| Stamp duties | 3,801 | 1,085 |
| Withholding taxes | 1,537 | 1,629 |
| Other tax receivables | 3,930 | 3,823 |
| Due from dealers | 4,798 | 3,928 |
| Due from insurances | 20,326 | 18,045 |
| Accruals and prepaid expenses | 54,793 | 49,923 |
| Assets in transit | 34,159 | 30,338 |
| Other items | 113,103 | 101,942 |
| **Total** | **265,543** | **225,842** |

# LIABILITIES AND SHAREHOLDERS' EQUITY

## Section 1 – Financial liabilities measured at amortised cost – Item 10

### 1.1 Financial liabilities measured at amortised cost: due to banks, breakdown by type

Amounts due to banks amount to Euro 5,842,004 thousand (Euro 5,670,769 thousand at 31 December 2017) and are made up as follows:

| Operations Type / Group Components | Total 12/31/2018 | | | | Total 12/31/2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | BV | Fair Value | | | BV | Fair Value | | |
| | | L1 | L2 | L3 | | L1 | L2 | L3 |
| **1. Deposits from central banks** | **864,937** | X | X | X | **1,591,475** | X | X | X |
| **2. Deposits from banks** | **4,977,066** | X | X | X | **4,079,294** | X | X | X |
| 2.1 Current accounts and demand deposits | 2,670 | X | X | X | 45,000 | X | X | X |
| 2.2 Time deposits | 595,000 | X | X | X | 900,004 | X | X | X |
| 2.3 Loans | 4,179,063 | X | X | X | 3,133,939 | X | X | X |
| 2.3.1 Repos | 109,060 | X | X | X | | X | X | X |
| 2.3.2 Other | 4,070,004 | X | X | X | 3,133,939 | X | X | X |
| 2.4 Liabilities relating to commitments to repurchase treasury shares | | X | X | X | | X | X | X |
| 2.5 Other deposits | 200,333 | X | X | X | 350 | X | X | X |
| **Total** | **5,842,004** | | | **5,846,967** | **5,670,769** | | | **5,674,487** |

**Key:**
VB=Book value
L1=Level 1
L2=Level 2
L3=Level 3

"Due to central banks" includes Parent Company loans received from the Bank of Italy in connection with LTRO and TLTRO operations.

"Due to banks" consist mainly of:

- Parent Company short-term loans granted, reported in the item "time deposits";
- a repo transaction with a third party (Euro 109,060 thousand);
- other loans, relating to subordinated loans, inclusive of interest accrued thereon, loans granted by Santander Group companies and other banks as part of ordinary funding operations, and deposits offered as collateral against changes in fair value of derivatives, reported in the item "financing - other".

For further details, please see the information provided on funding in the report on operations.

For further information about the methodology used for the determination of the fair value of this component, please see Part A Accounting policies – A.4 Information on fair value.

## 1.2 Financial liabilities measured at amortised cost: due to customers, breakdown by type

Due to customers amount to Euro 1,173,866 thousand (Euro 1,109,651 thousand at 31 December 2017) and are made up as follows:

| Operations Type / Group Components | Total 12/31/2018 | | | | Total 12/31/2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | BV | Fair Value | | | BV | Fair Value | | |
| | | L1 | L2 | L3 | | L1 | L2 | L3 |
| 1. Current accounts and demand deposits | 737,390 | X | X | X | 746,450 | X | X | X |
| 2. Time deposits | 411,491 | X | X | X | 339,024 | X | X | X |
| 3. Loans | 22,522 | X | X | X | 22,522 | X | X | X |
| 3.1 Repos | | X | X | X | | X | X | X |
| 3.2 Other | 22,522 | X | X | X | 22,522 | X | X | X |
| 4. Liabilities relating to commitments to repurchase treasury shares | | X | X | X | | X | X | X |
| 5. Other deposits | 2,464 | X | X | X | 1,655 | X | X | X |
| **Total** | **1,173,866** | | | **1,165,489** | **1,109,651** | | | **1,105,787** |

Key:
BV = Book value
L1= Level 1
L2= Level 2
L3= Level 3

"Current accounts and demand deposits" mainly include demand deposits from customers, ordinary current accounts to affiliates and payments in transit to customers.

The item "Time deposits" mainly includes "time" deposits offered to customers by the Parent Company.

The comparative balances have been restated as described in Part A Accounting policies – Section 3 Scope of consolidation and consolidation method, 5. Other information.

For further information about the methodology used for the determination of the fair value of this component, please see Part A Accounting policies – A.4 Information on fair value.

## 1.3 Financial liabilities at amortised cost: securities issued, breakdown by type

| Type of securities/Values | Total 12/31/2018 | | | | Total 12/31/2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | BV | Fair Value | | | BV | Fair Value | | |
| | | L1 | L2 | L3 | | L1 | L2 | L3 |
| **A. Debts securities** | | | | | | | | |
| 1. bonds | 1,156,279 | | | 1,153,654 | 864,085 | | | 864,742 |
| 1.1 structured | | | | | | | | |
| 1,2 other | 1,156,279 | | | 1,153,654 | 864,085 | | | 864,742 |
| 2. other securities | | | | | | | | |
| 2.1 structured | | | | | | | | |
| 2.2 other | | | | | | | | |
| **Total** | **1,156,279** | | | **1,153,654** | **864,085** | | | **864,742** |

Key:
BV = Book value
L1= Level 1
L2= Level 2
L3= Level 3

"Debt securities issued" relate to securities underlying a medium-to-long term bond issue programme that have been placed with institutional customers and securities issued in connection with securitisation transactions sold on the market.

For further details relating to the issues, please see the information provided on funding in the report on operations.

The comparative balances have been restated as described in Part A Accounting policies - Section 3 - Scope of consolidation and consolidation method, 5. Other information.

For further information about the methodology used for the determination of the fair value of this component, please see Part A Accounting policies – A.4 Information on fair value.

## 1.4 Details of subordinated securities/debts

| Type | 12/31/2018 | 12/31/2017 |
|---|---|---|
| TIER II subordinated debt to SCF - Santander Consumer Finance - maturing in 2028 | 35,000 | - |
| TIER II to subordinated debt SCF - Santander Consumer Finance - maturing in 2025 | 50,000 | 50,000 |
| TIER II subordinated debt to SCF - Santander Consumer Finance - maturing in 2027 | 30,000 | 30,000 |
| LOW TIER II subordinated debt to Santander BENELUX - maturing in 2019 | 4,000 | 8,000 |
| LOW TIER II subordinated debt to BANCO MADESANT - maturing in 2019 | 2,500 | 5,000 |
| UP TIER II subordinated debt to Santander BENELUX - maturing in 2019 | 20,000 | 20,000 |
| UP TIER II subordinated debt to BANCO MADESANT - maturing in 2019 | 12,500 | 12,500 |
| LOW TIER II subordinated debt to OPENBANK - maturing in 2018 | - | 6,500 |
| UP TIER II subordinated debt to OPENBANK - maturing in 2018 | - | 32,500 |
| Tier II subordinated debt to PSA Finance Nederlands B.V. - maturing in 2027 | 22,500 | 22,500 |
| **Total** | **176,500** | **187,000** |

For further details on subordinated debt to banks mentioned in the table, see Part F (Information on Consolidated Shareholders' Equity), Section 2 (Capital and capital adequacy ratios), Section A.2 (Tier II capital).

## 1.5 Details of structured debts

The Group has no structured debts.

## 1.6 Finance lease payables

The Group does not have any finance lease obligations.

## Section 2 – Financial liabilities held for trading – item 20

### 2.1 Financial liabilities held for trading: breakdown by type

| Operation type / Values | Total 12/31/2018 | | | | | Total 12/31/2017 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | NV | Fair Value | | | Fair Value * | NV | Fair Value | | | Fair Value * |
| | | L1 | L2 | L3 | | | L1 | L2 | L3 | |
| **A. Financial liabilities** | | | | | | | | | | |
| 1. Due to banks | | | | | | | | | | |
| 2. Due to customers | | | | | | | | | | |
| 3. Debt securities | | | | | X | | | | | X |
| 3.1 Bonds | | | | | X | | | | | X |
| 3.1.1 Structured | | | | | X | | | | | X |
| 3.1.2 Other bonds | | | | | X | | | | | X |
| 3.2 Other securities | | | | | X | | | | | X |
| 3.2.1 Structured | | | | | X | | | | | X |
| 3.2.2 Other | | | | | X | | | | | X |
| **Total A** | | | | | | | | | | |
| **B. Derivatives** | | | | | | | | | | |
| 1. Financial derivatives | X | | 5,027 | | X | X | | 1,117 | | X |
| 1.1 Held for trading | X | | 5,027 | | X | X | | 1,117 | | X |
| 1.2 Related to fair value option | X | | | | X | X | | | | X |
| 1.3 Other | X | | | | X | X | | | | X |
| 2. Credits derivatives | X | | | | X | X | | | | X |
| 2.1 Held for trading | X | | | | X | X | | | | X |
| 2.2 Related to fair value option | X | | | | X | X | | | | X |
| 2.3 Other | X | | | | X | X | | | | X |
| **Total B** | **X** | | **5,027** | | **X** | **X** | | **1,117** | | **X** |
| **Total (A+B)** | **X** | | **5,027** | | **X** | **X** | | **1,117** | | **X** |

Key:
VN= Notional value
L1= Level 1
L2= Level 2
L3= Level 3
Fair Value*= Fair value calculated by excluding changes due to issuer's creditworthiness variation from the issuance date

The derivatives in question relate to interest rate swaps entered into to hedge securitisations arranged by the Parent Company and by Banca PSA.

### 2.2 Details of "Financial liabilities held for trading": subordinated liabilities

The Group does not have any subordinated financial liabilities held for trading.

### 2.3 Details of "Financial liabilities held for trading": structured debts

The Group does not have any structured financial liabilities held for trading.

## Section 3 – Financial liabilities designated at fair value – Item 30

The Group does not hold any financial liabilities designated at fair value.

## Section 4 – Hedging derivatives – Item 40

### 4.1 Hedging derivatives: breakdown by type of hedge and level

| | NV | Fair value | 12/31/2018 | | NV | Fair value | 12/31/2017 | |
|---|---|---|---|---|---|---|---|---|
| | 12/31/2018 | L1 | L2 | L3 | 12/31/2017 | L1 | L2 | L3 |
| **A) Financial derivatives** | **2,015,130** | | **5,945** | | **945,922** | | **3,122** | |
| 1) Fair value | 2,015,130 | | 5,945 | | 945,922 | | 3,122 | |
| 2) Financial flows | | | | | | | | |
| 3) Foreign investments | | | | | | | | |
| **B. Credit derivatives** | | | | | | | | |
| 1) Fair value | | | | | | | | |
| 2) Financial flows | | | | | | | | |
| **Total** | **2,015,130** | | **5,945** | | **945,922** | | **3,122** | |

**Key:**
NV = Notional value
L1= Level 1
L2= Level 2
L3= Level 3

The amount shown in the above table refers to the negative fair value of interest rate swaps entered into by the Group with the Spanish Parent Company Banco Santander and with third parties. The derivatives portfolio consists of contracts taken out to hedge changes in the fair value of fixed-rate underlying assets.

As regards checking the effectiveness of the hedge with respect to the underlying, reference should be made to Part E, Section 2 - Market risk, Subsection 2.2 - Interest rate risk and price risk, paragraph A (General aspects, management processes and methods of measuring interest rate risk and price risk).

The following table gives details of hedging derivatives with negative fair values at 31 December 2018 (in euros):

| Notional (euro) | Start date | Settlement date | Counterparty | Fair value (euro) |
|---|---|---|---|---|
| 1,500,000 | 02/14/2011 | 03/14/2019 | Banco Santander | 7,076 |
| 1,000,000 | 07/14/2011 | 01/14/2019 | Banco Santander | 11,808 |
| 8,500,000 | 08/12/2011 | 08/12/2019 | Banco Santander | 83,376 |
| 5,000,000 | 09/25/2012 | 03/25/2019 | Banco Santander | 10,948 |
| 20,000,000 | 11/09/2012 | 06/10/2019 | Banco Santander | 47,305 |
| 5,500,000 | 06/21/2013 | 03/21/2019 | Banco Santander | 13,954 |
| 6,000,000 | 07/01/2013 | 02/01/2019 | Banco Santander | 16,381 |
| 169,750,000 | 01/30/2017 | 10/31/2025 | Banco Santander | 332,823 |
| 117,760,000 | 04/26/2017 | 07/28/2025 | Banco Santander | 294,642 |
| 118,931,500 | 04/26/2017 | 08/26/2025 | Banco Santander | 328,095 |
| 118,598,000 | 04/26/2017 | 09/26/2025 | Banco Santander | 311,557 |
| 73,300,500 | 05/31/2017 | 06/30/2023 | Banco Santander | 196,326 |
| 73,453,000 | 05/31/2017 | 07/31/2023 | Banco Santander | 273,711 |
| 86,849,000 | 07/31/2017 | 11/29/2024 | Banco Santander | 338,099 |
| 91,182,000 | 07/31/2017 | 12/31/2024 | Banco Santander | 369,995 |
| 72,964,500 | 07/31/2017 | 01/31/2025 | Banco Santander | 359,432 |
| 28,814,500 | 09/29/2017 | 12/31/2025 | Banco Santander | 87,354 |
| 50,000,000 | 06/30/2020 | 12/31/2027 | Banco Santander | 358,900 |
| 93,365,000 | 06/29/2018 | 09/30/2024 | Banco Santander | 253,263 |
| 92,422,500 | 07/31/2018 | 07/31/2028 | Banco Santander | 455,986 |
| 75,239,000 | 08/31/2018 | 08/31/2028 | Banco Santander | 310,342 |
| 108,000,000 | 12/21/2018 | 12/21/2028 | Banco Santander | 171,890 |
| 102,000,000 | 04/19/2017 | 02/28/2022 | BNP Paribas | 93,678 |
| 112,000,000 | 04/19/2017 | 04/30/2022 | BNP Paribas | 94,634 |
| 121,000,000 | 04/19/2017 | 03/31/2022 | Natixis | 97,019 |
| 32,000,000 | 06/29/2018 | 06/30/2023 | RBS | 112,232 |
| 34,000,000 | 06/29/2018 | 04/30/2023 | BNP Paribas | 102,295 |
| 27,000,000 | 06/29/2018 | 05/31/2023 | HSBC | 92,900 |
| 37,000,000 | 07/31/2018 | 07/31/2023 | Banco Santander | 188,435 |
| 35,000,000 | 07/31/2018 | 05/31/2023 | Banco Santander | 158,677 |
| 30,000,000 | 07/31/2018 | 06/30/2023 | BNP Paribas | 141,221 |
| 9,000,000 | 10/19/2018 | 05/31/2021 | Banco Santander | 26,211 |
| 17,000,000 | 10/19/2018 | 06/30/2021 | Natixis | 53,239 |
| 16,000,000 | 10/19/2018 | 07/31/2021 | Natixis | 54,366 |
| 10,000,000 | 10/19/2018 | 08/31/2021 | Banco Santander | 36,854 |
| 15,000,000 | 10/19/2018 | 09/30/2021 | Banco Santander | 60,008 |
| **2,015,129,500** | | | | **5,945,034** |

### 4.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

| Transactions/Type of hedge | Fair Value | | | | | | | Cash flow | | Foreign invest. |
|---|---|---|---|---|---|---|---|---|---|---|
| | Specific | | | | | | | | | |
| | debt securities and interest | equities and equity index | currencies and gold | credit | commodities | others | Generic | Specific | Generic | |
| 1. Financial assets at fair value through other comprehensive income | | | | | X | X | X | | X | X |
| 2. Financial assets at amortised cost | | X | | | X | X | X | | X | X |
| 3. Portfolio | X | X | X | X | X | X | 5,945 | X | | X |
| 4. Other operations | | | | | | | X | | X | |
| **Total assets** | | | | | | | **5,945** | | | |
| 1. Financial liabilities | | X | | | | | X | | X | X |
| 2. Portfolio | X | X | X | X | X | X | | X | | X |
| **Total liabilities** | | | | | | | | | | |
| 1. Expected transactions | X | X | X | X | X | X | X | | X | X |
| 2. Financial assets and liabilities portfolio | X | X | X | X | X | X | | X | | |

For the related comments please read the description in point 6.1.

## Section 5 – Remeasurement of financial liabilities with general hedges – Item 50

There are no fair value adjustments of financial liabilities in hedged portfolios.

## Section 6 – Tax liabilities – Item 60

Please refer to Section 11 of the Assets.

## Section 7 – Liabilities associated with non-current assets held for sale – Item 70

The Group does not have any liabilities associated with assets held for sale.

## Section 8 – Other liabilities – Item 80

### 8.1 Other liabilities: breakdown

Other liabilities amount to Euro 403,393 thousand (Euro 462,491 thousand at the end of 2017) and consist of:

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Due to suppliers | 99,824 | 108,356 |
| Due to dealers | 35,152 | 27,529 |
| Payables to employees | 5,617 | 5,938 |
| Due to Social Security institutions | 3,398 | 3,332 |
| Tax payables | 5,750 | 5,988 |
| Other amounts due to customers | 16,856 | 15,998 |
| Due to insurances | 26,670 | 19,735 |
| Factoring payables | 70,457 | 134,494 |
| Accruals and deferred income | 59,162 | 50,011 |
| Items in transit | 64,306 | 73,326 |
| Other liabilities for commissions | 4,883 | 6,612 |
| Other payables | 11,319 | 11,172 |
| **Total** | **403,393** | **462,491** |

Other amounts due to customers" include temporary credit balances with customers for early repayments and the temporary credit balances for instalment payments received in advance of the contractual expiry date.

"Items in transit" mainly include items in transit relating to instalment collection and the settlement of loans.

"Other payables" mainly consists of the provision for agents' leaving indemnities.

## Section 9 – Provision for employee termination indemnities – Item 90

### 9.1 Provision for employee termination indemnities: change in the year

| | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| **A. Opening balance** | **4,299** | **4,355** |
| **B. Increases** | **531** | **145** |
| B.1 Provision of the year | 40 | 76 |
| B.2 Other increases | 491 | 69 |
| **C. Reductions** | **(577)** | **(201)** |
| C.1 Severance payments | (417) | (196) |
| C.2 Other reductions | (161) | (6) |
| **D. Closing balance** | **4,252** | **4,299** |
| **Total** | **4,252** | **4,299** |

The provision for employee termination indemnities amounts to Euro 4,252 thousand (Euro 4,299 thousand at 31 December 2017) and, as required by IAS 19, this coincides with its actuarial valuation (Defined Benefit Obligation – DBO).

### 9.2 Other information

Based on the Bank of Italy's instructions for the preparation of the financial statements, no other information has to be provided in this paragraph.

## Section 10 – Provision for risks and charges – Item 100

### 10.1 Provision for risks and charges: breakdown

| Items | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| 1. Provisions for credit risk on commitments and financial guarantees given | 89 | |
| 2. Provisions for other commitments and other guarantees given | | |
| 3. Pensions and other post-retirement benefit obligations | | |
| 4. Other provisions for risks and charges | 25,203 | 29,144 |
| 4.1 legal disputes | 5,716 | 6,480 |
| 4.2 staff expenses | | |
| 4.3 others | 19,487 | 22,664 |
| **Total** | **25,292** | **29,144** |

With reference to the items in the table, see the next section.

### 10.2 Provision for risks and charges: change in the year

| | Provisions for other off-balance sheet commitments and other guarantees given | Pensions and post retirement benefit | Other provision for risk and charges | Total |
|---|---|---|---|---|
| **A. Opening balance** | | | **29,144** | **29,144** |
| **B. Increases** | | | **13,368** | **13,368** |
| B.1 Provision for the year | | | 13,368 | 13,368 |
| B.2 Time value change | | | | |
| B.3 Difference due to discount-rate changes | | | | |
| B.4 Other variations | | | | |
| **C. Decreases** | | | **17,309** | **17,309** |
| C.1 Utilisations during the year | | | 17,309 | 17,309 |
| C.2 Difference due to discount-rate changes | | | | |
| C.3 Other variations | | | | |
| **D. Final surplus** | | | **25,203** | **25,203** |

The main increases in item B.1 “Provision for the year” relate to provisions for legal disputes with customers and dealers, allocations to provisions for customer disputes relating to the salary assignment loan portfolio and a provision prudentially allocated by the Subsidiary for a penalty imposed. These provisions cover commissions that are a matter of dispute. For further details, please refer to the corresponding income statement table.

Item C.1 “Utilisations during the year” relates both to reversals of provisions through line item 200b) of the income statement, set up in prior years for lawsuits, for Euro 3,693 thousand, and to utilisations of provisions set up in prior years as a result of disbursements made for Euro 13,616 thousand.

### 10.3 Provisions for credit risk on commitments and financial guarantees given

| | Provisions for credit risk on commitments and financial guarantees given | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Loan commitments given | 84 | 5 | | 89 |
| Financial guarantees given | | | | |
| **Total** | **84** | **5** | | **89** |

### 10.4 Provisions on other commitments and other guarantees given

The Group has not allocated substantial amounts of this type.

### 10.5 Defined-benefit pension plans

The Group has not established any company pension funds with defined benefits.

### 10.6 Provisions for risks and charges - other provisions

The Group has not set aside any provisions as per IAS 37, paragraphs 85, 86, 91.

## Section 11 – Technical reserves – Item 110

The Group does not have any technical reserves.

## Section 12 – Redeemable shares – Item 130

The Group has not approved any share redemption plans.

## Section 13 – Group shareholders' equity - Items 120, 130, 140, 150, 160, 170 and 180

### 13.1 "Share capital" and "Treasury shares": breakdown

For the breakdown of share capital, see point 13.2 below.

### 13.2 Share capital – Number of shares of the Parent Company: change in the year

| Items/Types | Ordinaries | Others |
|---|---|---|
| **A. Shares existing at the start of the fiscal year** | **573,000** | |
| -fully paid-up | 573,000 | |
| - not fully paid-up | | |
| A.1 treasury shares (-) | | |
| **A.2 Shares outstanding: Opening balance** | **573,000** | |
| **B. Increases** | | |
| B.1 New issues | | |
| - against payment: | | |
| - business combination transaction | | |
| - bonds converted | | |
| - warrants exercised | | |
| - others | | |
| - free: | | |
| - to employees | | |
| - to directors | | |
| - others | | |
| B.2 Sales of treasury shares | | |
| B.3 Other adjustments | | |
| **C. Decreases** | | |
| C.1 Cancellation | | |
| C.2 Purchase of treasury shares | | |
| C.3 Business transferred | | |
| C.4 Other adjustments | | |
| **D. Shares outstanding: closing balance** | **573,000** | |
| D.1 Treasury shares (+) | | |
| D.2 Shares outstanding as at the end of the year | 573,000 | |
| - fully paid | 573,000 | |
| - not fully paid | | |

## 13.3 Share capital: other information

At 31 December 2018, the share capital of Santander Consumer Bank S.p.A. amounts to Euro 573 million, made up as follows:

| | Total | |
|---|---|---|
| | 12/31/2018 | 12/31/2017 |
| Par value per share (zero if the shares have no par value) | 1,000 | 1,000 |
| **Fully paid** | | |
| Number | 573,000 | 573,000 |
| Amount | 573,000,000 | 573,000,000 |
| **Agreed sale of share:** | | |
| Number of shares under contract | | |
| Total amount | | |

## 13.4 Profit reserves: other information

The Group's profit reserves at 31 December 2018 consist mainly of the legal reserve (Euro 9,515 thousand), the extraordinary reserve (Euro 121,326 thousand), the merger reserve (Euro -424 thousand), the business unit merger reserve (Euro -355 thousand), the first-time adoption reserve (Euro -5,087) and the retained earnings of the subsidiaries (Euro 24,517 thousand).

## 13.5 Equity instruments: breakdown and change in the year

## 13.6 Other information

The Group has not issued any puttable financial instruments ("financial instruments repayable on demand").

The subsidiaries have approved the distribution of dividends.

## Section 14 – Minority interests – Item 190

### 14.1 Details of item 190 "Minority interests"

Minority interests are made up as follows:

| Company name | 12/31/2018 | 12/31/2017 |
|---|---|---|
| **Investments in consolidated companies with significant minority interests** | | |
| 1. Banca PSA Italia S.p.A. | 167,097 | 148,164 |
| 2. PSA Renting Italia S.p.A. | 392 | |
| 3. Santander Consumer Finance Media S.r.l. in liquidation | | 2,484 |
| **Other investments** | | |
| **Total** | **167,490** | **150,648** |

These amounts relate to the portion of shareholders' equity attributable to Banque PSA in relation to its 50% equity interest in Banca PSA Italia and its 50% equity interest in PSA Renting through the indirect shareholding.

### 14.2 Equity instruments: breakdown and change in the year

There are no equity instruments attributable to minority interests.

## OTHER INFORMATION

### 1. Commitments and financial guarantees given

| | Nominal value of commitments and financial guarantees given | | | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | | |
| **Loan commitments given** | **385,827** | **51,778** | **1,133** | **438,737** | |
| a) Central banks | | | | | |
| b) Governments and other Public Sector Entities | | | | | |
| c) Banks | | | | | |
| d) Other financial companies | 25 | | | 25 | |
| e) Non-financial companies | 352,919 | 51,723 | 1,133 | 405,775 | |
| f) Households | 32,882 | 55 | | 32,937 | |
| **Financial guarantees issued** | | | | | |
| a) Central banks | | | | | |
| b) Governments and other Public Sector Entities | | | | | |
| c) Banks | | | | | |
| d) Other financial companies | | | | | |
| e) Non-financial companies | | | | | |
| f) Households | | | | | |

The item "Commitments to disburse funds" includes the amount of the irrevocable commitments relating to factoring transactions and the margins available on credit lines granted to customers.

### 2. Other commitments and other guarantees given

| | Nominal value | |
|---|---|---|
| | Total 12/31/2018 | Total 12/31/2017 |
| **Other guarantees issued** | | |
| of which: non-performing loans | | |
| a) Central banks | | |
| b) Governments and other Public Sector Entities | | |
| c) Banks | | |
| d) Other financial companies | | |
| e) Non-financial companies | | |
| f) Households | | |
| **Other commitment** | | |
| of which: non-performing loans | | |
| a) Central banks | | |
| b) Governments and other Public Sector Entities | | |
| c) Banks | | |
| d) Other financial companies | | |
| e) Non-financial companies | 22,118 | |
| f) Households | | |

## 3. Assets used to guarantee own liabilities and commitments

| Portfolios | Amounts 12/31/2018 | Amounts 12/31/2017 |
|---|---|---|
| 1. Financial assets designated at fair value through profit or loss | | |
| 2. Financial assets at fair value through other comprehensive income | | |
| 3. Financial assets at amortised cost | 2,379,118 | 2,604,557 |
| 4. Property, plant and equipment | | |
| of which: inventories of property, plant and equipment | | |

The item “Financial assets measured at amortised cost” includes:

- the assets underlying the securities provided as collateral for the loans received from the Bank of Italy in connection with TLTRO operations with the European Central Bank;
- the portfolio of loans subject to securitisation, referred to below in Part C, Section 2 of Part E of the Notes;
- the assets underlying the securities involved in the repurchase agreement entered into with Unicredit Bank AG;
- the amounts paid as guarantee deposit to Santander Group companies as part of derivatives operations;
- the amount of invoices formed as collateral for the funding transaction carried out with Mediocredito S.p.A., performed by Banca PSA Italia.

## 4. Information on operating leases

As a result of the upcoming application of IFRS 16, it is noted that the Group has a number of lease agreements in place in which it is the lessee, the most significant of which in terms of amount and duration are those for the rental of the head office buildings of the Parent Company and the Subsidiaries in addition to those for the rental of cars that fall within the definition of the new accounting standard, in addition to rental agreements on hardware that do not meet the requirements for classification according to the new IFRS due to their low value or short duration.

The contingent lease payments were estimated on the basis of the values provided for in the contract, taking into account any indexation clauses and the probability of renewal. None of the agreements include asset purchase options.

The estimated total minimum payments from January 2019, for the non-cancellable period, are the following:

- within one year, approximately Euro 3,500 thousand;
- between one and five years, approximately Euro 5,200 thousand;
- beyond five years, approximately Euro 2,000.

## 5. Breakdown of investments relating to unit-linked and index-linked insurance policies

This item is not applicable to the Group’s operations.

## 6. Administration and trading on behalf of third parties

No Group company operates in the field of administration and trading on behalf of third parties.

## 7. Financial assets subject to offsetting in the financial statements, or subject to master netting or similar agreements

| Instrument type | Gross amount of financial assets (a) | Financial liabilities offset in Balance Sheet (b) | Net Balance Sheet values of financial asset (c=a-b) | Related amounts not subject to offsetting in Balance Sheet | | Net amounts (f=c-d-e) | Net amounts (f=c-d-e) |
|---|---|---|---|---|---|---|---|
| | | | | Financial instruments (d) | Cash Collateral received (e) | 12/31/2018 | 12/31/2017 |
| 1. Derivatives | 1,828 | | 1,828 | | 1,661 | 167 | 644 |
| 2. Repo's | | | | | | | |
| 3. Securities lending | | | | | | | |
| 4. Others | | | | | | | |
| **Total 12/31/2018** | **1,828** | | **1,828** | | **1,661** | **167** | **X** |
| **Total 12/31/2017** | **2,453** | **459** | **1,994** | | **1,350** | **X** | **644** |

As required by IFRS 7, it is hereby disclosed that the derivatives in place as at 31 December 2018 were entered into by Group companies and have positive fair value equal to Euro 1,828 thousand (column c) and are subject to an ISDA-based framework agreement and are thus subject to net settlement arrangements. There are no arrangements in place for the offsetting of derivatives recognised as liabilities, corresponding to the negative fair value.

Column e) “Cash deposits posted as collateral” shows the effect of the potential offsetting of exposures for which cash collateral has been provided.

## 8. Financial liabilities subject to offsetting in the financial statements, or subject to master netting or similar agreements

| Instrument type | Gross amount of the financial liabilities (a) | Financial assets offset in Balance Sheet (b) | Net Balance Sheet values of financial liabilities (c=a-b) | Related amounts not subject to offsetting in Balance Sheet | | Net amount (f=c-d-e) | Net amount (f=c-d-e) |
|---|---|---|---|---|---|---|---|
| | | | | Financial instruments (d) | Cash Collateral received (e) | 12/31/2018 | 12/31/2017 |
| 1. Derivatives | 4,633 | | 4,633 | | 4,211 | 422 | |
| 2. Repos | 109,060 | | 109,060 | 109,060 | | | |
| 3. Securities lending | | | | | | | |
| 4. Others | | | | | | | |
| **Total 12/31/2018** | **113,693** | | **113,693** | **109,060** | **4,211** | **422** | **X** |
| **Total 12/31/2017** | **2,066** | **(459)** | **2,525** | | **2,525** | **X** | |

The financial liabilities subject to offsetting have the following characteristics:

- Derivatives with negative fair value entered into with Group companies, equal to Euro 4,633 thousand (column c), are subject to an ISDA-based framework agreement and are thus subject to net settlement arrangements. There are no arrangements in place for the offsetting of derivatives recognised as assets, where present. Column e) “Cash deposits posted as collateral” shows the effect of the potential offsetting of exposures for which cash collateral has been provided;
- Repos include the transaction carried out with a counterparty third. Column d) “Financial instruments” includes the fair value of the security provided as collateral against the loan received, for the maximum amount of the loan.

## 9. Securities lending

The Group does not have any transaction in securities lending.

## 10. Information on joint arrangements

The Group does not have any joint ventures.

# Part C – Information on the consolidated income statement

## Section 1 – Interest – Items 10 and 20

### 1.1 Interest and similar income: breakdown

Interest and similar income amounts to Euro 352,382 thousand (Euro 355,437 thousand at 31 December 2017) and is made up of:

| Items/Technical forms | Debt securities | Loans | Other transactions | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|---|---|---|
| 1. Financial assets valued to fv with impact to P&L | | | | | |
| 1.1 Financial assets held for trading | | | | | |
| 1.2 Financial assets designated at fv | | | | | |
| 1.3 Other financial assets mandatorily valued at fv | | | | | |
| 2. Financial assets at fair value through other comprehensive income | | | | | |
| 3. Financial assets at amortised cost | 276 | 348,472 | | 348,747 | 352,066 |
| 3.1 Loans to banks | | 15 | | 15 | 24 |
| 3.2 Loans to customers | 276 | 348,457 | | 348,732 | 352,042 |
| 4. Hedging derivatives | | | | | |
| 5. Other assets | | | 97 | 97 | 13 |
| 6. Other financial liabilities | | | | 3,538 | 3,357 |
| **Total** | **276** | **348,472** | **97** | **352,382** | **355,437** |
| of which: interest income on credit impaired financial assets | | | | | |

The value of interest on loans to customers is represented by the economic consequences on an accrual basis of the components identified as relevant for amortised cost purposes, in relation to the different technical forms. It is also represented by the amount of interest on securitised loans in the financial statements according to IFRS 9, in continuity with the previous IAS 39, on reversal derecognition.

Against a background of negative rates, the item "Financial liabilities" mainly consists of interest income accrued on financing transactions through TLTRO-II with the European Central Bank.

For more details, refer to the Financial Management section of the Report on Operations.

## 1.2 Interest and similar income: other information

### 1.2.1 Interest and similar income on foreign currency assets

The Group does not hold any financial assets in foreign currency.

### 1.2.2 Interest and similar income on finance lease transactions

Interest income on Group company finance lease transactions for the year 2018 amounts to Euro 15,326 thousand (Euro 12,126 thousand in 2017).

| | Total | |
|---|---|---|
| | 12/31/2018 | 12/31/2017 |
| Interest income on currency financial activities | | |
| Interest income on financial leasing activities | 15,326 | 12,126 |
| **Total** | **15,326** | **12,126** |

### 1.3 Interest and similar expense: breakdown

| Items/Technical forms | Debts | Securities | Other transactions | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|---|---|---|
| 1. Financial liabilities at amortised cost | 37,205 | 321 | X | 37,526 | 48,935 |
| 1.1 Deposits from central banks | | X | X | | |
| 1.2 Debts from banks | 20,077 | X | X | 20,077 | 30,044 |
| 1.3 Debts from customers | 17,128 | X | X | 17,128 | 18,172 |
| 1.4 Debt securities in issue | X | 321 | X | 321 | 719 |
| 2. Financial liabilities held for trading | | | | | |
| 3. Financial liabilities at fair value | | | | | |
| 4. Other liabilities and funds | X | X | 3 | 3 | 23 |
| 5. Hedging derivatives | X | X | 7,172 | 7,172 | 12,250 |
| 6. Financial assets | X | X | X | 1,248 | 1,108 |
| **Total** | **37,205** | **321** | **7,175** | **45,950** | **62,316** |

Interest expense on amounts due to banks mainly derives from loans granted by Santander Group companies as part of ordinary financing operations and by other banks. The portion relating to Banca PSA amounts to Euro 6,023 thousand and to PSA Renting Euro 70 thousand.

Interest expense on debt securities issued relates to securities issued under EMTN Programmes.

For more details on the above-mentioned transactions, refer to the Financial Management section of the Report on Operations attached to the Consolidated Financial Statements.

Interest expense on amounts due to customers consists mainly of the cost of funding provided by the Parent Company through current and deposit accounts (Euro 15,644 thousand).

“Hedging derivatives” include the net balance of differentials on hedging derivatives as reported in table 1.5 below.

## 1.4 Interest and similar expense: other information

### 1.4.1 Interest and similar expense on foreign currency liabilities

The Group has no liabilities in foreign currency.

### 1.4.2 Interest and similar expense on finance lease transactions

None of the companies in the Group has entered into a purchase lease.

### 1.5 Differentials on hedging transactions

| Items | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| A. Positive differentials related to hedging operations: | 2 | |
| B. Negative differentials related to hedging operations: | (7,173) | (12,250) |
| **C. Balance (A-B)** | **(7,172)** | **(12,250)** |

The balance of differentials on hedging interest rate swaps is negative (as in 2017).

## Section 2 – Commissions – Items 40 and 50

### 2.1 Commission income: breakdown

The commission income generated during the year amounts to Euro 121,610 thousand (Euro 106,566 thousand at 31 December 2017) and is broken down as follows:

| Type of service/Values | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| a) guarantees given | | |
| b) credit derivatives | | |
| c) management services, brokerage and consultancy | 96,483 | 83,336 |
| 1. Securities trading | | |
| 2. Currency trading | | |
| 3. portfolio management | | |
| 3.1 individuals | | |
| 3.2 collectives | | |
| 4. custody and administration of securities | | |
| 5. Custodian bank | | |
| 6. Placement of securities | | |
| 7. reception and transmission order | | |
| 8. advisory services | | |
| 8.1 relating to investments | | |
| 8.2 relating to financial structure | | |
| 9. distribution of third parties services | 96,483 | 83,336 |
| 9.1 porfolios management | | |
| 9.1.1 individuals | | |
| 9.1.2 collectives | | |
| 9.2 insurance products | 51,794 | 40,554 |
| 9.3 other products | 44,689 | 42,783 |
| d) collection and payment services | 21,439 | 19,574 |
| e) securitisation servicing | | |
| f) factoring | | |
| g) tax collection services | | |
| h) management of multilateral trading facilities | | |
| i) management of current account | | |
| j) other services | 3,688 | 3,655 |
| **Total** | **121,610** | **106,566** |

The item “Management, brokerage and consulting services” mainly includes commission income from insurance products placed with customers financed by the Parent Company in the amount of Euro 42,959 thousand and by the subsidiaries in the amount of Euro 8,887 thousand, salary assignment loans granted by the Bank in the amount of Euro 14,359 thousand and services to install theft and fire safety devices for Banca PSA in the amount of Euro 24,963 thousand, while the item “collection and payment services” includes commissions generated during the year from collection and payment services provided to customers.

Item j) “other services”, on the other hand, comprises mainly:

- income recognised in respect of damages and penalties for late payment;
- fees and commission income for the management of credit cards;
- commission income on stock financing.

### 2.2 Commission expense: breakdown

Commission expense amounts to Euro 61,019 thousand (Euro 60,228 thousand at 31 December 2017) and is broken down as follows:

| Services/Amounts | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| a) guarantees received | 19 | 22 |
| b) credit derivatives | | |
| c) management, brokerage and consultancy services | 33,207 | 37,994 |
| 1.trading financial instruments | | |
| 2. currency trading | | |
| 3. portfolios management: | | |
| 3.1 own portfolio | | |
| 3.2 third party portfolio | | |
| 4. custody and administration securities | 72 | 80 |
| 5. placement of financial instruments | | 48 |
| 6. off-site distribution of financial instruments, products and services | 33,135 | 37,866 |
| d) collection and payment services | 3,710 | 4,288 |
| e) other services | 24,083 | 17,924 |
| **Total** | **61,019** | **60,228** |

The most significant amounts relevant to the item are mainly related to commissions paid on the sale of salary assignment loans for the Parent Company and insurance products for all the companies of the Group, contributions and termination indemnities accrued by the network of agents based on targets for the placement of loans with customers and the costs incurred for the collection of loan instalments and for payments made.

## Section 3 – Dividends and similar income – Item 70

### 3.1 Dividends and similar income: breakdown

No dividends were received in the year.

## Section 4 – Net trading income (loss) – Item 80

### 4.1 Net trading income (loss): breakdown

Net trading income (loss) amounts to Euro (662) thousand and is broken down as follows:

| Transactions / Income | Capital gain (A) | Realised profits (B) | Capital loss (C) | Realised losses (D | Net profit |
|---|---|---|---|---|---|
| **1. Financial assets held for trading** | | | | | **1** |
| 1.1 Debt securities | | | | | |
| 1.2 Equity | | | | | |
| 1.3 Units in investment funds | | | | | |
| 1.4 Loans | | | | | |
| 1.5 Others | | | | | |
| **2. Financial liabilities held for trading** | | | | | |
| 2.1 Debt securities | | | | | |
| 2.2 Debts | | | | | |
| 2.3 Others | | | | | |
| **Financial assets and liabilities: exchange differences** | X | X | X | X | 1 |
| **3. Derivatives** | **4,268** | **2,238** | **(4,790)** | **(2,379)** | **(663)** |
| 3.1 Financial derivatives: | 4,268 | 2,238 | (4,790) | (2,379) | (663) |
| - On debt securities and interest rates | 4,268 | 2,238 | (4,790) | (2,379) | (663) |
| - On equity securities and shares indexes | | | | | |
| - On currency and gold | X | X | X | X | |
| - Others | | | | | |
| 3.2 Credit derivatives | | | | | |
| of which: natural hedges linked to fv option (IFRS 7, par. 9 lett. d) | X | X | X | X | |
| **Total** | **4,268** | **2,238** | **(4,790)** | **(2,379)** | **(662)** |

The item includes the gains and losses arising from financial derivatives held to hedge interest rate risk associated with securitisations carried out by Group companies that do not meet the requirements under IAS 39 for classification as hedging derivatives, as well as the gains and losses arising from differentials on the derivatives.

## Section 5 – Hedging gains (losses) – Item 90

### 5.1 Hedging gains (losses): breakdown

This table shows the income generated by the valuation of the derivatives hedging the fair value of financial assets and the corresponding charge resulting from the valuation of the hedged assets.

| P&L item/Values | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| **A. Gains on** | | |
| A.1 Fair value hedges | 1,905 | 10,446 |
| A.2 Hedged asset items (fair value) | 6,524 | 2,076 |
| A.3 Hedged liability items (fair value)) | | |
| A.4 Cash-flow hedging derivatives | | |
| A.5 Foreign currency assets and liabilities | | |
| **Total income from hedging activity (A)** | **8,429** | **12,522** |
| **B. Losses on:** | | |
| B.1 Fair value hedges | (6,171) | (65) |
| B.2 Hedged asset items (fair value) | (1,412) | (11,858) |
| B.3 Hedged liabilities items (fair value) | | |
| B.4 Cash-flow hedging derivatives | | |
| B.5 Foreign currency assets and liabilities | | |
| **Total charges from hedging activity (B)** | **(7,583)** | **(11,923)** |
| **C. Net hedging activity (A-B)** | **846** | **599** |
| of which: net gains (losses) of hedge accounting on net positions | | |

## Section 6 - Gains (losses) on disposal or repurchase - Item 100

### 6.1 Gains (losses) on disposal or repurchase: breakdown

| Items / Income | Total 12/31/2018 | | | Total 12/31/2017 | | |
|---|---|---|---|---|---|---|
| | Gain | Losses | Net profit | Gain | Losses | Net profit |
| **A. Financial assets** | | | | | | |
| 1. Financial assets at amortised cost | | (71) | (71) | 32,312 | (973) | 31,339 |
| 1.1 Loans to banks | | | | | | |
| 1.2 Loans and customers | | (71) | (71) | 32,312 | (973) | 31,339 |
| 2. Financial assets at fair value through other comprehensive income | | | | | | |
| 2.1 Debt securities | | | | | | |
| 2.2 Loans | | | | | | |
| **Total assets (A)** | | **(71)** | **(71)** | **32,312** | **(973)** | **31,339** |
| **B. Financial liabilities at amortised cost** | | | | | | |
| 1. Deposits from banks | | | | | | |
| 2. Deposits from customers | | | | | | |
| 3. Debt securities in issue | | | | | | |
| **Total liabilities (B)** | | | | | | |

## Section 7 – Net result on other financial assets and liabilities measured at fair value through profit and loss – Item 110

The Group does not hold any financial assets or liabilities designated at fair value.

## Section 8 – Net losses/recoveries for credit risk – Item 130

### 8.1 Net adjustments for credit risk associated with financial assets measured at amortised cost: breakdown

| Operazioni/Componenti reddituali | Write-downs (1) | | | Write - backs (2) | | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|---|---|---|---|---|
| | Stage 1 and Stage 2 | Stage 3 | | Stage 1 and Stage 2 | Stage 3 | | |
| | | Write-off | Others | | | | |
| A. Loans to banks | | | | | | | |
| - Loans | | | | | | | |
| - Debt securities | | | | | | | |
| of which: acquired or originated impaired loans | | | | | | | |
| B. Loans to customers | (45,308) | (1,910) | (57,093) | 34,252 | 32,356 | (37,704) | (49,377) |
| - Loans | (45,308) | (1,910) | (57,093) | 34,252 | 32,356 | (37,704) | (49,377) |
| - Debt securities | | | | | | | |
| of which: acquired or originated impaired loans | (15) | | (382) | 47 | 442 | 91 | |
| **Total** | **(45,308)** | **(1,910)** | **(57,093)** | **34,252** | **32,356** | **(37,704)** | **(49,377)** |

### 8.2 Net adjustments for credit risk associated with financial assets measured at fair value through comprehensive income: breakdown

The Group does not have any financial assets at fair value through comprehensive income.

## Section 9 – Gains/losses on contractual changes without cancellations – Item 140

The Group has not made any profits/incurred any losses from contractual changes without cancellations.

## Section 10 – Net premiums – Item 160

The Group does not include insurance companies.

## Section 11 – Net other insurance income/expense – Item 170

The Group does not include insurance companies.

## Section 12 – Administrative expenses – Item 190

### 12.1 Payroll: breakdown

Payroll amounts to Euro 60,026 thousand (Euro 56,377 thousand at 31 December 2017) and is split as follows:

| Type of expense/Amounts | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| **1) Employees** | **57,012** | **53,856** |
| a) wages and salaries | 40,655 | 38,665 |
| b) social security contributions | 11,106 | 10,480 |
| c) Severance pay | 362 | 317 |
| d) Social security costs | | |
| e) allocation to employee severance pay provision | 62 | |
| f) provision for retirements and similar provisions | | |
| - defined contribution | | |
| - defined benefit | | |
| g) payments to external pension funds | 2,551 | 2,340 |
| - defined contribution | 2,551 | 2,340 |
| - defined benefit | | |
| h) Expenses resulting from share based payments | | |
| i) other employee benefits | 2,276 | 1,992 |
| **2) Other staffs in activity** | **2,323** | **1,844** |
| **3) Managers and statutory auditors** | **691** | **677** |
| **4) Early retirement costs** | | |
| **Total** | **60,026** | **56,377** |

“Social security charges” include pension costs incurred by the Group in 2018.

The “provision for employee termination indemnities” shows the amount calculated in accordance with actuarial estimates.

### 12.2 Average number of employees by category

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| **Employees:** | | |
| a) Senior managers | 22 | 23 |
| b) Managers | 216 | 202 |
| *of which 3rd and 4th level* | *70* | *68* |
| c) Remaining employees staff | 570 | 558 |
| **Total** | **808** | **783** |
| **Other personnel** | **50** | **38** |

### 12.3 Post-retirement defined benefit plans: costs and revenues

The Group has not allocated post-retirement defined benefit plans.

### 12.4 Other personnel benefits

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Ancillary staff expenses (contributions to rent and health insurance, luncheon vouchers and other minor benefits) | 1,744 | 2,519 |
| Additional company contribution to the pension fund | 481 | 505 |
| Incentive plan reserved for managers and middle managers | 4 | 5 |
| Cost of allocation of share by the parent company to employees | | |
| **Totale** | **2,230** | **3,029** |

### 12.5 Other administrative expenses: breakdown

Other administrative expenses amount to Euro 93,876 thousand (Euro 93,512 thousand at 31 December 2017) and are made up as follows:

| Type of service/Amounts | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| Indirect taxes and duties | 9,761 | 8,550 |
| Telephone, broadcasting and postal | 3,927 | 4,900 |
| Maintenance, cleaning and waste disposal | 1,094 | 2,236 |
| Property lease, removals and condominium expenses | 4,478 | 4,275 |
| Professional fees and corporate expenses | 17,560 | 15,623 |
| Travel and accomodation | 4,478 | 4,489 |
| Stamp duty and flat-rate substitute tax | 5,014 | 4,715 |
| Insurance charges | 109 | 119 |
| Forms, stationery and consumables | 378 | 372 |
| Supplies, licences EDP consulting and maintenance | 10,797 | 10,780 |
| Debt recovery charges | 12,869 | 12,473 |
| Legal fees | 4,035 | 4,521 |
| Advertising, promotion and representation | 2,262 | 2,548 |
| Commercial information and searches | 3,960 | 5,098 |
| Other expenses | 12,610 | 12,812 |
| **Total** | **93,876** | **93,512** |

## Section 13 – Net provisions for risks and charges – Item 200

### 13.1 Net provisions for credit risk on commitments to disburse funds and financial guarantees given: breakdown

| | Additions | Uses | Net provision 12/31/2018 | Net provision 12/31/2017 |
|---|---|---|---|---|
| Net provision on commitment and financial guaranties | (65) | 15 | (50) | 0 |

### 13.2 Net provisions relating to other commitments and other guarantees given: breakdown

| | Additions | Uses | Net provision 12/31/2018 | Net provision 12/31/2017 |
|---|---|---|---|---|
| Net provision on others commitment and financial guaranties | | | | |

### 13.3 Net provisions for other risks and charges: breakdown

| | Additions | Uses | Net provision 12/31/2018 | Net provision 12/31/2017 |
|---|---|---|---|---|
| Net personnel expense provision | | | | |
| Net provision for legal disputes | (3,759) | 2,866 | (893) | (2,487) |
| Other provisions | (9,609) | 800 | (8,809) | (15,487) |
| **Totale** | **(13,368)** | **3,666** | **(9,702)** | **(17,975)** |

For further information, please refer to Part E- Operational Risk.

## Section 14 – Net adjustments to/recoveries on property and equipment – Item 210

### 14.1 Net adjustments to/recoveries on property and equipment: breakdown

Net adjustments to property and equipment amount to Euro 1,121 thousand and refer to the depreciation of the Group's fixed assets.

| Asset/Income | Depriciation (a) | Impairment losses (b) | Write-backs (c) | Net result (a + b - c) |
|---|---|---|---|---|
| A. Property and equipment | | | | |
| A.1 Owned | (1,119) | (1) | | (1,121) |
| - Used in the business | (1,119) | (1) | | (1,121) |
| - Held for investment | | | | |
| - Inventories | X | | | |
| A.2 Held under finance lease | | | | |
| - Used in the business | | | | |
| - Held for investment | | | | |
| **Total** | **(1,119)** | **(1)** | | **(1,121)** |

## Section 15 – Net adjustments to/recoveries on intangible assets – Item 220

### 15.1 Net adjustments to intangible assets: breakdown

Net adjustments to intangible assets amount to Euro 4,935 thousand and relate to the amortisation of the year, as shown in the following table:

| Asset/Income | Depreciation (a) | Impairment losses (b) | Write-backs (c) | Net risult (a + b - c) |
|---|---|---|---|---|
| A. Intangible assets | | | | |
| A.1 Owned | (4,935) | | | (4,935) |
| - Generated internally by the company | | | | |
| - Other | (4,935) | | | (4,935) |
| A.2 Held under finance leases | | | | |
| **Total** | **(4,935)** | | | **(4,935)** |

## Section 16 – Other operating expenses/income – Item 230

### 16.1 Other operating expenses: breakdown

Other operating expenses amount to Euro 31,422 thousand (Euro 31,671 thousand at 31 December 2017) and are divided as follows:

| | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| Amortization on improvements (not separable) on real estates owned by the Group | | |
| Rebates and discounts | 52 | 49 |
| Losses on disposal | 165 | |
| Miscellaneous expenses | 1,270 | 9,470 |
| Expenses related to leasing activities | 23,860 | 19,361 |
| Other expenses | 6,075 | 2,790 |
| **Total** | **31,422** | **31,671** |

### 16.2 Other operating income: breakdown

Other operating income amounts to Euro 48,508 thousand (Euro 46,810 thousand at 31 December 2017) and can be broken down as follows:

| | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| Recovery of taxes | 8,922 | 7,513 |
| Other income for services rendered to Group companies | | |
| Recovery of lease instalments | 82 | 66 |
| Recovery of other expenses | 990 | 1,041 |
| Recovery of preliminary expenses | 10,703 | 10,992 |
| Rebates and discounts received | 3 | 3 |
| Insurance reimbursements | 8 | 11 |
| Gains on disposal | 347 | 74 |
| Income related to leasing transactions | 26,525 | 26,135 |
| Revenues from operating leases - rentals | | |
| Other income | 928 | 976 |
| **Total** | **48,508** | **46,810** |

## Section 17 – Profit (loss) from equity investments – Item 250

The Group does not hold any equity investments other than those that fall within the consolidation scope.

## Section 18 - Net gains (losses) arising on fair value measurement of property and equipment and intangible assets – Item 260

The Group’s property and equipment and intangible assets have not been measured at fair value.

## Section 19 – Adjustments to goodwill – Item 270

The Group has not recognised any goodwill.

## Section 20 – Gains (losses) on disposal of investments – Item 280

The Group has not recorded gains or losses on disposal of investments.

## Section 21 – Income tax for the year on current operations – Item 300

### 21.1 Income taxes for the year on continuing operations: breakdown

The item "Income tax for the year" shows a balance of Euro (59,580) thousand (Euro (55,217) thousand at 31 December 2017) and represents the provision made during the year in accordance with current tax law. It is made up as follows:

| Income components/Sectors | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| 1. Current tax expense (-) | (58,610) | (45,486) |
| 2. Change of current taxes of previous years (+/-) | (123) | (192) |
| 3. Reduction in current tax for the period (+) | | 177 |
| 3. bis Reduction of current taxes for the year due tax credit under Law 214/2011 | | |
| 4. Change of deferred tax assets (+/-) | (1,252) | (9,716) |
| 5. Change of deferred tax liabilities (+/-) | 405 | |
| **6. Tax expenses for the year (-) (-1+/-2+3+3bis+/-4+/-5)** | **(59,580)** | **(55,217)** |

### 21.2 Reconciliation between the theoretical and effective tax charge

The following table shows the effects on current taxes recognised in the financial statements arising from the presence of permanent differences that increase taxable income with respect to the operating profit, thereby aggravating the tax burden.

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Profit (loss) from continuing operations before tax | 176,753 | 170,246 |
| Profit before tax on discontinuing operations | | |
| **Theoretical taxable income** | **176.753** | **170,246** |
| IRES - Theoretical tax charge | (15,827) | (17,401) |
| - effect of income and expenses that do not contribute to the tax base | 1,431 | 5,295 |
| - effect of expenses that are wholly or partially non-deductible | 2,153 | (215) |
| - differences due to the scope of consolidation | 29 | |
| **IRES - Effective tax burden** | **(12,213)** | **(12,320)** |
| IRAP - Theoretical tax charge | (3,211) | (3,525) |
| - portion of non-deductible administrative expenses, depreciation and amortisation | (256) | (256) |
| - portion of non-deductible interest expense | 1,457 | 1,814 |
| - effect of income and expenses that do not contribute to the tax base | (1,017) | (2,803) |
| - effect of expenses that are wholly or partially non-deductible | 94 | |
| - differences due to the scope of consolidation | **(2,935)** | **(4,770)** |
| **IRAP - Effective tax burden** | **(15,148)** | **(36,538)** |

The effects of temporary changes that increase/decrease taxable income, recognised in the accounts as part of deferred tax assets/liabilities, are reflected in the reconciliation.

## Section 22 – Profit (loss) after tax on discontinued operations – Item 320

The Group has not recognised any gains or losses on disposal groups classified as held for sale.

## Section 23 – Net profit (loss) pertaining to minority interests – Item 340

### 23.1 Analysis of item 340 "Net profit (loss) pertaining to minority interests"

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| **Investments in consolidated companies with significant minority interests** | | |
| 1. PSA Italia spa | 18,381 | 17,381 |
| 2. PSA Renting Italia S.p.A. | 468 | |
| 3. Santander Consumer Finance Media S.r.l. in liquidation | | (41) |
| **Other investments** | | |
| **Total** | **18,849** | **17,339** |

The result attributable to minority interests amounts to Euro 18,849 thousand and relates to the profit attributable to Banque PSA arising from its 50% interest in Banca PSA Italia, equal to Euro 18,381 thousand, and 50% in PSA Renting, equal to Euro 468 thousand.

## Section 24 – Other information

No further information has to be given in addition to what has already been provided in the previous sections.

## Section 25 – Earnings per share

### 25.1 Average number of ordinary shares (fully diluted)

| | Number | Days | Weighted number |
|---|---|---|---|
| Opening balance | 573,000 | | 573,000 |
| Issue of new shares | | | |
| **Total** | | | **573,000** |

With reference to IAS 33, note that the weighted average number of ordinary shares used in the calculation of basic earnings per share is the same as the average number of shares based on fully diluted capital.

## 25.2 Other information

| | |
|---|---|
| Profit (loss) for the year | 117,173 |
| **Basic earnings per share** | **0.18** |

| | |
|---|---|
| Profit (loss) for the period pertaining to the Parent Company | 98,325 |
| **Basic earnings per share** | **0.17** |

Basic EPS is the same as diluted EPS as there are no instruments outstanding that could potentially dilute basic EPS in the future.

# Part D – Consolidated comprehensive income

## Statement of consolidated comprehensive income

| | Items | 12/31/2018 | 12/31/2017 |
|---|---|---|---|
| **10.** | **Net Profit (Loss) for the year** | **117,173** | **108,766** |
| | **Other comprehensive income after tax not to be recycled to income statement** | | |
| **20.** | Equity instruments designated at fair value through other comprehensive income: | | |
| | a) changes in fair value | | |
| | b) transfers to other components of equity | | |
| **30.** | Financial liabilities designated at fair value through profit or loss (own creditworthiness changes): | | |
| | a) changes in fair value | | |
| | b) transfers to other components of equity | | |
| **40.** | Hedge accounting of equity instruments measured at fair value through other comprehensive income: | | |
| | a) change in fair value (hedged instrument) | | |
| | b) change in fair value (hedging instrument) | | |
| **50.** | Property, plant and equipment | | |
| **60.** | Intangible assets | | |
| **70.** | Defined benefit plans | 173 | (43) |
| **80** | Non current assets classified as held for sale | | |
| **90.** | Valuation reserves from investments accounted for using the equity method | | |
| **100.** | Tax expenses (income) relating to items not reclassified to profit or loss | (18) | 12 |
| | **Other comprehensive income after tax to be recycled to income statement** | | |
| **110.** | Hedge of foreign investments: | | |
| | a) changes in fair value | | |
| | b) reclassification through profit or loss | | |
| | c) other variations | | |
| **120.** | Exchange differrences: | | |
| | a) value change | | |
| | b) reclassification through profit or loss | | |
| | c) other variations | | |
| **130.** | Cash flow hedges: | | |
| | a) changes in fair value | | |
| | b) reclassification through profit or loss | | |
| | c) other variations | | |
| | of which: result of net positions | | |
| **140.** | Hedging instruments: | | |
| | a) changes in fair value | | |
| | b) reclassification through profit or loss | | |
| | c) other variations | | |
| **150.** | Financial assets (different from equity instruments) at fair value through other comprehensive income: | | 440 |
| | a) changes in fair value | | 509 |
| | b) reclassifications trough profit or loss | | (69) |
| | - adjustments to credit risk | | |
| | - gains / losses on disposals | | (69) |
| | c) other changes | | |
| **160.** | Non current assets classified as held for sale: | | |
| | a) changes in fair value | | |
| | b) reclassification through profit or loss | | |
| | c) other variations | | |
| **170.** | Part of valutation reserves from investments accounted for using the equity method; | | |
| | a) changes in fair value | | |
| | b) reclassifications trough profit or loss | | |
| | - impairment losses | | |
| | - gains / losses on disposal | | |
| | c) other variations | | |
| **180.** | Income taxes relating to other income components with reversal to the income statement | | (145) |
| **190.** | **Total of other comprehensive income after tax** | **155** | **263** |
| **200.** | **Other comprehensive income (Items 10+190)** | **117,328** | **109,029** |
| **210.** | Minority consolidated other comprehensive income | 18,908 | 17,452 |
| **220.** | **Parent Company's consolidated other comprehensive income** | **98,420** | **91,576** |

# Part E – Information on risks and related hedging policies

## Introduction

Santander Consumer Bank Group (the Group) places great importance on the management and control of risks as a means of ensuring reliable and sustainable value creation in a context of controlled risk.

The risk management strategy for all companies falling within the scope of control focuses on a complete and consistent overview of risks. It takes account of the macro-economic scenario and risk profile, stimulating the growth of the risk culture and encouraging a transparent and accurate presentation of the risks associated with the portfolios held.

The policies that guide the assumption and management of risks are approved by the respective Boards of Directors (BoD), while the Board of Directors of the parent SCB, in addition to the Risk Appetite Framework (RAF) thresholds specified by the Parent Company, approves the thresholds relative to capital metrics. The BoD of the Parent SCB is supported in the carrying out of its functions by the specialist committees established, which include the board Risk Committee. In addition to these, managerial committees have been established. These include the Executive Risk Committee, the Chairman of which is the Chief Executive Officer (CEO) and the permanent members the Chief Risk Officer (CRO), the Director of Administration and Control and the Director of Finance.

The organisational structure adopted by the subsidiaries allows adequate coordination of activities at Group level and effective risk management in all key areas, starting with the definition of tools for the analysis and measurement of risks (in collaboration with the Spanish parent company's methodology functions) and the definition of policies and strategies for the acceptance and control of existing risks, ensuring a correct balance between long term strategic objectives and short-term earnings objectives. In addition, the presence within the subsidiaries of a hierarchical line of reporting to the Board of Directors (BoD) guarantees the independence of the function.

The risk appetite of the parent SCB and, more generally, of the Group, is shown in the RAF, a strategically important tool, organised and structured to present to the governance bodies the main risks to which a company is exposed and the level of such risks that it is willing to assume under normal and stressed conditions. The document outlines and thus applies the Target Risk framework defined for the Bank and for the Group (for the latter only as regards capital metrics).

The overall risk profile stems from the general principles defined by the risk policies and consists of a structure of limits suitable to ensure that, even under stressed conditions, minimum levels of solvency, liquidity and earnings are met.

The general principles that guide the risk assumption strategy are based on the optimisation and protection of financial results, by pursuing revenue generation without affecting the achievement of adequate levels of capitalisation and a conscious assumption of risks and measurement thereof.

In summary, the expectations are:

- keeping expected profitability within the parameters laid down;
- prudent management of risk through the continuous monitoring of the portfolios managed;
- management of funding aimed at increasing the diversification of funding sources;
- control/optimisation of operating costs, to be implemented by means of more stringent monitoring of the planning/assessment/authorisation process and by streamlining business processes;
- achievement of levels of capitalisation in line with current regulations and with constraints imposed by the Supervisory Authority, as well as with the objectives agreed with the Spanish parent company;
- development and updating of professional skills in the light of continuous changes in regulations, in the increasingly competitive market context and in the strategies of the Santander Group.

The risk appetite of the parent SCB and the subsidiaries is based on the following requisites and features:

- it reflects an aggregated view and applies to all business units (functional areas);
- it considers the main types of risk that impact the group's business development;
- it takes a prospective view of the group's risk profile in certain circumstances, with the use of stress tests and scenario analysis;
- it is not static and adapts to the changing business environment;
- it combines quantitative and qualitative standards;
- it is concise and easy to communicate to Senior Management and external stakeholders;
- it enables a structured comparison of risk profile against risk appetite;

- it is connected to the overall corporate strategy and to other instruments or business processes that help with planning, evaluating and monitoring risks, including those aimed at defining the budget, liquidity/financing and capital;
- it is integrated with risk management of the Bank's ordinary activities, given that it was designed to take account of existing policies and limits.

**Risk culture**

The Group gives utmost attention to the transmission and sharing of a risk culture, by means of regular updates to relevant documents and by initiatives implemented to address specific issues as they arise. In this regard, the parent SCB began in 2017, and continued in 2018, a programme for the development of Advanced Risk Management (ARM), with the support of the Spanish parent company, aimed at spreading awareness of the risks to which the Bank is exposed, the conduct required to mitigate them and finally the instruments necessary to monitor them. The measures, which are spread over various areas and have impacts across the entire bank, have seen the involvement of both Top Management and other areas of the Bank.

As a result of the programme being carried out, significant improvements have been made both in terms of processes and the checks performed. Following the programme has become an integral part of the objectives assigned to Top Management. The subsidiaries began the same process at the same time, using an approach based on the principle of proportionality. In this sense, the utmost attention is paid to the updating, transmission and sharing of periodical updates to the documents prepared (such as Tableau de Bord, ICAAP, Risk Appetite Framework, Risk Assessment, Internal Control System), as well as to the extensive training aimed at the correct application of internal and external models designed to prevent, mitigate and monitor risks in an effective manner. The risk management approach adopted is orientated towards an increasingly integrated and consistent management of risks, by taking account of the macro-economic scenario and the Group's risk profile, by stimulating a growing risk culture by means of an extensive and transparent presentation of the risks associated with portfolios.

**Organisation and risk governance**

The organisational standards applied to ensure that the Group has an effective risk governance system are aimed at:

- ensuring the separation of operational functions from control functions;
- ensuring the identification, measurement and monitoring of risks inherent, or that may be assumed, in the various operational areas;
- guaranteeing that any anomalies, which result from checks performed by the monitoring functions, are rapidly brought to the attention of the appropriate level of management, dealt with promptly and recorded for subsequent checks.

To this end, the risk management and governance process adopted within the Group is based on an organisational structure that ensures there is an internal control system that operates on three levels, in line with banking supervisory regulations, consisting of:

- line controls (first-level controls): these are performed by the operating units to verify that the processes and tasks within its competence have been carried out in accordance with internal procedures. Where possible, these types of controls are incorporated in automated IT procedures;
- risk management controls (second-level controls): these are performed by the Risk Control Unit to ensure the correct functioning of the risk management process by means of the measurement and assessment of the level of risks assumed as well as compliance with any limits assigned to operational areas;
- compliance controls (second-level controls): these are performed by Compliance and AML and Customer Protection, which verify compliance with internal and external regulations applicable to the Bank;
- internal audit controls (third-level controls): these are carried out by the Internal Audit department, which has the task of verifying the ordered performance of processes (management/production, business/commercial, support/functional) and their compliance with corporate standards, the substantial correctness of the conduct of operations and the suitability, from the standpoint of its framework and rules governing how it should function, of the internal control system and the adequacy and effectiveness of the monitoring systems, in relation to the various types of risk.

Every unit of the Group has adopted an organisational structure in accordance with the principles listed. To support the structures adopted, the internal inter-departmental committees put in place, in each component of the group, have carried out the support and advice activities provided for by the respective local regulations.

**Main Risks**

The Group's risk profile is defined through the risk assessment carried out in accordance with the methodologies shared and issued by the Spanish parent and shared also by the Cooperation, Risk Identification Assessment (RIA). The assessment sees the direct involvement of the first line of defence and the supervision and support of the second line of defence, and is carried out at the beginning of the year and updated in the second half. Specifically, the updating carried out in the second part of the year is aimed at verifying the improvements achieved as a result of the implementation of the remedial actions identified during the first assessment. Through the RIA methodology, the Bank's risk profile is identified and assessed and a specific score is given, taking into account:

- the current level of risk;
- the current environmental risk;
- exposure to potential specific risks.

The method also makes it possible to:

- identify possible "emerging risks" to enable the effective management and mitigation of risks;
- obtain a quantitative representation of the risks assumed at the date of the analysis, on the basis of current activities in the companies that make up the Group and the development strategies put in place.

The result of the exercise performed confirmed the overall risk profile of the Group and the individual companies to be "low-medium".

## Section 1 – Accounting consolidation risks

## Quantitative information

## A. Credit quality

### A.1 Impaired and unimpaired loans: amounts, adjustments, trends and economic distribution

#### A.1.1 Distribution of financial assets by portfolio and credit quality (book values)

| Portfolios/quality | | Non-performing loans | Unlikely to pay | Non-performing past due exposures | Performing past due exposures | Performing exposures | Total |
|---|---|---|---|---|---|---|---|
| 1. Financial assets at amortised cost | | 10,051 | 30,741 | 31,281 | 94,444 | 9,003,729 | 9,170,246 |
| 2. Financial assets at fair value through other comprehensive income | | | | | | | |
| 3. Financial assets designated to fair value | | | | | | | |
| 4. Other financial assets mandatorily valuated to fair value | | | | | | | |
| 5. Financial instruments classified as held for sale | | | | | | | |
| **Total** | **12/31/2018** | **10,051** | **30,741** | **31,281** | **94,444** | **9,003,729** | **9,170,246** |

The only portfolio that has impaired assets consists of loans to customers. The amount of doubtful, unlikely-to-pay and past due loans corresponds to what was communicated to the Bank of Italy in the ordinary supervisory reports.

For details on the credit quality relating to the exposures subject to forbearance included in the portfolio of financial assets measured at amortised cost, see table A.1.5. below.

A.1.2 Distribution of credit exposure by portfolio and credit quality (gross and net values)

| Portfolio/quality | | Non-Performing Assets | | | | Performing Assets | | | Total (net exposition) |
|---|---|---|---|---|---|---|---|---|---|
| | | Gross exposure | Specific writedowns | Net exposure | Overall partial write-off* | Gross exposure | Specific writedowns | Net exposure | |
| 1.Financial assets at amortised cost | | 294,104 | 222,032 | 72,072 | | 9,174,358 | 76,184 | 9,098,174 | 9,170,246 |
| 2. Financial assets at fair value through other comprehensive income | | | | | | | | | |
| 3. Financial assets designated to fair value | | | | | | X | X | | |
| 4. Other financial assets mandatorily at fair value | | | | | | X | X | | |
| 5. Financial assets classified as held for sale | | | | | | | | | |
| **Total** | **12/31/2018** | **294,104** | **222,032** | **72,072** | | **9,174,358** | **76,184** | **9,098,174** | **9,170,246** |

| Portfolio/quality | | Low credit quality assets | | Other assets |
|---|---|---|---|---|
| | | Cumulated losses | Net exposure | Net exposure |
| 1. Financial assets held for trading | | | | 4,526 |
| 2. Hedging Derivatives | | | | |
| **Total** | **12/31/2018** | | | **4,526** |

## B. Information on structured entities (other than special purpose entities created for securitisations)

The Group does not have any positions with structured entities.

# Section 2 – Prudential consolidation risks

## 1.1 Credit risk

## Qualitative information

### 1. General aspects

In view of its operational activities, credit risk is the main type of risk to which the Group is exposed. This is the risk associated with the probability that a borrower may be unable to meet its contractual obligations, thus exposing the company to possible future losses, or that it may experience a deterioration in creditworthiness that could compromise its future ability to fulfil its obligations.

The Group's operations in Italy are mainly focused on retail customers, where the risk in question is highly differentiated and fragmented. Specifically, the following distinction can be made:

- Retail customers, who are offered instalment loans in the form of a personal loan or special-purpose loan for the purchase of goods and services, vehicles, new and used, including in the form of finance leases belonging to manufacturers with which specific collaboration agreements are held or belonging to other manufacturers, with the sale of any connected services (maintenance, insurance etc.). Through the PSA network, these customers may also be offered rental products distributed by PSA Renting.
- Wholesale customers: comprising a) car dealers (new or used); b) spare parts distributors; and c) authorised workshops. In this case, wholesale financing includes the granting of short and medium-term credit lines to dealers of cars of the brands that fall within agreements, to spare parts distributors, or to authorised workshops. Financing may be granted for stocks of new cars, demonstration cars, used cars and spare parts.

The distribution structures used reflect the business model adopted and are consistent with the business objectives of each unit forming part of the Group. These structures are described in detail in the individually prepared reports on operations.

In view of this, the Group strategies, which are based on sound and prudent management, are aimed at:

- coordinating the actions necessary to achieve the objectives of sustainable growth in the Bank's lending activities in line with the risk appetite objectives approved by the Board of Directors;
- portfolio diversification, with particular reference to wholesale products, limiting the concentration of exposures to individual counterparties and/or groups, sectors of economic activity, geographical area and risk classification;
- compliance with internally established rules for the assumption of risks;
- effective counterparty selection based on a thorough analysis of creditworthiness aimed at minimising the risk of insolvency;
- continuous monitoring of the managed portfolios in order to identify any sign of imbalance in a timely manner and initiate the necessary corrective actions aimed at preventing the possible deterioration of positions.

## 2. Credit risk management policies

### 2.1 Organisational aspects

The structures dedicated to the management of risk within the Group are the Risk Departments set up within the individual units. Through the structures provided locally, these departments ensure effective risk management in all key areas, starting with the definition of tools for the analysis and measurement of risks (in collaboration with the Spanish Parent Company's methodology functions) and the definition of policies and strategies for the acceptance and control of existing risks, ensuring a correct balance between long-term strategic objectives and short-term earnings objectives.

Credit risk in particular is the main type of risk to which the Group is physiologically exposed.

Lending activities are therefore organised according to a model aimed at ensuring the clear separation between disbursement responsibilities and those of risk management and control, in order to avoid possible conflicts of interest; including between the functions responsible for the analysis stage and the commercial functions. The various functions are also given powers to grant loans according to graduated criteria, scaled according to the different responsibility levels along the hierarchical line.

Furthermore, the structures adopted are based on a clear separation between the functions that perform first-level line controls, and those responsible for second and third-level controls. The Risk Management function is responsible for the second-level checks.

To ensure the independence of the Risk Management function, within the Parent Company SCB the Risk Director performs the role of CRO, is responsible for second-level risk controls and is a member of the Board of Directors, while within the subsidiaries the Head of Risk Management reports directly to the Board of Directors.

The organisational structures adopted within each unit of the Group are consistent with regulatory requirements and described in detail in the respective information documents. In accordance with regulatory requirements, the Parent Company SCB carries out oversight activities.

### 2.2 Systems for managing, measuring and monitoring risk

The Risk functions identified both within the Parent Company SCB and the individual units look after the credit risk management process, from the approval of policies, to the identification, measurement, control and management, where applicable, of risks. The Risk Control Unit operating in each company collaborates with the definition and implementation of the Risk Appetite Statement (RAS) and measures and monitors the various business risks. The areas that assume risks and senior management are involved in the risk management process. In addition, in close collaboration with the units that assume the risks, it relates these activities to business development by identifying new opportunities and business plans, budgets and the optimisation of risk-adjusted profitability, by performing analyses and management of the loan portfolios in a way that makes it possible to align business development to the desired risk profile and, where applicable, to mitigate the risk and handle debt collection case by case. As regards the RAS, and in line with the business model of each unit, specific concentration indicators are also monitored both with respect to counterparties classified as "high risk" or with a below threshold rating, and major commercial agreements managed.

Within the Santander Consumer Bank Group, the credit risk assumed by the Company's activity can essentially be split into two categories: standardised/retail customers and non-standardised/wholesale customers. Both involve the risk that the debtor may fail to meet its obligations in accordance with the terms of the agreement, but taking into account how customers differ, the units of the group use specific procedures within the main phases of development of the process, structured as follows:

- acceptance of a loan application;
- monitoring and reporting;
- credit collection.

The procedures adopted by each unit and described in detail in the specific reports reflect the organisational characteristics of the units themselves, as well as the specifications of the products distributed, yet always comply with the operational guidelines laid down within the group. Specifically, the Group's lending activities are organised according to a model aimed at ensuring the clear separation between disbursement responsibilities and those of risk management and control, in order to avoid possible conflicts of interest; including between the functions responsible for the analysis stage and the commercial functions. The various functions are also given powers to grant loans according to graduated criteria, scaled according to the different responsibility levels along the hierarchical line.

### 2.3 Methods for the measurement of expected losses

As from January 2018, the Group has adopted the new model for the classification of financial instruments and new rules for the calculation of impairment.

Financial assets can therefore be classified into three categories, two main and one residual:

- assets measured at amortised cost (HTC);
- assets measured at fair value through other comprehensive income (FVTOCI);
- assets measured at fair value through profit and loss (FVTPL)

Classification to the first and second category is performed by assessing the Bank's business model and the characteristics of the cash flows connected to it.

The first category will therefore include assets that possess the characteristics of a loan, with cash flows relating to the repayment of the nominal amount and of interest at fixed dates connected to a business model whose purpose is to hold the instrument for the entire duration of the loan in order to collect all the cash flows.

The second category on the other hand includes the instruments whose contractual flows are characterised exclusively by the payment of capital and interest. The business model that guides the holding of these instruments is referred to as "Hold to Collect and Sell", the objective being both to collect the contractual flows and to sell the asset.

The final category includes assets that cannot be classified in the first two. All assets, therefore, with a business model other than those above, in which the cash flows are secondary while the sale of the asset is the priority.

The Group, taking account of the products marketed and of its business model, places its portfolio in the first category, therefore classifying it as HTC.

For portfolios classified as HTC for which the SPPI test is passed, loans are initially recognised on the payout date, with reference to the fair value of the financial instrument concerned. This is represented by the amount paid out plus or minus the costs/revenues that are both directly attributable to the individual loans and identifiable at the start of the transaction, even if they are settled at a later time.

The new impairment model also requires the classification of loans into three different stages depending on the deterioration in the credit quality observed with respect to the initial recognition and which correspond to the different methods of calculation of the expected loss and interest:

- Stage 1: classified in this stage are loans defined as performing, i.e. loans that have not deteriorated since initial recognition. In this case, the expected loss for the calculation of corrections is measured over a 12-month time period (12-month PD), while interest is calculated on the gross exposure.
- Stage 2: comprises loans that have undergone a significant qualitative worsening compared to initial recognition (more than 30 days past due). For these loans, expected loss is calculated over the lifetime of the loan (lifetime PD), and interest is calculated on the basis of the gross exposure.
- Stage 3: includes impaired assets, i.e. that have objective evidence of deterioration (over 90 days past due). Included in this category are past due non-performing, unlikely to pay and doubtful. In this case a lifetime PD is calculated, while interest is calculated on the basis of the receivable net of impairment.

The tool developed for the application of the principles described was developed directly by the Spanish Parent Company for the group units. The local application of the parameters was subsequently adapted to local situations so as to correctly take into consideration the specifications of the products distributed. These adaptations were validated by the independent Validation function within the Spanish Parent Company. The forward looking components adopted are instead provided directly by the Parent Company and adopted locally.

The model applied for the calculation of the Probability of Default (PD) can be outlined with the following steps:

- Segmentation of the portfolio:
    - Retail portfolios: grouped on the basis of qualitative criteria (e.g. forbearance measures applied, cure period, etc.).
    - Wholesale portfolio: in which positions are grouped by rating.

- Definition of the Remaining Times On Book (RTOB) variable: this information/variable is used for the calculation of the Lifetime PD and for the segmentation of the portfolio. The materiality threshold is defined as 95% of the total.
- Methods applied:
  - 12-Month Probability of Default: calculation of the probability of a loan defaulting in the next 12 months. 12-month PD is applied to Stage 1.
  - Lifetime Probability of Default: calculation of the probability of a loan defaulting in the remaining lifetime. Lifetime PD is applied to Stage 2.
  - Non-performing: the PD applied to Stage 3 is 100%.

The PD calculation applied is based on the probability of transition between LLR classes using the Markov transition matrices method.

As regards the calculation of the Loss Given Default (LGD), the following elements are taken into consideration:

- Maximum time in default (TID): the bank assesses the maximum time horizon within which a loan is managed by collection processes and defines the maximum time in default (TID) to be considered in the calculation of the LGD on the basis of collection progress for the entire duration of the default and its asset sale policy.
- Default Type: types of default (+90DPD, write-off) and their nature (reversible/irreversible).
- The tool used by the bank also estimates three components in order to reach the final calculation:
  - Cure Rate (CR): the percentage of loans that, after a default event, return to normal;
  - Recovery Rate (RR): based on recovery from "irreversible default" but starting from the date of the first relevant default (this may be a reversible default);
  - Expected Loss Best Estimate (ELBE): estimate of a Loss for a loan classified as in default.

Based on the elements calculated, the value of the specific LGD for each portfolio category is determined:

- LGD Non-Defaulted portfolio;
- LGD Reversible Defaulted portfolio;
- LGD Irreversible Defaulted portfolio.

The model used by the subsidiary PSA provides as follows:

Calculation of the Probability of Default (PD) can be summarised as follows:

- Segmentation of the portfolio: following the analysis performed on the bank's portfolio, the following classes have been identified:
  - Retail (New Car, Used Car, Lease);
  - Fleets;
  - Corporate;
  - Rental.
- 12-Month Probability of Default: Calculation of the probability of a loan defaulting in the next 12 months. 12-month PD is applied at Stage 1.
- Lifetime Probability of Default: Calculation of the probability of a loan defaulting in the remaining lifetime. Lifetime PD is applied at Stage 2.
- Non-performing: The PD applied to Stage 3 is 100%.

Calculation of the Loss Given Default (LGD) takes into account:

- the time horizon over which a loan is managed by collection;
- default type: types of default (+90DPD, write-off) and their nature (reversible/irreversible);
- Cure Rate (CR): the percentage of loans that, after a default event, return to normal;
- Recovery Rate (RR): based on recovery from "irreversible default" but starting from the date of the first relevant default (this may be a reversible default);
- Expected Loss Best Estimate (ELBE): estimate of the loss for a loan in default.

### 2.4 Credit risk mitigation techniques

All tools that help to reduce the loss that the Group would record as a result of the default of the counterparty in question fall within the scope of risk mitigation techniques. These include all guarantees, operational techniques and control processes developed by the Group.

The risk mitigation techniques used in portfolio management are also closely linked to the characteristics of the products themselves and can be classified as follows on the basis of the main products:

- consumer credit: co-obligation, guarantee, bill of exchange, mortgage, mandate to register a mortgage, insurance assignment. Note, however, that the provision covering the portfolio is extremely limited;
- stock finance: Diversion & Repossession Agreement, signed between the parent companies (captive agreements) and the Parent Company SCB at the time of signing the framework agreement; by contributions from dealers or personal guarantees (in the form of personal or bank securities and bonds) or securities, made up of money deposited with the lender as regards the subsidiary PSA and PSA Renting.
- salary assignment: as collateral for the loan falling into a category of product managed only by the Parent Company, specific life and unemployment insurance cover is provided, as well as, for private and parapublic companies, a restriction on the borrower's termination indemnity.

In general, therefore, within the credit granting process the presence of mitigating factors is favoured in the presence of counterparties with a rating not in line with the policies of the Bank, the choice of which varies depending on the product, the counterparty and the commitment assumed.

The internal processes of each unit, which govern the acquisition of individual guarantees, are documented by the individual units and show the rules, processes and structures for their internal management.

### 3. Non-performing exposures

Non-performing exposures are those that, as a result of the occurrence of events after their disbursement, exhibit a clear loss of value.

Based on the existing regulatory framework, impaired loans are classified, according to their criticality, into three main categories:

- "bad loans" (i.e. exposures to borrowers in a state of insolvency or in substantially comparable situations);
- "unlikely to pay" (i.e. positions in respect of which the Bank considers it unlikely that, without recourse to measures such as the enforcement of guarantees, the debtor will comply in full - in terms of capital and/or interest - with their contractual obligations);
- "overdrawn and/or past-due exposures" (i.e. exposures that are overdrawn and/or past-due by more than 90 days).

Forborne exposures on the other hand, regulated in Bank of Italy Circular No. 272, can be defined as loans for which the original contractual terms and conditions have been modified and/or partial or total refinancing of a debt in the event that the debtor faces financial difficulties that result in it being unable to meet its original contractual commitments. Such financial difficulties must be measured and evaluated by the individual bank on the basis of internal rules.

Forborne exposures may be:

- Forborne non performing: this category covers forborne exposures that are classified as bad loans, unlikely to pay or overdrawn past-due exposures;
- Forborne performing: this category cover forborne exposures that are performing.

Each unit of the Group has specific procedures and systems in place that enable it to ensure compliance with regulatory requirements.

The common approach applied when assessing positions is to take into consideration all available elements, internal and external to the group unit, in order to obtain and document a summary opinion, leaving to the competent second-level function the controls aimed at regularly ascertaining compliance with, and the effectiveness of, the procedures provided internally.

### 3.1 Management strategies and policies

Impaired loans are monitored within the framework of the Risk Target defined for the Group and approved by the Board of Directors for each unit. The parent company SCB uses:

- **Entity cost of credit**: Measures the creditworthiness of the portfolio and allows traceability with the strategic plan and budget, the risk policies and the contingency plan indicators. Expresses the net provisions incurred in the course of the year (last 12 months) as a percentage of the average loan portfolio. The figure recorded at the end of the year was positive with respect to the target set by the Board of Directors for 2018.
- **Arrears 1-60 DPD (%) (Auto New – Auto Used – Direct):** Measures the creditworthiness of the portfolio and allows traceability with the strategic plan and budget, the risk policies and the contingency plan indicators for the main products managed. The figures recorded on all the portfolios were in line with the objectives at around the target without exceeding the alert thresholds;
- **NPL Coverage Ratio:** Measures the level of coverage of non-performing loans in terms of reserves. Again in this case, the figure recorded at the end of the year was positive with respect to the target set by the Board of Directors.

The subsidiary PSA uses:

- **Cost of credit:** measures the creditworthiness of the portfolio and allows traceability with the budget, the risk policies and the contingency plan indicators. Expresses the net provisions incurred by the bank in the course of the year (last 12 months) as a percentage of the average loan portfolio. The figure recorded at the end of the year was positive with respect to the target set by the Board of Directors;
- **Arrears 1-60 DPD (%) (RETA + CORH - CORR)**: Measures the creditworthiness of the portfolio and allows traceability with the strategic plan and budget, the risk policies and the contingency plan indicators. Expresses the main portfolios with 1-60 days past due, as a percentage of the relative portfolio. 2018 closed with no records regarding the above-mentioned metrics.

The second-level functions of each unit are responsible for demonstrating and monitoring the above metrics. Upon completion of the monthly monitoring, each unit of the Group monitors, via the second-level control functions, the progress of the strategic plan approved by the Board of Directors and of the budget.

SCB is responsible for the strategic planning process at individual level and for the consolidation of Banca PSA Italia in the Group's wider planning plan. This planning process is a key element in the management of the Group; specifically, these activities make it possible to:

- establish and assign responsibility and objectives;
- ensure that the entire organisation operates with common goals, favouring a shared decision-making process;
- implement the decision-making process;
- anticipate corrective measures in the event of misalignment with respect to the planned objectives.

Strategic planning is a dynamic process, consisting of a series of procedures and activities aimed at continuously guiding the Group's management activities towards the achievement of its objectives, through ongoing analysis of the results achieved, in view of the changing reference conditions.

The main elements related to strategic planning are:

- estimation processes: budgeting, forecasting and three-year plan;
- interaction with other processes.

With particular reference to estimation processes, the strategic planning process is divided into two parts:

- preparation of the annual budget and infra-annual plans, during which the short/medium-term objectives and expectations are developed and defined;
- preparation of three-year plan, during which the long-term objectives are set and analysed.

The main objective of budgeting is to produce the year-end estimate for the financial year following the current one.

Budgeting is an in-depth estimation process that allows a full overview of amounts, such as the profitability of the new volumes for the year and the assets total.

It requires the involvement and coordination of managers and product business lines, the supervision of the function heads and final validation by the Chief Executive Officer and General Manager and the Management Committee. A special function is assumed by Risk Control which, by virtue of its role, produces the Bank's projection of impaired loans. This estimate is therefore the starting point for determining the provisions required and the level of coverage.

The forecasting process involves updating the budget assumptions, and aims to align the assumptions with the latest developments and consider the corrective measures against possible misalignments recognised with respect to the objectives set. These activities are usually carried out twice a year, in May/June and September/October, but can be carried out more frequently if requested by the Spanish parent company.

The three-year plan is a process of analysis and estimation of the expected results for the three years following the year in progress. These activities make it possible to:

- have a strategic vision for assessing corporate guidelines;
- analyse the prevailing trends and take corrective and/or improvement actions.

The process is broken down into steps similar to those carried out for the budget and the forecasts, although it may provide less certainty for years further from the observation period.

Regardless of the deadlines previously defined, a review is carried out each time that the external and/or internal conditions, which are at the basis of the strategies, change considerably, or when the differences between forecasts and actual figures are significant and may lead to alternative strategies to those in the plan.

The specific processes and control activities relate to the business model adopted by each unit and are illustrated in the individual Notes, to which reference is made.

### 3.2 Write-off

In accordance with current regulations, after initial recognition, Group loans are measured at amortised cost, corresponding to the initial cost less/plus principal repayments, net adjustments/recoveries and amortisation - calculated using the effective interest method - of the difference between the amount paid out and the amount repayable on maturity, which is generally attributable to the costs/income directly allocated to the individual loans.

The effective interest rate is the rate that equates the present value of future cash flows of loans, for principal and interest, to the amount granted, including costs/income attributable to the loan. This accounting method, using a financial logic, allows distribution of the economic effect of costs/income over the estimated residual life of the loan.

The Group units assess loans at the end of each accounting period in order to identify any objective evidence, arising from events subsequent to initial recognition, that their value may be impaired. Recognition and classification is performed in accordance with the new IFRS 9 impairment model.

The correction rate applied to loans depends on the classification within the various stages listed above and is estimated for homogeneous loan categories in terms of credit risk taking into account past experience, based on observable elements at the measurement date.

The financial instruments belonging to the HTC business model are entered in the financial statements net of the correction identified through the write-downs line item of the income statement. The original value is reinstated in subsequent periods, to the extent that the reasons for the adjustments made cease to apply, on condition that this assessment is objectively linked with events that took place subsequent to such adjustments. The write-back is recorded in the income statement.

In the case of financial instruments belonging to the HTC&S business model on the other hand, the reserve to cover losses is shown under other comprehensive income rather than as a reduction of the carrying amount of the financial asset in the statement of the financial position.

### 3.3 Purchased or originated credit-impaired financial assets

Apart from those situations where the impairment of the loans reduces their fair value to zero, loans are only eliminated from the balance sheet if their disposal leads to the transfer of substantially all of the risks and benefits associated with them.

This situation takes place in the case of a transfer without recourse with respect to non-performing loans, the economic effects of which are recorded in item 100 (gains/losses on disposal or repurchase of loans) in the income statement.

Conversely, if the risks and benefits relating to loans that have been sold are retained, these continue to be reported as assets in the balance sheet, even if legal ownership of the loans has been effectively transferred.

Cancellation also takes place following the expiry of the contractual rights or when the loan is considered permanently unrecoverable.

The model for the calculation of risk provisions provides a measurement of the impairment for homogeneous classes of risk on the basis of predictive parameters, the quantification of which is based on observations from past experience. Calculation of the provision for loan losses is performed monthly in accordance with rules that comply with corporate policies and the regulations in force at the time.

### 4. Financial assets subject to commercial renegotiation and forborne exposures

On the basis of the regulatory framework as supplemented by the implementing provisions, in order to comply with regulatory requirements in relation to the classification of Doubtful and Unlikely to Pay loans, the Bank has set itself the objective of establishing a support system for the assessment of positions that, after an initial segmentation, allows a subjective assessment to be performed on homogeneous portfolios in order to ensure that the assessments provided over time are reliable and consistent.
As regards forborne positions, relating to exposures subject to renegotiation and/or refinancing due to manifest difficulties (actual or potential), these are not handled separately but constitute a subset that is duly identified, classified and managed in the internal processes through the information systems with which the Bank is equipped.

For these positions, the management guidelines are based on the following principles:

- comprehensive customer management;
- assessment of the actual difficulties facing the customer (temporary or structural) to ensure proper management;
- continuation of existing guarantees;
- containment of customer debt exposure.

The classification of positions according to the IFRS 9 model provides for the following classification:

- Stage 1: all positions that do not come under stage 2 or 3.
- Stage 2: all positions that meet the following requirements:
  - Transactions arising from concession agreements with loans classified as refinancing or restructuring but not classified as non-performing.
  - Transactions arising from concession agreements with loans classified as refinancing or restructuring, reclassified from non-performing stage 3 to stage 2 as “under monitoring” (or Probation Period).
- Stage 3: all positions that meet the following requirements:
  - Transactions with a loan more than 90 days past due.
  - Transactions classified as non-performing, not because of days late but classified as being in the “Cure Period”.

For reporting purposes, in addition to that indicated previously, the Bank integrates the information at its disposal with the performance data from Credit Bureaux CRIF and the Bank of Italy Central Credit Bureau which includes, in addition to the information provided by the Bank, also the anomalies identified on the subject by other banks, as well as negative information (complaint files, detrimental action records). Such integration makes it possible to obtain a reliable overall assessment of customers’ ability to meet contractual obligations.

To meet these needs the Bank has developed a segmentation model based on a decision tree, which divides the portfolio into homogeneous groups depending on whether or not they meet certain conditions defined within the tree itself.

The internal processes that govern the operation of the decision tree are documented through internal policies that describe the rules, processes and structures for their internal management.

The positions, which are assigned a risk group by the decision tree, are subject to verification by dedicated internal analysts using a process that consists of several different steps, with the aim of making it comprehensive and reliable.

The approach applied in the valuation of positions is to take into consideration all available elements, internal and external to the Bank, in order to obtain and document a summary opinion. For this purpose, in the analysis notes entered in the system, a record is provided of the references used, the valuations made, and the opinion issued, such as to enable the reconstruction, including retrospectively, of the activity performed.

This valuation is carried out both on the occasion of their classification, and on the occurrence of significant events, and is in any case subject to periodical review. Considering then that the assessment activities carried out by analysts do not vary with the change in the overall exposure pertaining to each individual subject subjected to analysis, the Bank has identified specific corporate bodies responsible for approving the relative decisions.

The restoration of impaired exposures to performing status follows the guidelines of the Supervisory Board and takes place after verification that the circumstances that resulted in the impairment no longer exist. Through the Risk Control Unit, the CRO’s (Chief Risk Officer) area of governance carries out second-level control activities aimed at verifying the correct classification of positions and the possible creation/adjustment of provisioning.

## Quantitative information

## A. Credit quality

### A.1 Impaired and unimpaired loans: amounts, adjustments, trends and economic distribution

#### A.1.1 Prudential consolidation - Distribution of financial assets by past due time bands (book values)

| Portfolios/Stage | | Stage 1 | | | Stage 2 | | | Stage 3 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | ≤ 30 days | > 30 days ≤ 90 days | > 90 days | ≤ 30 days | > 30 days ≤ 90 days | > 90 days | ≤ 30 days | > 30 days ≤ 90 days | > 90 days |
| 1. Financial assets at amortised cost | | 15,073 | 46,751 | 2,584 | 3,925 | 24,732 | 1,379 | 920 | 26,841 | 26,745 |
| 2. Financial assets at fair value through other comprehensive income | | | | | | | | | | |
| **Total** | **12/31/2018** | **15,073** | **46,751** | **2,584** | **3,925** | **24,732** | **1,379** | **920** | **26,841** | **26,745** |

#### A.1.2 Prudential consolidation - financial assets, commitments to disburse funds and financial guarantees given: dynamics of total writedowns and total provisions

| Causal / risk stages | OVERALL WRITE-DOWNS | | | | | | | | | | | | | Total provisions on commitments and financial guarantees given | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | First stage activities | | | | Second stage activities | | | | Activities included in the third stage | | | | Of which: acquired or originated impaired financial assets | | | | |
| | Financial assets at amortised cost | Financial assets measured at fair value with an impact on total profitability | of which: individual impairment | of which: collective impairment | Financial assets at amortised cost | Financial assets measured at fair value with an impact on total profitability | of which: individual impairment | of which: collective impairment | Financial assets at amortised cost | Financial assets measured at fair value with an impact on total profitability | of which: individual impairment | of which: collective writedowns | | First stage | Second stage | Third stage | |
| **Opening balance** | **42,893** | | | **42,893** | **32,954** | | | **32,954** | **198,155** | | **8,984** | **189,171** | **2,813** | **39** | | | **274,041** |
| Increases in acquired or originated financial assets | 24,062 | | | 24,062 | 2,232 | | | 2,232 | 5,008 | | | 5,008 | 127 | | 5 | | **31,307** |
| Reversals different from writeoffs | (7,590) | | | (7,590) | (2,196) | | | (2,196) | (6,530) | | | (6,530) | | | | | **(16,317)** |
| Net losses/recoveries on credit impairment | (899) | | | (899) | (16,255) | | | (16,255) | 38,787 | | (3,078) | 41,865 | (218) | 45 | | | **21,678** |
| - Contractual changes without cancellation | | | | | | | | | | | | | | | | | |
| Changes in the estimation methodology | | | | | | | | | | | | | | | | | |
| Write-off | (15) | | | (15) | (163) | | | (163) | (6,279) | | | (6,279) | | | | | **(6,457)** |
| Other adjustments | 757 | | | 757 | 404 | | | 404 | (7,108) | | 21 | (7,130) | | | | | **(5,947)** |
| **Closing balance** | **59,209** | | | **59,209** | **16,976** | | | **16,976** | **222,032** | | **5,927** | **216,105** | **2,722** | **84** | **5** | | **298,306** |
| Recoveries from financial assets subject to write-off | | | | | | | | | | | | | | | | | |
| Write-off are not recognised directly in profit or loss | (174) | | | (174) | (35) | | | (35) | (322) | | | (322) | | | | | **(532)** |

## A.1.3 Prudential consolidation – Financial assets, commitments to disburse funds and financial guarantees given: transfers between the various stages of credit risk (gross and nominal values)

| Portfolios/Stage | | Gross exposure / Par value | | | | | |
|---|---|---|---|---|---|---|---|
| | | Transfers between first stage and second stage | | Transfers between second stage to thirth stage | | Transfer between first stage and thirth stage | |
| | | To Stage 2 from Stage 1 | To Stage 1 from Stage 2 | To Stage 3 from Stage 2 | To Stage 2 from Stage 3 | To Stage 3 from Stage 1 | To Stage 1 from Stage 3 |
| 1. Financial assets at amortised cost | | 86,253 | 63,242 | 32,844 | 11,428 | 46,761 | 6,047 |
| 2. Financial assets at fair value through other comprehensive income | | | | | | | |
| 3. Commitments and financial guarantees given | | | | | | | |
| **Total** | **12/31/2018** | **86,253** | **63,242** | **32,844** | **11,428** | **46,761** | **6,047** |

## A.1.4 Prudential consolidation – On- and off-balance sheet exposures to banks: gross and net values

| Type of exposure/amounts | Gross exposures | | Overall Write-Downs and provisions | Net Exposure | Total Write-off* |
|---|---|---|---|---|---|
| | Non-performing | performing | | | |
| **A. Cash credit exposures** | | | | | |
| a) Non performing loans | | X | | | |
| - of wich: forborne exposures | | X | | | |
| b) Unlikely to pay | | X | | | |
| - of wich: forborne exposures | | X | | | |
| c) Non-performing past due | | X | | | |
| - of wich: forborne exposures | | X | | | |
| d) Performing past due | X | 43 | | 43 | |
| - of wich: forborne exposures | X | | | | |
| e) Other performing exposures | X | 416,488 | | 416,488 | |
| - of wich: forborne exposures | X | | | | |
| **Total (A)** | | **416,532** | | **416,532** | |
| **B. Off-balance sheet credit exposures** | | | | | |
| a) Non-performing | | X | | | |
| b) Performing | X | 319 | | 319 | |
| **Total (B)** | | **319** | | **319** | |
| **Total (A+B)** | | **416,851** | | **416,851** | |

## A.1.5 Prudential consolidation – On- and off-balance sheet exposures to customers: gross and net values

| Type of exposure/Amounts | Gross exposures: Non-performing | Gross exposures: performing | Overall Write-Downs and provisions | Net exposure | Total Write-off |
|---|---|---|---|---|---|
| **A. Cash credit exposures** | | | | | |
| a) Non performing loans | 138,364 | X | 128,313 | 10,051 | |
| - of which: forborne exposures | 24,314 | X | 23,542 | 772 | |
| b) Unlikely to pay | 95,902 | X | 65,161 | 30,741 | |
| - of which: forborne exposures | 37,987 | X | 29,095 | 8,892 | |
| c) Non-performing past due | 59,839 | X | 28,558 | 31,281 | |
| - of which: forborne exposures | 26 | X | 15 | 11 | |
| d) Performing past due | X | 111,275 | 16,874 | 94,401 | |
| - of which: forborne exposures | X | 5,796 | 1,133 | 4,663 | |
| e) Other performing exposures | X | 8,646,552 | 59,310 | 8,587,241 | |
| - of which: forborne exposures | X | 21,053 | 3,809 | 17,244 | |
| **Total (A)** | **294,104** | **8,757,827** | **298,217** | **8,753,714** | |
| **B. Off-balance sheet credit exposures** | | | | | |
| a) Non-performing | 1,133 | X | | 1,133 | |
| b) Performing | X | 437,605 | 89 | 437,516 | |
| **Total (B)** | **1,133** | **437,605** | **89** | **438,649** | |
| **TOTAL A+B** | **295,237** | **9,195,431** | **298,306** | **9,192,363** | |

This table gives details of impaired and performing loans to customers, gross and net of specific and portfolio adjustments.

Impaired financial assets were originated internally and not derive from acquisitions through business combinations or other acquisitions.

The item "Off-balance sheet exposures" includes the amount of the irrevocable commitments relating to factoring transactions and the margins available on credit lines granted to customers.

## A.1.6 Prudential consolidation – Cash credit exposures to banks: dynamics of gross non-performing loans

The Group does not have any exposures to banks that are subject to impairment.

## A.1.6bis Prudential consolidation – Cash credit exposures to banks: dynamics of gross forborne exposures by credit quality

The Group does not have any forborne exposures to banks.

## A.1.7 Prudential consolidation – Cash credit exposures to customers: dynamics of gross non-performing loans

| Causals/ category | Non-performing loans | Unlikely to pay | Non-Performing Past due |
|---|---|---|---|
| **A. Opening balance (gross amount)** | **92,047** | **104,495** | **78,063** |
| - of which sold non-cancelled exposures | | | |
| **B. Increases** | **58,464** | **61,196** | **62,448** |
| B.1 transfers from performing loans | 9,992 | 32,881 | 54,378 |
| B.2 transfer from acquired or originated impaired financial assets | 377 | 345 | 9 |
| B.3 transfer from other non-performing exposures | 47,299 | 15,019 | 3,995 |
| B.4 contractual changes with no cancellations | | | |
| B.5 other increases | 796 | 12,951 | 4,066 |
| **C. Decreases** | **12,147** | **69,789** | **80,672** |
| C.1 transfers to performing loans | 105 | 9,400 | 8,315 |
| C.2 write-offs | 1,426 | 4,168 | 1,005 |
| C.3 collections | 2,822 | 12,989 | 11,558 |
| C.4 sales proceeds | | 2 | 9 |
| C.5 losses on disposals | 1 | 22 | 134 |
| C.6 transfers to other non-performing exposures | 393 | 21,075 | 45,025 |
| C.7 contractual changes with no cancellations | | | |
| C.8 other decreases | 7,400 | 22,133 | 14,626 |
| **D. Closing balance (gross amounts)** | **138,364** | **95,902** | **59,839** |
| - of which sold non-cancelled exposures | 18,276 | 11,036 | 21,752 |

## A.1.7bis Prudential consolidation – Cash credit exposures to customers: dynamics of gross forborne exposures by credit quality

| Description/Category | Forborne exposures Non-performing | Forborne exposures: performing |
|---|---|---|
| **A. Opening balance (gross amount)** | **51,431** | **33,550** |
| - of which sold non-cancelled exposures | | 42 |
| **B. Increases** | **29,167** | **20,194** |
| B.1 transfers from performing non-forborne exposures | 5,427 | 9,903 |
| B.2. transfers from performing forborne exposures | 5,638 | X |
| B.3. transfers from non-performing forborne exposures | X | 7,305 |
| B.4 other increases | 18,102 | 2,987 |
| **C. Decreases** | **18,271** | **26,895** |
| C.1 transfers to performing non-forborne exposures | X | 10,118 |
| C.2 transfers to performing forborne exposures | 8,398 | X |
| C.3 transfers to non-performing forborne exposures | X | 5,938 |
| C.4 write-offs | 642 | 30 |
| C.5 recoveries | 8,686 | 10,371 |
| C.6 sales proceeds | | |
| C.7 losses on disposals | | |
| C.8 other decreases | 545 | 438 |
| **D. Closing balance (gross amounts)** | **62,327** | **26,849** |
| - of which sold non-cancelled exposures | 4,949 | 1,282 |

## A.1.8 Prudential consolidation – Cash non-performing credit exposures to banks: dynamics of total writedowns

Exposures to banks are not subject to writedowns.

## A.1.9 Prudential consolidation – Cash non-performing credit exposures to customers: dynamics of total writedowns

| Description/Category | Non-performing loans | | Unlikely to pay | | Non-Performing Past due | |
|---|---|---|---|---|---|---|
| | Total | Of wich: forborne exposures | Total | Of wich: forborne exposures | Total | Of wich: forborne exposures |
| **A. Opening balance** | **88,243** | **14,932** | **65,594** | **26,284** | **42,907** | **1,472** |
| - of which sold non-cancelled exposures | | | | | | |
| **B. Increases** | **49,705** | **10,888** | **36,700** | **14,908** | **25,580** | **14** |
| B.1 write-downs of acquired or originated impaired financial assets | | X | | X | | X |
| B. 2 other write-downs | 14,140 | 7,148 | 24,809 | 13,156 | 18,828 | |
| B.3 losses on disposal | | | 6 | | 37 | |
| B.4 transfer from other impaired exposure | 35,332 | 3,741 | 9,884 | 938 | 3,297 | |
| B. 5 contractual changes without cancellations | | X | | X | | X |
| B.6 other increases | 232 | | 2,002 | 814 | 3,418 | 14 |
| **C. Reductions** | **9,635** | **2,279** | **37,134** | **12,096** | **39,928** | **1,471** |
| C.1 write-backs from assessments | 1,285 | 1,430 | 11,178 | 7,534 | 2,675 | 189 |
| C.2 write-backs from collection | 602 | 278 | 996 | 475 | 345 | 31 |
| C.3 gains from disposal | | | | | | |
| C.4 write-offs | 1,428 | 223 | 4,164 | 331 | 1,011 | 88 |
| C.5 transfers to other categories of non-performing exposures | 224 | 198 | 17,069 | 3,509 | 31,172 | 1,146 |
| C. 6 contractual changes without cancellations | | X | | X | | X |
| C.7 other decreases | 6,096 | 151 | 3,726 | 247 | 4,726 | 17 |
| **D. Closing balance** | **128,313** | **23,542** | **65,161** | **29,095** | **28,558** | **15** |
| - of which sold non-cancelled exposures | 16,999 | 2,183 | 7,164 | 2,431 | 6,587 | |

## A.2 Classification of exposures based on external and internal ratings

### A.2.1 Prudential consolidation – Distribution of financial assets, commitments to disburse funds and financial guarantees given by external rating class (gross values)

| Exposures | External rating classes | | | | | | Without rating | Total |
|---|---|---|---|---|---|---|---|---|
| | class 1 | class 2 | class 3 | class 4 | class 5 | class 6 | | |
| **A. Financial assets at amortised cost** | | | | | | | **9,468,463** | **9,468,463** |
| - Stage 1 | | | | | | | 8,937,540 | 8,937,540 |
| - Stage 2 | | | | | | | 236,818 | 236,818 |
| - Stage 3 | | | | | | | 294,104 | 294,104 |
| **B. Financial assets at fair value through other comprehensive income** | | | | | | | | |
| - Stage 1 | | | | | | | | |
| - Stage 2 | | | | | | | | |
| - Stage 3 | | | | | | | | |
| **Total (A+B)** | | | | | | | **9,468,463** | **9,468,463** |
| of which: acquired or originated impaired financial assets | | | | | | | | |
| **C. Loan commitments and financial guarantees given** | | | | | | | | |
| - Stage 1 | | | | | | | 386,146 | 386,146 |
| - Stage 2 | | | | | | | 51,778 | 51,778 |
| - Stage 3 | | | | | | | 1,133 | 1,133 |
| **Total (C)** | | | | | | | **439,057** | **439,057** |
| **Total (A+B+C)** | | | | | | | **9,907,519** | **9,907,519** |

### A.2.2 Prudential consolidation – Distribution of financial assets, commitments to disburse funds and financial guarantees given by internal rating class (gross values)

This table has not been prepared because the internal ratings are not currently used in the calculation of capital requirements for the management of credit risk.

## A.3 Distribution of guaranteed credit exposures by type of guarantee

### A.3.1 Prudential consolidation – On- and off-balance sheet guaranteed exposures to banks

The Group has no guaranteed credit exposures to banks.

## A.3.2 Prudential consolidation – On- and off-balance sheet guaranteed exposures to customers

| | | | Collaterals (1) | | | | Guarantees (2) | | | | | Guarantees (2) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Credit derivatives | | Credit derivatives | | | Signature loans | | | | Total (1)+(2) |
| | | | | | | | | Other derivatives | Other derivatives | | | | | | | |
| | Gross exposure | Net exposures | Property, Mortgages | Financial leasing property | Securities | Other assets | CLN | Central counterparties | Banks | Other financial companies | Other entities | Governments and other public sector entities | Banks | Other financial companies | Other entities | |
| **1. Guaranteed cash loans:** | **549,578** | **534,779** | **3,433** | | | **311,439** | | | | | | | **67,901** | | **114,192** | **496,965** |
| 1.1 totally secured | 493,852 | 480,010 | 3,433 | | | 309,353 | | | | | | | 59,793 | | 107,431 | 480,010 |
| - of which: non-performing | 10,290 | 4,744 | 3,433 | | | 2,138 | | | | | | | 1,054 | | 1,587 | 8,212 |
| 1.2 partially secured | 55,726 | 54,768 | | | | 2,086 | | | | | | | 8,107 | | 6,761 | 16,954 |
| - of which: non-performing | 1,776 | 922 | | | | | | | | | | | 331 | | 68 | 400 |
| **2. Secured off-balance sheet credit exposures:** | | | | | | | | | | | | | | | | |
| 2.1 totally secured | | | | | | | | | | | | | | | | |
| - of which: non-performing | | | | | | | | | | | | | | | | |
| 2.2. partially guaranteed | | | | | | | | | | | | | | | | |
| - of which: non-performing | | | | | | | | | | | | | | | | |

## A.4 Prudential consolidation – Financial and non-financial assets obtained through the realisation of the guarantees received

The Bank does not have any financial assets obtained through the realisation of guarantees.

# B. Distribution and concentration of credit exposures

## B.1 Prudential consolidation – Distribution by sector of on- and off-balance sheet exposures to customers

| Exposures/Counterparts | Governments and other public sector entities | | Financial companies | | Financial companies(of which: insurance companies) | | Non-financial companies | | Households | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Net exposure | Total write-downs | Net exposure | Total write-downs | Net exposure | Total write-downs | Net exposure | Total write-downs | Net exposure | Total write-downs |
| **A. Balance sheet credit exposures** | | | | | | | | | | |
| A.1 Non-performing loans | | | 3 | 73 | | | 1,730 | 25,191 | 8,318 | 103,049 |
| - of wich: forborne exposures | | | 3 | 14 | | | 15 | 572 | 754 | 22,955 |
| A.2 Unlikely to pay | 445 | 2,522 | 9 | 35 | | | 12,034 | 8,157 | 18,253 | 54,447 |
| - of wich: forborne exposures | | | | | | | 436 | 1,836 | 8,456 | 27,259 |
| A.3 Non-performing past-due | | | 3 | 3 | | | 2,232 | 3,444 | 29,045 | 25,111 |
| - of wich: forborne exposures | | | | | | | 2 | 1 | 8 | 14 |
| A.4 Performing exposures | 394,611 | 17 | 4,604 | 65 | 30 | | 2,095,086 | 6,811 | 6,187,341 | 69,291 |
| - of wich: forborne exposures | | | 6 | | | | 221 | 41 | 21,680 | 4,901 |
| **Total (A)** | **395,056** | **2,539** | **4,618** | **176** | **31** | | **2,111,082** | **43,604** | **6,242,957** | **251,898** |
| **B. Off-balance sheet credit exposures** | | | | | | | | | | |
| B.1 Non-performing exposures | | | | | | | 1,133 | | | |
| B.2 Performing exposures | | | 25 | | | | 404,598 | 45 | 32,893 | 44 |
| **Total (B)** | | | **25** | | | | **405,730** | **45** | **32,893** | **44** |
| **Total (A+B) 12/31/2018** | **395,056** | **2,539** | **4,644** | **176** | **31** | | **2,516,812** | **43,649** | **6,275,850** | **251,942** |

The above table shows the cash positions with customers by sector. It shows the distinct prevalence of exposures to retail customers.

## B.2 Prudential consolidation – Territorial distribution of on- and off-balance sheet exposures to customers

| Exposures / Geographic area | North West Italy | | North East Italy | | Italian Centre | | South Italy and Islands | |
|---|---|---|---|---|---|---|---|---|
| | Net exposure | Total write-downs | Net exposure | Total write-downs | Net exposure | Total write-downs | Net exposure | Total write-downs |
| **A. Balance sheet credit exposures** | | | | | | | | |
| A.1 Non-performing loans | 1,266 | 20,491 | 708 | 9,150 | 1,734 | 24,163 | 6,343 | 74,509 |
| A.2 Unlikely to pay | 10,782 | 11,635 | 2,419 | 4,815 | 5,672 | 12,996 | 11,868 | 35,716 |
| A.3 Non-performing past-due due exposures | 5,455 | 5,968 | 2,596 | 2,851 | 5,931 | 5,251 | 17,298 | 14,490 |
| A.4 Performing exposures | 2,469,391 | 18,028 | 1,469,206 | 11,491 | 2,009,056 | 14,376 | 2,733,968 | 32,289 |
| **Total A** | **2,486,893** | **56,121** | **1,474,929** | **28,306** | **2,022,393** | **56,786** | **2,769,478** | **157,003** |
| **B. Off-balance sheet credit exposures** | | | | | | | | |
| B. 1 Non-performing exposures | | | | | | | 1,133 | |
| B. 2 Performing exposures | 293,257 | 29 | 49,969 | 22 | 54,006 | 17 | 40,284 | 22 |
| **Total B** | **293,257** | **29** | **49,969** | **22** | **54,006** | **17** | **41,416** | **22** |
| **Total (A+B) 12/31/2018** | **2,780,151** | **56,150** | **1,524,899** | **28,328** | **2,076,399** | **56,802** | **2,810,894** | **157,025** |

The Group has exposures almost exclusively to Italian customers; the geographical breakdown used in the table is taken from the instructions issued by the Bank of Italy and is consistent with the allocation used for regulatory reporting.

## B.3 Prudential consolidation – Territorial distribution of on- and off-balance sheet exposures to banks

| Exposures / Geographical Area | | Italy | | Other european countries | | America | | Asia | | Rest of the world | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Net exposures | Total write-downs | Net exposures | Total write-downs | Net exposures | Total write-downs | Net exposures | Total write-downs | Net exposures | Total write-downs |
| **A. Balance sheet credit exposures** | | | | | | | | | | | |
| A.1 Non-performing loans | | | | | | | | | | | |
| A.2 Unlikely to pay | | | | | | | | | | | |
| A.3 Non-Performing past due exposures | | | | | | | | | | | |
| A.4 Performing exposures | | 105,951 | | 310,581 | | | | | | | |
| **Total (A)** | | **105,951** | | **310,581** | | | | | | | |
| **B. Off-balance sheet credit exposures** | | | | | | | | | | | |
| B.1 Non-performing exposures | | | | | | | | | | | |
| B.2 Performing exposures | | | | 319 | | | | | | | |
| **Totale (B)** | | | | **319** | | | | | | | |
| **Total (A+B)** | **12/31/2018** | **105,951** | | **310,900** | | | | | | | |

This table contains, for cash exposures to residents, the positive balance of current accounts with banks, while for exposures to foreigners, the balance is made up primarily of current accounts of securitisation SPE opened at Banco Santander S.A..

## B.4 Large exposures

| | 31/12/2018 |
|---|---|
| Number | 5 |
| Weighted value | 408,877 |
| Book value | 1,446,401 |

At the balance sheet date there were five counterparties that could be classified as large exposures, relating to the exposures to the Ministry of Economy and Finance (MEF), Banco Santander S.A., Hyundai Motor Company Italy S.r.l, Mazda Motor Italia srl and Unicredit.

## C. Securitisations

## Qualitative information

**Strategy and characteristics of securitisation transactions**

The Group uses securitisation transactions in order to broaden the diversification of funds collected by optimising its cost.

Securitisation is a financial structure with which a special purpose entity (SPE) purchases portfolios of loans financed through the issue of different classes of Asset Backed Securities (ABS), the repayment of which is guaranteed by the collection flows of the securitised loans. Class A securities are the first to be repaid. They are the least risky, have a higher rating and pay a lower rate of interest (coupon).

Santander Consumer Bank and Banca PSA use securitisations as a regular financing instrument. The transactions put in place by the Group are set up as a true sale of assets, carried out with the aim of diversifying the sources of financing of the two companies, the originators of the loans, under competitive terms.

These transactions may have a revolving structure, if the possibility of transferring additional portfolios is provided for, or an amortising structure, if this option has not been contractually provided for.

The collections deriving from the securitised loans are used to finance the purchase of additional loans during the revolving period or to repay the securities in the amortising period.

The Senior classes usually have a dual rating in order to be eligible for refinancing transactions at the Central Bank, such as for example targeted long-term refinancing operations (TLTROs).

**Securitisations**

In addition to the targeted self-securitisations in previous years, in 2018 the Parent Company finalised a new securitisation transaction, GB 2018-1.

The transaction in question, with a value of Euro 478.5 million and legal maturity in 2037, was concluded through the sale at par value of a portfolio of performing loans, made up of car loans and personal loans, to the special purpose vehicle Golden Bar (Securitisation) S.r.l.

The purchase of loans by the special purpose entity was financed through the issuance of two classes of securities, Senior Class A securities in the amount of Euro 395.7 million, listed on the Luxembourg Stock Exchange and subscribed for Euro 330 million by Banco Santander and for the remainder by SCB, and Junior securities in the amount of Euro 82.8 million, without rating and wholly subscribed by the originator.

The interest rate of the Senior securities was fixed at a level equal to the Euribor 3 month plus a spread of 22 bps (with a zero-coupon floor), while that of the Junior securities was fixed at a level equal to 1.5% plus excess spread.

Within the scope of the same transaction, the special purpose entity also concluded an Interest Rate Swap to hedge the interest rate risk of the Senior class.

The GB 2018-1 securitisation, which has a revolving structure up to 2 years, has received the PCS label and the Class A has obtained eligibility with the ECB.

The table below shows the main information relating to Golden Bar 2018-1.

| | Class A | Class B |
|---|---|---|
| Issuer | Golden Bar (Securitisation) S.r.l. | |
| ISIN | IT0005330748 | IT0005330755 |
| Amount (k€) | 395.700 | 82.750 |
| Tranching | 82,70% | 17,30% |
| Rating | AA | NR |
| WAL | 3Yrs | N/A |
| Coupon (floor 0%) | EUR3M + 22bps | 1,5% + Excess Spread |
| Price | 100 | |
| Listing | Luxembourg Stock Exchange | |
| Law | Italian, Spanish and English | |

As at 31 December 2018, the subsidiary Banca PSA has only one securitisation transaction in place, the securities of which were issued in 2018 and have legal maturity in 2032.

The transaction in question, with a value of Euro 742 million, was concluded through the transfer of car loans of the same amount to the special purpose entity Auto Abs Italian Loans 2018-1 S.r.l.

The purchase of loans by the special purpose entity was financed through the issuance of two classes of securities, Senior (Class A) securities, to which a rating has been assigned, in the amount of Euro 675.22 million, quoted on the Luxembourg secondary market and subscribed by institutional investors, and Junior (Class B) securities in the amount of Euro 66.78 million, without rating and wholly subscribed by the originator.

The interest rate of the Senior securities was fixed at a level equal to the Euribor 1 month plus a spread of 25 bps (with a zero-coupon floor), while that of the Junior securities was fixed at a level equal to 1.5% plus excess spread.

The table below shows the main information relating to Auto Abs Italian Loans 2018-1 S.r.l.

| | Class A | Class B |
|---|---|---|
| Issuer | Auto ABS Italian Loans 2018-1 S.r.l. | |
| ISIN | IT0005325540 | IT0005325557 |
| Amount (k€) | 675.220 | 66.780 |
| Tranching | 91,00% | 9,00% |
| Rating | AA | NR |
| WAL | 3Yrs | N/A |
| Coupon (floor 0%) | EUR1M + 25bps | 1,5% + Excess Spread |
| Price | 100 | |
| Listing | Luxembourg Stock Exchange | |
| Law | Italian, Spanish and English | |

| | Assets held by the SPE | Senior and Mezzanine Securities subscribed | Junior Securities subscribed | Cash Reserve | Assets held by the Group | Type of collateral | Distribution of collateral by geographical area | Average maturity of the collateral | Rating of the collateral |
|---|---|---|---|---|---|---|---|---|---|
| Golden Bar VFN 2018-1 | 464,847 | 395,700 | 82,750 | 3,957 | 8,368,790 | n.a. | n.a. | n.a. | n.a. |
| Auto ABS Italian Loans 2018-1 S.r.l. | 713,685 | 675,220 | 66,780 | 37,228 | | Liquid asset deposits | n.a | monthly | A- |

To enhance the transparency of disclosures, below is a breakdown of the excess spread accrued within the scope of the transaction, into the various components that generated it.

| Breakdown of the excess spread accrued during the year | 12/31/2018 | |
|---|---|---|
| | Golden Bar VFN 2018-1 | Auto ABS Italian Loans 2018-1 S.r.l. |
| Interest expense on securities issued | (10,934) | (207) |
| Commisions and fees for the operation | (461) | (624) |
| - for servicing | (445) | (606) |
| - for other services | (16) | (18) |
| Other charges | (1,145) | (7,728) |
| Interest generated by the securitised assets | 19,275 | 35,025 |
| Other revenues | 1,509 | 4,202 |
| **Total** | **8,244** | **30,669** |

## Quantitative information

### C.1 Prudential consolidation – Exposures arising from the main “own” securitisation transactions broken down by type of securitised asset and by type of exposure

| Type of securitized assets / Exposures | Cash exposure | | | | | | Guarantees given | | | | | | Credit lines | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Senior | | Mezzanine | | Junior | | Senior | | Mezzanine | | Junior | | Senior | | Mezzanine | | Junior | |
| | Book value | Adjustments/Recoveries | Book value | Adjustments/Recoveries | Book value | Adjustments/Recoveries | Book value | Adjustments/Recoveries | Book value | Adjustments/Recoveries | Book value | Adjustments/Recoveries | Book value | Adjustments/Recoveries | Book value | Adjustments/Recoveries | Book value | Adjustments/Recoveries |
| **A. Derecognised in full** | | | | | | | | | | | | | | | | | | |
| **B. Derecognised in part** | | | | | | | | | | | | | | | | | | |
| **C. Not derecognised** | **57.687** | **233** | | | **111.123** | **3.003** | | | | | | | | | | | | |
| *Golden Bar VFN 2018-1* | *57.687* | *233* | | | *72.658* | *293* | | | | | | | | | | | | |
| *Auto ABS Italian Loans 2018-1 consumer credit* | | | | | *38.465* | *2.710* | | | | | | | | | | | | |

### C.2 Prudential consolidation – Exposures arising from the main “third-party” securitisation transactions broken down by type of securitised asset and by type of exposure

The Group does not have any “third-party” securitisation transactions.

### C.3 Prudential consolidation – Interests in special purpose entities (SPE) created for securitisation

| Securitization name - Company name | Head office | Consolidation | Assets | | | Liabilities | | |
|---|---|---|---|---|---|---|---|---|
| | | | Credits | Debt securities | Others | Senior | Mezzanine | Junior |
| Golden Bar VNF 2018-1 | Torino (TO) | NO | 464,847 | | 22,515 | 395,700 | | 82,750 |
| Auto ABS Italian Loans 2018-1 S.r.l. | Conegliano (TV) | NO | 714,765 | | 27,235 | 675,220 | | 66,780 |

### C.4 Prudential consolidation – Non-consolidated special purpose entities (SPE) created for securitisation

The Group has no non-consolidated special purpose entities.

### C.5. Prudential consolidation – Servicer activities – own securitisations: collections of securitised loans and repayments of securities issued by the special purpose entity for securitisation

The Group does not carry out Servicer activities on securitisation transactions relating to the divested business removed from the financial statements.

## C.6 Prudential consolidation - Consolidated special purpose entities (SPE) created for securitisation

| Name society vehicle and head office | Golden Bar VNF 2018-1 - Torino (TO) | Auto ABS Italian Loans 2018-1 S.r.l., Conegliano (TV) |
|---|---|---|
| **A. Securitized assets** | **464,847** | **714,765** |
| A.1 Credits | 464,847 | 714,765 |
| A.2 Securities | | |
| A.3 Others | | |
| **B. Investments of deriving from the credit management** | **22,515** | **61,238** |
| B.1 Debt securities | | |
| B.2 Equity securities | | |
| B.3 Availability current account | 22,515 | 61,238 |
| **C. Altre attività** | | **6,444** |
| C.1 Transitorio incassi | | 6,176 |
| C.2 Altre Attività | | 268 |
| **D. Securities issued** | **478,450** | **742,000** |
| D.1 Senior | 395,700 | 675,220 |
| D.2 Mezzanine | | |
| D.3 Junior | 82,750 | 66,780 |
| **E. Loans received** | | **27,585** |
| **F. Derivati con valori negativi** | | **2,986** |
| **G. Other liabilities** | **8,912** | **9,877** |
| G.1 Accrued interest on securities | | 14 |
| G.2 Other liabilities | 8,912 | 9,863 |
| **H. Interest expenses on securities issued** | **19,178** | **30,875** |
| **I. Fees and commissions related to the transaction** | **461** | **624** |
| I.1 Servicing Service | 445 | 606 |
| I.2 Other Servicing | 16 | 18 |
| **L. Other charges** | **1,145** | **7,728** |
| L.1 Other interest expenses | 105 | 87 |
| L.2 Other charges | 1,033 | 4,932 |
| L.3 Value adjustments on loans | 7 | 2,710 |
| **M. Interest income on securitized assets** | **19,275** | **35,025** |
| **N. Other revenues** | **1,509** | **4,202** |
| N.1 Recuperi diversi | 1,509 | 4,202 |

As regards information relating to the type of asset securitised, its quality, tranching of the securities issued, reference is made to the qualitative information part of this section.

## D. Disposal transactions

## A. Financial assets sold but not fully derecognised

### Qualitative information

In addition to what has already been shown in Point C “Securitisation Transactions”, to which reference is made, in December 2018 the Parent Bank finalised a repurchase transaction with an institutional investor, with quarterly duration, for an amount that at year-end was estimated at Euro 109 million.

The purpose of the transaction is to optimise the management of collateral.

The subsidiary Banca PSA performs disposal transactions carried out within the meaning of Law 52/1991 (Factoring) that are put in place with a view to achieving two results:

- improvement of liquidity position;
- diversification of funding sources and optimisation of the cost of borrowing.

On the basis of this transaction, Banca PSA Italia obtained a line of credit collateralised by trade receivables (pro-solvendo assignment) with a leading Italian bank counterparty. The transaction is for an amount of Euro 200 million.

The agreement in question involves the possibility of periodically disposing of new credits, thus keeping the financed amount constant.

## Quantitative information

D.1 Prudential consolidation – Financial assets sold and fully recognised, and associated financial liabilities: book values

| | Financial assets sold | | | | Associated financial liabilities | | |
|---|---|---|---|---|---|---|---|
| | **Book value** | **of which: subject to securitization transactions** | **of which: subject to sale contracts with repurchase agreement** | **of which Non-performing** | **Book value** | **of which: subject to securitization transactions** | **of which: subject to sale contracts with repurchase agreement** |
| **A. Financial assets held for trading** | | | | **X** | | | |
| 1. Debt securities | | | | X | | | |
| 2. Equity instruments | | | | X | | | |
| 3. Loans | | | | X | | | |
| 4. Derivatives | | | | X | | | |
| **B. Other financial assets mandatorily at fair value** | | | | | | | |
| 1. Debt securities | | | | | | | |
| 2. Equity instruments | | | | X | | | |
| 3. Loans | | | | | | | |
| **C. Financial assets designated at fair value** | | | | | | | |
| 1. Debt securities | | | | | | | |
| 2. Loans | | | | | | | |
| **D. Financial assets at fair value through other comprehensive income** | | | | | | | |
| 1. Debt securities | | | | | | | |
| 2. Equity instruments | | | | X | | | |
| 3. Loans | | | | | | | |
| **E. Financial assets at amortised cost** | **1,448,297** | **1,174,030** | **114,731** | **1,564** | **1,314,280** | **1,005,220** | **109,060** |
| 1. Debt securities | | | | | | | |
| 2. Loans | 1,448,297 | 1,174,030 | 114,731 | 1,564 | 1,314,280 | 1,005,220 | 109,060 |
| **Total 12/31/2018** | **1,448,297** | **1,174,030** | **114,731** | **1,564** | **1,314,280** | **1,005,220** | **109,060** |

### D.2 Prudential consolidation – Financial assets sold partially recognised and associated financial liabilities: book values

The Group does not have any financial assets sold partially recognised.

### D.3 Prudential consolidation – Transfers with liabilities that have recourse only against the assets sold and not fully derecognised: fair value

| | Fully recognised | Partially recognised | Total | |
|---|---|---|---|---|
| | | | 12/31/2018 | 12/31/2017 |
| **A. Financial assets held for trading** | | | | |
| 1. Debt securities | | | | |
| 2. Equity instruments | | | | |
| 3. Loans | | | | |
| 4. Derivatives | | | | |
| **B. Other financial assets mandatorily at fair value** | | | | |
| 1. Debt securities | | | | |
| 2. Equity instruments | | | | |
| 3. Loans | | | | |
| **C. Financial assets designated at fair value** | | | | |
| 1. Debt securities | | | | |
| 2. Loans | | | | |
| **D. Financial assets at fair value through other comprehensive income** | | | | |
| 1. Debt securities | | | | |
| 2. Equity instruments | | | | |
| 3. Loans | | | | |
| **E. Financial assets at amortised cost (fair value)** | **1,392,481** | | **1,392,481** | **725,108** |
| 1. Debt securities | | | | |
| 2. Loans | 1,392,481 | | 1,392,481 | 725,108 |
| **Total financial assets** | **1,392,481** | | **1,392,481** | **725,108** |
| **Total associated financial liabilities** | **1,314,280** | | **X** | **X** |
| **Net 12/31/2018** | **78,201** | | **78,201** | **X** |
| **Net 12/31/2017** | **88,676** | | **X** | **88,676** |

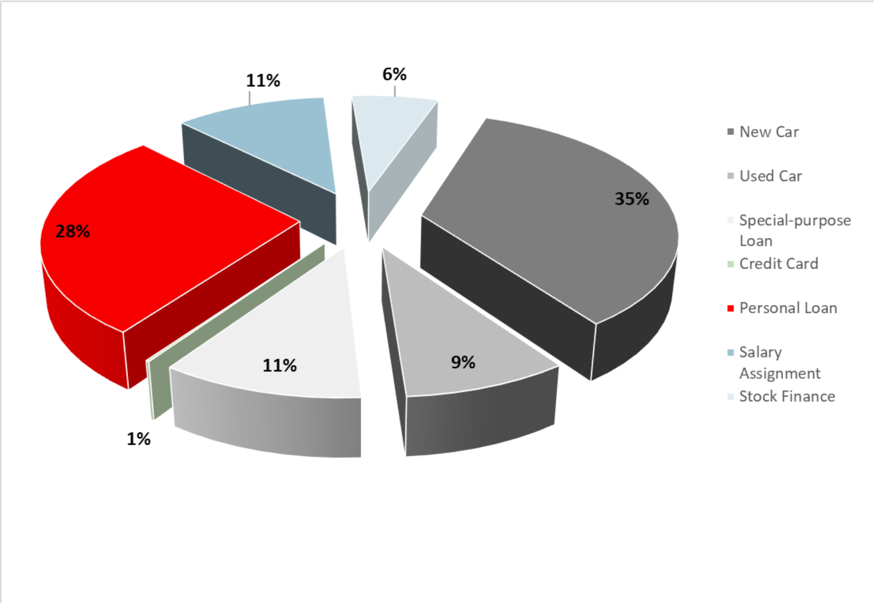
## B. Financial assets sold and fully derecognised with recognition of the continued involvement

The Group has not been party to any sale transactions with recognition of continued involvement.

## E. Prudential consolidation – models for the measurement of credit risk

The balance at risk by product of the “dossiers in delinquency” (i.e. that have amounts past due by more than ninety days) is monitored on a monthly basis. The following chart summarises the breakdown of the variable just described at December 2018.

NPL (Consolidated Account)




The stress tests carried out for ICAAP purposes, calculated on the basis of the PD and LGD parameters, both in the baseline and stress scenario, confirmed the soundness of the strategies adopted within the Group.

Credit risk is assessed, among other things, by:

- Vintage analysis. This indicator is the ratio of a generation of loans that in any month have been classified as bad to the total of the same loan generation. This is a tool that allows you to make comparisons between different production performances (over the life of the product), according to their segmentation. The comparison is between products with a similar production date, so you can identify any deviations from past performances. Usually, graphic representations are used to keep track of the trend, such as the one that shows the relationship between age and the loss rate;
- Trend analysis (roll rate). Represents the trend of loans observed over a period of time between T0 and T1, with the determination of any status change at T1 of the loans, which at the start of the observation were included in a certain past due band. This indicator is used for roll rate (trend analysis). Represents the trend of loans observed over a period of time between T0 and T1, with the determination of any status change at T1 of the loans, which at the start of the observation were included in a certain past due band. This indicator is used to identify the roll rate of the loan portfolio.
- Polynomial models are used (confidence/R2 ~ 95%) for stress test purposes, also to take account of the trend in default rates with a non-linear trend at the same date of the first instalment. In particular, this tool is used to define the migration of dossiers from one late payment category to another, reflecting a deterioration or improvement in the quality of the asset portfolio;
- The portfolio analysis includes a set of metrics used to carry out a monthly assessment of performance of the portfolio, the stock of dossiers in default and the degree of coverage.
- Assessment of the PD and LGD supports the analysis of the performance of the portfolio and the degree of recovery in the event of default.

## 1.2 Market risk

### 1.2.1 Interest rate risk and price risk – trading portfolio reported for supervisory purposes

This is not applicable to the Group.

## 1.2.2 Interest rate risk and price risk – banking book

## Qualitative information

### A. General aspects, management and measurement of interest rate risk and price risk

The Group is exposed to fair value interest rate risk (risk that the value of assets and liabilities issued at fixed rates changes as a consequence of a fluctuation in the interest rate curve) and cash flow risk (risk that interest-related cash flow changes as a consequence of a fluctuation in the interest rate curve).

The sources of interest rate risk are mainly related to loans to customers, which are generated by the placement of consumer credit products and services (asset items) and their means of funding (liability items). In fact, the sector in which the Group operates is characterised by the asset mix, which is typically composed of loans granted mainly at fixed rates, whereas the funding sources are both fixed rate and floating rate. Accordingly, the main interest rate categories to which the Bank is exposed lead to repricing risk.

Interest rate risk is managed by macro-strategies shared at Group level within well defined, formalised exposure limits. The Finance Department manages interest rate risk in accordance with the current documentation approved by the Board of Directors. Through the Market Risk function, the Risk Control unit has the task of monitoring market risks through the application of appropriate analysis and assessment methods.

Internal processes for the management and monitoring of interest rate risk prescribe the processing of information each month at operating level by the responsible organisational units and a critical assessment by the ALCO Committee.

Monitoring involves comparing the results of stress tests performed on sensitive assets and liabilities with the limits established by the Bank of Italy and by the related documentation.

Specific ratios are managed by the Finance Department and measured and monitored by the Risk Management Department. Specific quantitative limits are set for the following risk metrics:

- Market Value of Equity Sensitivity (MVE Sens.);
- Net interest margin Sensitivity (NIM Sens.).

To mitigate the risk of fluctuations in interest rates, the Bank implements two main forms of mitigation:

- use of financial instruments;
  - derivatives: used to hedge interest rate risk (usually Interest Rate Swaps);
  - medium-term fixed rate financing: used as an alternative to derivatives, to mitigate the exposure to interest rate risk;
- operating limits consistent with the risk objectives established by the Bank.

Of the various types of risk hedges that are acceptable, the Bank has chosen to use derivatives according to the following methods.

## Quantitative information

### 1. Banking book: distribution by residual term (by repricing date) of financial assets and liabilities

This table is not prepared as the next section gives an analysis of the sensitivity to interest rate risk based on internal models and this analysis covers the whole of the banking book.

### 2. Banking book: internal models and other methodologies for analysing sensitivity

The measurement/quantification of financial risks, especially the interest rate risk, is carried out by analysing the specific synthetic indicators described below. These indicators are calculated on a monthly basis, which involves calculating a final figure at the end of each month, as well as a forecast figure for the next reporting period. The Finance Department of the Parent Company is responsible for the management of interest rate risk in order to keep exposure to the risk in line with the desired positioning from month to month, and in any case within the appetite thresholds defined. The risk department performs a second-level control of Finance operations and the risk exposure measured from month to month.

*Sensitivity indicator "Market Value of Equity" (MVE)*

This indicator is aimed at quantifying the sensitivity of the interest rate risk so that it can be monitored; in particular, it quantifies the effect of a change in the interest rate curve under various scenarios on shareholders' equity. With the implementation of the new evolved corporate tool introduced in 2017, in addition to the standard scenarios of parallel and immediate shock to the curve, more progressive scenarios were implemented. The following paragraph shows the results obtained by applying the scenario +100 basis points (parallel and intermediate shock) on which the monthly analysis and the decisions on interest rate risk are based. The measurement of interest rate risk is then carried out by assessing the impact of changes in interest rates on the value of interest-bearing assets/liabilities inclusive of derivatives (Interest Rate Swap); the sensitivity of the market value of equity is computed as the difference between the present value of all future cash flows discounted using market interest rate curves and the present value of future cash flows discounted using stressed interest rate curves.

*Sensitivity indicator "Net Interest Margin" (NIM)*

This indicator is aimed at quantifying and monitoring the sensitivity of the interest rate risk; in particular, it quantifies the effect of a parallel and symmetric change in the interest rate curve under various scenarios on net interest income (analysis period: 12 months). As regards interest rate shift scenarios, please see the information provided in the paragraph above.

At 31 December 2018, the consolidated MVE calculated with a shift of +100 basis points was Euro -25.08.

At 31 December 2018, the consolidated NIM with a shift of -100 basis points was Euro -2.46.

| +100 bps MM | MVE | NIM |
|---|---|---|
| December 18 | -25,08 | 3,70 |
| Limit | ± 65 | ± 20 |

| -100 bps MM | MVE | NIM |
|---|---|---|
| December 18 | 21.88 | -2,46 |
| Limit | ± 65 | ± 20 |

### 1.2.3 Exchange risk

The Group is not exposed to exchange risk.

## 1.3 Derivative instruments and hedging policies

### 1.3.1 Derivatives held for trading

### A. Financial derivatives

#### A.1 Financial derivatives held for trading: period-end notional amounts

| Underlying assets / Type of derivatives | Totale 31/12/2018 | | | | Totale 31/12/2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Over the counter | | | Organized markets | Over the counter | | | Organised markets |
| | Central Counterparts | without central counterparties | | | Central Counterparts | without central counterparties | | |
| | | with netting arrangements | without netting arrangements | | | with netting arrangements | without netting arrangements | |
| **1. 1. Debt securities and interest rate indexes** | | | 2,184,749 | | | 1,200,000 | 330,877 | |
| a) Options | | | | | | | | |
| b) Swap | | | 2,184,749 | | | 1,200,000 | 330,877 | |
| c) Forward | | | | | | | | |
| d) Futures | | | | | | | | |
| e) Others | | | | | | | | |
| **2. Equities instruments and stock indexes** | | | | | | | | |
| a) Options | | | | | | | | |
| b) Swap | | | | | | | | |
| c) Forward | | | | | | | | |
| d) Futures | | | | | | | | |
| e) Others | | | | | | | | |
| **3. Currencies and gold** | | | | | | | | |
| a) Options | | | | | | | | |
| b) Swap | | | | | | | | |
| c) Forward | | | | | | | | |
| d) Futures | | | | | | | | |
| e) Others | | | | | | | | |
| **4. Commodities** | | | | | | | | |
| **5. Other** | | | | | | | | |
| **Total** | | | **2,184,749** | | | **1,200,000** | **330,877** | |

## A.2 Financial derivatives held for trading: positive and negative gross fair value – breakdown by product

| Types of derivatives | Totale 31/12/2018 | | | | Totale 31/12/2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Over the counter | | | | Over the counter | | | |
| | Central Counterparts | Without central counterparties | | Organised markets | Central Counterparts | Without central counterparties | | Organised markets |
| | | with netting arrangements | without netting arrangements | | | with netting arrangements | without netting arrangements | |
| **1. Positive fair value** | | | | | | | | |
| a) Options | | | | | | | | |
| b) Interest rate swap | | | 4,526 | | | 367 | 1,033 | |
| c) Cross currency swap | | | | | | | | |
| d) Equity swap | | | | | | | | |
| e) Forward | | | | | | | | |
| f) Futures | | | | | | | | |
| g) Others | | | | | | | | |
| **Total** | | | **4,526** | | | **367** | **1,033** | |
| **2. Negative fair value** | | | | | | | | |
| a) Options | | | | | | | | |
| b) Interest rate swap | | | 5,027 | | | 367 | 1,117 | |
| c) Cross currency swap | | | | | | | | |
| d) Equity swap | | | | | | | | |
| e) Forward | | | | | | | | |
| f) Futures | | | | | | | | |
| g) Others | | | | | | | | |
| **Total** | | | **9,553** | | | **734** | **2,150** | |

A.3 OTC financial derivatives held for trading: notional amounts, positive and negative gross fair value by counterparty

| Underlyings | Central Counterparts | Banks | Other financial companies | Other entities |
|---|---|---|---|---|
| **Contracts not included in clearing agreement** | | | | |
| **1) Debt securities and interest rate** | | | | |
| - notional value | X | 2,184,749 | | |
| - positive fair value | X | 4,526 | | |
| - negative fair value | X | 5,027 | | |
| **2) Equities instruments and stock indexes** | | | | |
| - notional value | X | | | |
| - positive fair value | X | | | |
| - negative fair value | X | | | |
| **3) Currencies and gold** | | | | |
| - notional value | X | | | |
| - positive fair value | X | | | |
| - negative fair value | X | | | |
| **4) Commodities** | | | | |
| - notional value | X | | | |
| - positive fair value | X | | | |
| - negative fair value | X | | | |
| **5) Others** | | | | |
| - notional value | X | | | |
| - positive fair value | X | | | |
| - negative fair value | X | | | |
| **Contracts included in clearing arrangements** | | | | |
| **1) Debt securities and interest rate** | | | | |
| - notional value | | | | |
| - positive fair value | | | | |
| - negative fair value | | | | |
| **2) Equities and stock indexes** | | | | |
| - notional value | | | | |
| - positive fair value | | | | |
| - negative fair value | | | | |
| **3) Currencies and gold** | | | | |
| - notional value | | | | |
| - positive fair value | | | | |
| - negative fair value | | | | |
| **4) Commodities** | | | | |
| - notional value | | | | |
| - positive fair value | | | | |
| - negative fair value | | | | |
| **5) Others** | | | | |
| - notional value | | | | |
| - positive fair value | | | | |
| - negative fair value | | | | |

## A.4 Residual life of OTC financial derivatives: notional amounts

| Underlying / residual | | Up to 1 year | Over 1 year up to 5 year | Over 5 year | Total |
|---|---|---|---|---|---|
| A.1 Financial derivative contracts on debt securities and interest rates | | | 791,400 | 1,393,349 | 2,184,749 |
| A.2 Financial derivative contracts on equity securities and stock indexes | | | | | |
| A.3 Financial derivatives on currencies and gold | | | | | |
| A.4 Financial derivatives on commodities | | | | | |
| A.5 Other financial derivatives | | | | | |
| **Total** | **12/31/2018** | | **791,400** | **1,393,349** | **2,184,749** |
| **Total** | **12/31/2017** | **219,894** | **110,983** | **1,200,000** | **1,530,877** |

## B. Credit derivatives

The Group does not have any credit derivatives at the date of the financial statements.

## 1.3.2 Accounting hedges

## Qualitative information

## A. Fair value hedges

As regards fair value hedging, the Group enters into derivatives to neutralise the exposure to changes in fair value of a portfolio of financial assets, attributable to unexpected fluctuations in interest rates.

The effectiveness of the hedges is periodically measured and formalised, based on monthly predefined tests (both retrospective and prospective):

- Retrospective test. This test is designed to assess the difference between changes in the fair value of the hedged item and those of the hedging instrument, quantifying it by means of a specific percentage (efficiency percentage).
- Prospective test. This assessment is based on expectations of the future trend of the hedging relationship by identifying different scenarios for the trend in interest rate curves. In order to assess the effectiveness of the hedge, the difference between changes in the fair value of the hedged item and those of the hedging instrument have to be considered jointly for each scenario (quantifying them by means of a percentage).

The observation/effectiveness range is as foreseen by IAS-IFRS for this purpose. The metrics are defined/maintained in accordance with the Spanish Parent Company's instructions.

## B. Cash flow hedges

As regards cash flow hedges, the SCB Group may enter into derivatives to neutralise the exposure of its liabilities to changes in future cash flows arising from unexpected fluctuations in interest rates.

The effectiveness of the hedges is periodically measured and formalised, based on monthly predefined tests (both retrospective and prospective):

- Prospective test: The prospective test also involves preparing a report that identifies the correlation between the cash flows (interest) arising from the item being hedged by the hedging instrument;
- Retrospective test. The aim of the test is to verify the correlation between interest expense generated by loans granted and interest income earned from traded derivatives (floating flow).

The observation interval and effectiveness meet the requirements of IAS-IFRS.

The metrics are defined and maintained in accordance with the Spanish Parent Company's instructions.

As at 31 December 2018, all cash flow hedges are settled.

## C. Foreign investment hedging

Not applicable, the Group did not carry out any foreign investment hedging during the year.

## D. Hedging instruments

The Group is exposed to interest rate risk, defined as "Fair Value" risk, i.e. the possibility that financial assets/liabilities may increase/decrease in value due to changes in the interest rates expressed by the market. The interest rate risk determinants for the SCB Group are mainly related to loans to customers, which are generated by the disbursement of consumer credit products/services (asset items) and their means of funding (liability items). To mitigate this risk the Bank uses Interest Rate Swaps.

The relationship for measuring hedge effectiveness is determined by the ratio between the change in fair value of the hedged item between the time "t" and the time "t-1" and the change in the fair value of the hedging instruments between the time "t" and the time "t-1"; the result of this operation must be within a specific range provided for by IAS (IAS 39 specifically[12]).

The reasons for possible ineffectiveness are therefore due to significant changes in the mark to market valuations of the swaps, as a result of, for example, sudden and significant changes in the interest rates that determine the valuations.

## E. Hedged items

In relation to the hedged item used by the SCB Group in the hedging strategy, the following is taken into consideration:

- the hedging relationship is defined as macro fair value hedging, i.e. valuation of the hedge taking into consideration the entire hedged item in the face of all the risks to which it is exposed and not part of it;
- the hedging instruments used are the performing loans present in the portfolio, divided into time buckets depending on the agreement maturities;
- for the purposes of evaluating the effectiveness, the economic relationship is that described in section D "hedging instruments";
- the interest rate risk determinants, and consequent possible sources of ineffectiveness, with reference to the hedged items, are linked to changes in the fair value of loans to customers, generated by the disbursement of consumer credit products/services.

[12] IFRS 9 gives the option to adopt IAS 39.

# Quantitative information

## A. Hedging financial derivatives

### A.1 Hedging financial derivatives: period-end notional amounts

| Underlying assets / Type of derivatives | Totale 31/12/2018 | | | | Totale 31/12/2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Over the counter | | | Organised markets | Over the counter | | | Organised markets |
| | Central Counterparts | without central counterparties | | | Central Counterparts | without central counterparties | | |
| | | with netting arrangements | without netting arrangements | | | with netting arrangements | without netting arrangements | |
| 1. Debt securities and interest rate indexes | 597,000 | | 1,418,130 | | | 498,100 | 1,398,730 | |
| a) Options | | | | | | | | |
| b) Swap | 597,000 | | 1,418,130 | | | 498,100 | 1,398,730 | |
| c) Forward | | | | | | | | |
| d) Futures | | | | | | | | |
| e) Others | | | | | | | | |
| 2. Equities and stock indexes | | | | | | | | |
| a) Options | | | | | | | | |
| b) Swap | | | | | | | | |
| c) Forward | | | | | | | | |
| d) Futures | | | | | | | | |
| e) Others | | | | | | | | |
| 3. Currencies and gold | | | | | | | | |
| a) Options | | | | | | | | |
| b) Swap | | | | | | | | |
| c) Forward | | | | | | | | |
| d) Futures | | | | | | | | |
| e) Others | | | | | | | | |
| 4. Commodities | | | | | | | | |
| 5. Other | | | | | | | | |
| **Total** | **597,000** | | **1,418,130** | | | **498,100** | **1,398,730** | |

## A.2 Hedging derivatives: positive and negative gross fair value – breakdown by product

| Types of derivatives | Fair value positivo e negativo | | | | | | | | Change in the value used to calculate the effectiveness | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total 12/31/2018 | | | | Total 12/31/2017 | | | | | |
| | Over the counter | | | | Over the counter | | | | | |
| | | Without central counterparties | | | | Without central counterparties | | | Total | Total |
| | Central Counterparts | with netting arrangements | without netting arrangements | Organised markets | Central Counterparts | with netting arrangements | without netting arrangements | Organised markets | 12/31/2018 | 12/31/2017 |
| **Positive fair value** | | | | | | | | | | |
| a) Options | | | | | | | | | | |
| b) Interest rate swap | | | | | | 961 | | | | |
| c) Cross currency swap | | | | | | | | | | |
| d) Equity swap | | | | | | | | | | |
| e) Forward | | | | | | | | | | |
| f) Futures | | | | | | | | | | |
| g) Others | | | | | | | | | | |
| **Total** | | | | | | **961** | | | | |
| **Negative fair value** | | | | | | | | | | |
| a) Options | | | | | | | | | | |
| b) Interest rate swap | 1,312 | | 4,633 | | | 3,122 | | | | |
| c) Cross currency swap | | | | | | | | | | |
| d) Equity swap | | | | | | | | | | |
| e) Forward | | | | | | | | | | |
| f) Futures | | | | | | | | | | |
| g) Others | | | | | | | | | | |
| **Total** | **1,312** | | **4,633** | | | **3,122** | | | | |

## A.3 OTC hedging derivatives: notional amounts, positive and negative gross fair value by counterparty

| Underlyings | Central Counterparts | Banks | Other financial companies | Other entities |
|---|---|---|---|---|
| **Contracts not included in clearing agreement** | | | | |
| **1) Debt securities and interest rate indexes** | | | | |
| - notional value | X | 1,418,130 | | |
| - positive fair value | X | | | |
| - negative fair value | X | 4,633 | | |
| **2) Equities and stock indexes** | | | | |
| - notional value | X | | | |
| - positive fair value | X | | | |
| - negative fair value | X | | | |
| **3) Currencies and gold** | | | | |
| - notional value | X | | | |
| - positive fair value | X | | | |
| - negative fair value | X | | | |
| **4) Other values** | | | | |
| - notional value | X | | | |
| - positive fair value | X | | | |
| - negative fair value | X | | | |
| **5)Other** | | | | |
| - notional value | X | | | |
| - positive fair value | X | | | |
| - negative fair value | X | | | |
| **Contracts included in clearing arrangements** | | | | |
| **1) Debt securities and interest rate** | | | | |
| - notional value | 597,000 | | | |
| - positive fair value | | | | |
| - negative fair value | 1,312 | | | |
| **2) Equities and stock indexes** | | | | |
| - notional value | | | | |
| - positive fair value | | | | |
| - negative fair value | | | | |
| **3) Currencies and gold** | | | | |
| - notional value | | | | |
| - positive fair value | | | | |
| - negative fair value | | | | |
| **4) Other values** | | | | |
| - notional value | | | | |
| - positive fair value | | | | |
| - negative fair value | | | | |
| **5)Other** | | | | |
| - notional value | | | | |
| - positive fair value | | | | |
| - negative fair value | | | | |

### A.4 Residual life of OTC hedging derivatives: notional amounts

| Underlying / residual | | Up to 1 year | Over 1 year up to 5 year | Over 5 year | Total |
|---|---|---|---|---|---|
| A.1 Financial derivative contracts on debt securities and interest rates | | 463,054 | 1,446,274 | 105,802 | 2,015,130 |
| A.2 Financial derivative contracts on equity securities and stock indexes | | | | | |
| A.3 Financial derivative contracts on currency and gold | | | | | |
| A.4 Financial derivatives on commodities | | | | | |
| A.5 Other financial derivatives | | | | | |
| **Total** | **12/31/2018** | **463,054** | **1,446,274** | **105,802** | **2,015,130** |
| **Total** | **12/31/2017** | **512,727** | **1,250,086** | **134,018** | **1,896,830** |

## B. Hedging credit derivatives

The Group does not have any hedging credit derivatives at the date of the financial statements.

## C. Non-derivative hedging instruments

The Group does not have any non-derivative hedging instruments at the date of the financial statements.

## D. Hedged instruments

### D.1 Fair value hedges

The Group has not applied the new accounting rules provided for hedge accounting in accordance with IFRS 9.

### D.2 Cash flow and foreign investment hedges

The Group does not have any cash flow and foreign investment hedges.

## E. Effects of hedging transactions recognised in equity

The Group does not use hedging transactions recognised in equity.

## 1.3.3 Other information on derivatives (trading and hedging)

## A. Financial and credit derivatives

### A.1 OTC financial and credit derivatives: net fair value by counterparty

| | Central counterparty | Banks | Other financial companies | Other entities |
|---|---|---|---|---|
| **A. Financial derivatives** | | | | |
| **1) Debt securities and interest rates** | | | | |
| - notional amount | 597,000 | 3,602,878 | | |
| - positive fair value | | 4,526 | | |
| - negative fair value | 1,312 | 9,660 | | |
| **2) Equity instrument and stock index** | | | | |
| - notional amount | | | | |
| - positive fair value | | | | |
| - negative fair value | | | | |
| **3) Currency and gold** | | | | |
| - notional amount | | | | |
| - positive fair value | | | | |
| - negative fair value | | | | |
| **4) Commodities** | | | | |
| - notional amount | | | | |
| - positive fair value | | | | |
| - negative fair value | | | | |
| **5) Other** | | | | |
| - notional amount | | | | |
| - positive fair value | | | | |
| - negative fair value | | | | |
| **B. Credit derivatives** | | | | |
| **1) Hedge purchase** | | | | |
| - notional amount | | | | |
| - positive fair value | | | | |
| - negative fair value | | | | |
| **2) Hedge sale** | | | | |
| - notional amount | | | | |
| - positive fair value | | | | |
| - negative fair value | | | | |

## 1.4 Liquidity risk

## Qualitative information

### A. General aspects, management and measurement of liquidity risk

The Group is exposed to liquidity risk, defined as the probability that it may, at any time, not have sufficient cash reserves to meet payments arising from its obligations, or it may not be able to source sufficient liquidity in the markets to renew maturing deposits.

The Finance Department manages liquidity risk in accordance with the current documentation approved by the Board of Directors.

Based on the governance model adopted by the Group, liquidity risk is monitored by the Risk Management Department (as part of second-level controls), whereas Internal Audit performs third-level controls.

The Bank uses various reports, short and long-term, to manage liquidity risk. The maturity ladder method is used identify and quantify the imbalances between cash inflows and outflows that occur in different timeframes.

The Group also uses liquidity stress testing to analyse the potential impacts arising from liquidity crises (with stress originated from outflows from customer deposits, downgrading of securities, non-renewal of loans), in line with corporate models and regulatory requirements. The results of the stress tests remained above the management limits over the course of the year and were shared periodically within relevant committees.

As well as the above-mentioned indicators, the Parent Company also monitors its Liquidity Coverage Ratio defined as:

$$LCR = \frac{\text{Stock of high quality liquid assets}}{\text{Total net cash flow in the subsequent 30 calendar days}}$$

The LCR officially came into force on 1 October 2015 as required by European Commission Regulation 575/2013 and by Directive 2013/36/EU and subsequent amendments to the Delegated Regulation. The regulatory limit from 2018 has been fixed at 100%. Santander Consumer Bank’s liquidity ratio meets with the above requirement and during the year the bank also implemented daily management of the ratio. Each unit of the Group calculates the individual figure and sends it to the Spanish parent company SCF.

Finally, the Bank also manages liquidity through medium-to-long-term indicators, such as the Net Stable Funding Ratio and other Group indicators.

## Quantitative information

### 1. Distribution of financial assets and liabilities by residual maturity

| Items/Time | On demand | 1 to 7 days | 7 to 15 days | 15 days to 1 month | 1 to 3 months | 3 to 6 months | 6 months to 1 year | 1 to 5 years | Over 5 years | Unspecified maturity |
|---|---|---|---|---|---|---|---|---|---|---|
| **A. On-balance sheet assets** | **459,437** | **7,773** | **113,638** | **132,527** | **680,827** | **1,187,561** | **1,908,930** | **4,099,131** | **626,266** | **44,465** |
| A.1 Government securities | | | 30,225 | | 78,031 | 125,675 | 151,450 | | | |
| A.2 Other debt securities | | | | | | | | | | |
| A.3 Units in investment funds | | | | | | | | | | |
| A.4 Loans | 459,437 | 7,773 | 83,413 | 132,527 | 602,796 | 1,061,886 | 1,757,480 | 4,099,131 | 626,266 | 44,465 |
| - Banks | 371,993 | | | | 74 | | | | | 44,465 |
| - Customers | 87,444 | 7,773 | 83,413 | 132,527 | 602,722 | 1,061,886 | 1,757,480 | 4,099,131 | 626,266 | |
| **B. On-balance sheet liabilities** | **755,621** | **12,122** | **239,452** | **453,383** | **783,270** | **665,378** | **1,230,279** | **3,259,289** | **790,220** | |
| B.1 Deposits and current accounts | 753,637 | 12,122 | 239,452 | 241,125 | 622,429 | 581,869 | 523,348 | 796,929 | | |
| - Banks | 12,670 | | 223,000 | 214,000 | 517,000 | 534,000 | 411,500 | 687,000 | | |
| - Customers | 740,967 | 12,122 | 16,452 | 27,125 | 105,429 | 47,869 | 111,848 | 109,929 | | |
| B.2 Debt securities | | | | 151,070 | | | | 330,000 | 675,220 | |
| B.3 Other liabilities | 1,984 | | | 61,188 | 160,841 | 83,509 | 706,932 | 2,132,360 | 115,000 | |
| **C. Off-balance sheet transactions** | | | | | | | | | | |
| C.1 Physically settled financial | | | | | | | | | | |
| - Long positions | | | | | | | | | | |
| - Short positions | | | | | | | | | | |
| C.2 Cash settled financial derivatives | | | | | | | | | | |
| - Long positions | | | | | 2,845 | 473 | 921 | | | |
| - Short positions | | | 12 | 476 | 5,080 | 1,708 | 3,226 | | | |
| C.3 Deposit to be received | | | | | | | | | | |
| - Long positions | | | | | | | | | | |
| - Short positions | | | | | | | | | | |
| C.4 Irrevocable commitments to disburse funds | | | | | | | | | | |
| - Long positions | | | | | | 38,539 | | | | 22,284 |
| - Short positions | 60,823 | | | | | | | | | |
| C.5 Written guarantees | | | | | | | | | | |
| C.6 Financial guarantees received | | | | | | | | | | |
| C.7 Physically settled credit derivatives | | | | | | | | | | |
| - Long positions | | | | | | | | | | |
| - Short positions | | | | | | | | | | |
| C.8 Cash settled credit derivatives | | | | | | | | | | |
| - Long positions | | | | | | | | | | |
| - Short positions | | | | | | | | | | |

With respect to financial assets subject to self-securitisations, at the end of 2018, the Parent Company was involved in three securitisations of performing loans for which it had subscribed all of the securities issued. Golden Bar 2014-1, Golden Bar 2015-1 and Golden Bar 2016-1.

The securitisations are stand-alone.

On 25 January 2018, the unwinding of the Golden Bar Whole Loan Notes VFN 2013-1 transaction was completed, with the subsequent repayment of the securities.

Below is a summary of the main features of the transactions originated by Santander Consumer Bank in 2018:

| Transaction | 12/31/2018 | | | | |
|---|---|---|---|---|---|
| | Class | ISIN Code | Rating Moody's / DBRS | Activities | Outstanding al 31/12 |
| Golden Bar Whole Loan Note VFN 2013-1 | WLN | IT0004975527 | n.a. | Car loan and Personnel loan | - |
| Golden Bar 2014-1 | A | IT0005026163 | A1/AA | Car loan | 21,454,356 |
| | B | IT0005026189 | A1/AA | | 30,100,000 |
| | C | IT0005026197 | NR / NR | | 75,100,000 |
| Golden Bar 2015-1 | A | IT0005137580 | Aa3/ AL | Car loan and Personnel loan | 622,961,196 |
| | B | IT0005137598 | Baa2 / BBB | | 65,000,000 |
| | C | IT0005137606 | NR / NR | | 110,000,000 |
| Golden Bar 2016-1 | A | IT0005210031 | A1 / AL | Salary assignment, retirement assignment and delegation of payment. | 902,000,000 |
| | B | IT0005210080 | Baa3 / BBBH | | 27,500,000 |
| | C | IT0005210098 | Ba3 / BBB | | 38,500,000 |
| | D | IT0005210106 | B2 / BB | | 55,000,000 |
| | E | IT0005210114 | NR / NR | | 76,890,000 |
| | F | IT0005210122 | NR / NR | | 110,000 |

With reference to GB 2018-1, it is noted that the Bank retained Euro 65.7 million class A and all the Junior class.

The table below shows the details of the changes in securities during financial year 2018.

| Transaction | Notional value | | | |
|---|---|---|---|---|
| | Opening balance | Increases | Expenses | Closing balance |
| Golden Bar Whole Loan Note VFN 2013-1 | 508,635,698 | - - | 508,635,698 | - |
| Golden Bar 2014-1 | 270,638,504 | - - | 143,984,148 | 126,654,356 |
| Golden Bar 2015-1 | 1,000,000,000 | - - | 202,038,804 | 797,961,196 |
| Golden Bar 2016-1 | 1,100,000,000 | - | - | 1,100,000,000 |

The tables below show the changes in the reserves and subordinated loans:

| Transaction | Cash Reserve | | | | |
|---|---|---|---|---|---|
| | Composed | Opening balance | Increases | Expenses | Closing balance |
| Golden Bar Whole Loan Note VFN 2013-1 | - | - | - | - | - |
| Golden Bar 2014-1 | 18,800,000 | 13,531,925 | - | 7,199,207 | 6,332,718 |
| Golden Bar 2015-1 | 25,000,000 | 25,000,000 | - | - | 25,000,000 |
| Golden Bar 2016-1 | 27,500,000 | 27,500,000 | - | - | 27,500,000 |

| Transaction | Liquidity Reserve | | | | |
|---|---|---|---|---|---|
| | Composed | Opening balance | Increases | Expenses | Closing balance |
| Golden Bar Whole Loan Note VFN 2013-1 | - | - | - | - | - |
| Golden Bar 2014-1 | - | - | - | - | - |
| Golden Bar 2015-1 | - | - | - | - | - |
| Golden Bar 2016-1 | 22,000,000 | 22,000,000 | - | - | 22,000,000 |

| Transaction | Subordinate loans | | | | |
|---|---|---|---|---|---|
| | Distribute | Opening balance | Increases | Expenses | Closing balance |
| Golden Bar Whole Loan Note VFN 2013-1 | - | - | - | - | - |
| Golden Bar 2014-1 | 18,830,000 | - | - | - | - |
| Golden Bar 2015-1 | 25,030,000 | - | - | - | - |
| Golden Bar 2016-1 | 49,500,000 | 23,162,930 | - | 23,162,930 | - |

| | Assets held by the SPE | Senior and Mezzanine Securities subscribed | Junior Securities subscribed | Cash Reserve | Assets held by the Group | Type of collateral | Distribution of collateral by geographical area | Average maturity of the collateral | Rating of the collateral |
|---|---|---|---|---|---|---|---|---|---|
| Golden Bar Whole Loan Note VFN 2013-1 | - | - | - | - | | n.a. | n.a. | n.a. | n.a. |
| Golden Bar Stand Alone 2014-1 | 129,570 | 51,554 | 75,100 | 6,333 | 8,368,790 | n.a. | n.a. | n.a. | n.a. |
| Golden Bar Stand Alone 2015-1 | 789,779 | 687,961 | 110,000 | 25,000 | | n.a. | n.a. | n.a. | n.a. |
| Golden Bar VFN 2016-1 | 1,062,804 | 1,099,890 | 110 | 27,500 | | n.a. | n.a. | n.a. | n.a. |

In accordance with international accounting standards, no securitised portfolios have been derecognised as there were not the requisites for derecognition of the loans by the Parent Company, given that it was the subscriber of the Junior Securities issued by the SPE.

### Financial year 2018

| | 12/31/2018 | | | |
|---|---|---|---|---|
| **Breakdown of the excess spread accrued during the year** | **Golden Bar Whole Loan Note VFN 2013-1** | **Golden Bar Stand Alone 2014-1** | **Golden Bar Stand Alone 2015-1** | **Golden Bar VFN 2016-1** |
| Interest expense on securities issued | | (1,173) | (13,313) | (25,854) |
| Commisions and fees for the operation | (224) | (1,063) | (1,434) | (2,477) |
| - for servicing | (220) | (1,045) | (1,414) | (2,462) |
| - for other services | (4) | (18) | (20) | (15) |
| Other charges | (40) | (991) | (826) | (655) |
| Interest generated by the securitised assets | 3,023 | 12,605 | 65,933 | 70,292 |
| Other revenues | 194 | 1,325 | 4,424 | |
| **Total** | **2,953** | **10,703** | **54,784** | **41,306** |

### Financial year 2017

| | 12/31/2017 | | | |
|---|---|---|---|---|
| **Breakdown of the excess spread accrued during the year** | **Golden Bar Whole Loan Note VFN 2013-1** | **Golden Bar Stand Alone 2014-1** | **Golden Bar Stand Alone 2015-1** | **Golden Bar VFN 2016-1** |
| Interest expense on securities issued | | (2,731) | (13,582) | (21,161) |
| Commisions and fees for the operation | (2,904) | (2,256) | (1,497) | (1,948) |
| - for servicing | (2,771) | (2,149) | (1,290) | (1,936) |
| - for other services | (133) | (107) | (207) | (12) |
| Other charges | (19,447) | (5,556) | (1,527) | (1,180) |
| Interest generated by the securitised assets | 40,284 | 25,619 | 68,033 | 66,356 |
| Other revenues | 1,860 | 2,114 | 3,968 | 2 |
| **Total** | **19,793** | **17,190** | **55,395** | **42,069** |

## 1.5 Operational risks

## Qualitative information

### A. General aspects, management and measurement of operational risk

Operational risk is the risk of incurring losses due to inadequate or dysfunctional procedures, human resources or internal systems, or to exogenous events. This last type includes losses deriving from fraud, human error, business interruption, non-availability of systems, contractual non-performance and natural catastrophes. Operational risk includes legal risk, but not strategic or reputation risks.

Some time ago, the Group defined the overall framework for the management of operational risks, establishing rules and organisational processes for their measurement, management and control.

For Santander Consumer Bank S.p.A., ample information on the general aspects, management processes and measurement methods has been provided in the same section of the Separate Financial Statements, to which reference is made for further details.

For Banca PSA, on the other hand, the Parent Company plays a supervisory role, since the Subsidiary has its own specific operational risk management structure. To measure operational risk, Banca PSA uses the Basic Indicator Approach (BIA) provided for the determination of capital ratios for supervisory purposes. In addition, the guidelines for management of the operational risk of PSA are set forth within the PSA Local Policies and Procedures, which define the basic principles for the management and monitoring of operational risk. Errors and incidents caused by operational risk (Operational Incidents) are recorded in a database of events for the unit and are subject to monthly reporting.

For the subsidiary PSA Renting, the control and management of operational risk is performed by seconded PSA personnel on the specific activities required.

Operational risk in the Group is therefore closely linked to operations during the following phases of activity:

- Customer acceptance;
- Completion of the contract;
- Funding;
- After-sale processes;
- Back office processes;
- Back-end activities;
- Marketing activities;
- Debt collection activities.
- Administrative processes;
- Information Systems.

Operational incidents logged by the Parent Company are reported within the event database (the BlueSuite portal): this instrument is the main quantitative tool for logging errors and accidents caused by operational risk. The objective is to collate all the losses recorded due to the type of risk in question.

As regards legal risk, it includes various types of regulatory violations, illegal behaviour and non-compliant business methods that could result in financial losses for the intermediary.

These include, for example, losses resulting from:

- violations of laws or regulations;
- fines and penalties resulting from measures taken by the Supervisory Authority;
- transactions carried out as part of non-traditional activities with non-residents, which the counterparty is banned from entering into by law or regulations;
- use of unacceptable business methods.

Also falling within the definition of legal risk are losses from retroactive changes in the regulatory framework, as well as those resulting from settlements.

The risk of litigation has been the subject of specific and careful analysis. In the presence of legal obligations, for which it is probable that there will be an outflow of economic resources for their fulfilment, and for which it is possible to make a reliable estimate of the amount involved, the Bank decided to set up provisions for risks and charges, distinguishing between situations according to the most appropriate Basel II category (i.e. Provision for Legal Risks, categories IV/VII).

These two Basel categories of legal-type risk include the following:

Category IV: practices connected with customers, products and activities such as breach of the fiduciary relationship, abuse of confidential information.

Category VII: executive and procedural compliance such as incorrect data entry, incomplete legal documentation, breach of contract by non-customer counterparties, legal disputes with suppliers.

With regard to provisions for legal risks, please refer to the notes produced by Santander Consumer Bank S.p.A and the individual Group units.

## Quantitative information

The Group's risk exposure is identified by the corporate risk matrix. The model used for the self-assessment questionnaires consists of three phases:

- Identification of risks by business areas, with the creation of a specific library containing objectives, activities and root cause that trigger risk events;
- measurement of inherent risk: risk associated with an activity/process regardless of the level of control present. The level of risk is given by the combination of probability/frequency of realisation of the asset/process and the potential impact generated by the event. The size of the impact is assessed using different criteria depending on the type of risk being considered.
- Verification of the presence of appropriate control tools: control systems must be evaluated according to effectiveness (0%-100%), adequacy and possible future developments for the year;
- measurement of residual risk determined by the combination of inherent risk and evaluation of control systems and measured in terms of probability/frequency of realisation of the asset/process and the potential impact generated by the event;
- definition of controls for risks deemed acceptable or mitigation plans for risks deemed not acceptable.

Shown below are the net losses sustained in 2018, by risk category, recorded by the companies of the Group:

| Risk type | Net Losses |
|---|---|
| Internal Fraud | - |
| External Fraud | 1,524 |
| Employment. Practices & Workplace Safety | - |
| Clients, Products & Business Practices | 10,625 |
| Damage to Physical Assets | - |
| Business Disruption & System Failures | 143 |
| Execution, Delivery & Process Management | 39 |
| **Total** | **12,331** |

There are some pending court proceedings or events related to class actions/consumer associations in respect of the Group that are considered relevant for the purposes of the management of operational risks and of this report:

- On 9 January 2019, upon closure of an investigation into car loans, the Italian Antitrust Authority notified the parties to the proceedings of the final decision. These parties included a number of captive banks active in Italy in the car loan sector and the related reference automotive groups, as well as the trade associations Assofin and Assilea. Santander Consumer Bank S.p.A. ("SCB") is the parent company of Banca PSA Italia S.p.A., against which the investigation was initiated. In the final decision, the Authority did not impose any penalty on SCB. The Authority also expressly excluded the joint liability of SCB with regard to the sanction imposed on Banca PSA Italia S.p.A., which was prudentially allocated by the latter to provisions for risks and charges.
- Since 2009 the Bank has been a party to a series of disputes initiated by a former dealer with which commercial collaboration agreements had been concluded then gradually terminated during the course of 2008. A number of recent decisions and measures were made in favour of the Bank before the competent courts. Based on the

soundness and the validity of its own arguments, the Bank is confident that the pending proceedings may have the same outcome.

- The total number of complaints received by the Bank in the course of financial year 2018 is 9,905, a decrease of 7% compared with the previous year. The main causes of complaint relate to the categories (i) Request for reimbursement of commissions as a result of early redemption of salary assignment and delegation of payment (equal to 75.3% of the total) and (ii) Interest rates applied to Customers (4.7% of the total). The rate of acceptance of disputes handled is 32%.

The aforesaid risk events are, at present, taken into consideration in assessments of losses and of prudential provisions.

## Section 3 – Risks of insurance companies

There are no insurance companies in the consolidation.

## Section 4 – Risks of other companies

There are no other active companies in the consolidation.

# Part F – Information on consolidated shareholders' equity

## Section 1 – Consolidated shareholders' equity

### A. Qualitative information

The Shareholders' Equity of the Santander Consumer Bank Group is made up of the aggregation of Capital, Share premium reserve, Reserves, Valuation reserves and Profit for the year. In order to ensure compliance with the regulatory requirements provided for by the legislation in force, equity management is performed. This aims to identify and maintain shareholders' equity at the proper size, as well as to reach an optimal combination of the various different methods of capitalisation, in order to ensure, in addition to compliance with the regulatory requirements, consistency with the risk profiles assumed.

Activities to verify compliance with the minimum ratios required primarily involve quantifying the weight of both the growth trends in risk assets envisaged in the company budgets, and the weight calculated on each proposed activity that the Santander Consumer Bank Group expects to undertake in the short and medium-term. As a result, strategic finance operations are proposed, defined and undertaken (e.g. capital increases,

issuance of subordinated loans, capitalisation of profits) in order to adjust the equity in respect of the requirements put in place by the Control Body.

The Tier 1 capital of the Santander Consumer Bank Group is made up of the paid-up capital, the share premium reserve, profit reserves, valuation reserves and other reserves. The Tier 1 capital also includes the profit for the year net of any expected dividends. Intangible assets

and the prudential filter relative to the prudent valuation of assets and liabilities designated at fair value, and the relative equity instruments of Banca PSA Italia, qualifying for inclusion in consolidated capital, are deducted from the aforementioned CET 1 instruments and items.

The amount included in Additional Tier 1 capital relates to the share of minority interests of Banca PSA, qualifying for inclusion in consolidated capital, in instruments of this type.

Tier 2 capital currently consists of subordinated loans. Also included in Tier 2 capital is the share of minority interests of Banca PSA, qualifying for inclusion in consolidated capital.

The Group's strategic objectives in terms of capital are:

- Adequate expected profitability: special attention is paid to the Return on Risk Weighted Assets (RORWA)[13]. This indicator allows us to interpret the Group's performance effectively, integrating the component parts of the financial statements (assets, liabilities and RWAs) with the components of the income statement (revenues and expenses); it provides support to management in risk-return decisions.
- Profitability in terms of RORWA is measured and assessed at Group level, by product / channel / agreement, on generations of new productions.
- Maintaining levels of capitalisation in line with current regulations and with the constraints imposed by the Supervisory Authority, as well as with the objectives agreed with the Parent Company.

The Group makes sure that adequate capital levels are maintained through an evaluation and monitoring process based on the following instruments:

- Capital Planning and monitoring;
- RAF (Risk Appetite Framework)[14];
- ICAAP.

Capital Planning and Monitoring is a way of measuring regulatory capital availability for the period of reference and for subsequent periods according to the expected developments, with the aim of verifying the level of the mandatory minimum requirements and anticipating any corrective measures.

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[13] Calculated as the ratio between Profit After Taxes and RWAs.

14 Policy risk appetite framework.

In capital planning, all components of regulatory capital and the corresponding RWA are monitored constantly[15]. The key indicators for monitoring purposes are:

- CET I ratio
- Tier I ratio
- Total Capital Ratio
- Leverage Ratio.

The indicators are calculated using total internal capital as the taxable basis; they are monitored both on an actual basis, with reference to the supervisory reports[16], and prospectively[17], based on foreseeable developments in the aggregates under observation.

The Risk Appetite Framework (RAF) is a framework of reference that defines - in line with the maximum assumable risk, the business model and strategic plan - the risk appetite, tolerance thresholds, risk limits, risk management policies, key processes needed to define and implement them. The following indicators are monitored within the RAF with regard to capital adequacy:

- CET I ratio;
- CET1 under stress;
- Leverage Ratio;
- Total Capital Ratio.

These indicators are measured in terms of risk capacity, risk appetite, risk tolerance, risk profile, risk limits.

The Internal Capital Adequacy Assessment Process (ICAAP) is the process by which we evaluate capital adequacy relative to the significant risks connected with the company's operations and reference markets. The Second Pillar, which is the process for controlling supervised banks' overall risk exposure, is intended to support the quantitative rules envisaged in the First Pillar for the determination of regulatory capital requirements with a process (the ICAAP), which makes it possible, through self-assessment and discussions between the Supervisory Authority and the intermediaries, to take into account the peculiarities and specific risk profiles of individual banks and to assess the possible impact on them of the evolution of markets, products and technology.

For 2018 the Group did not receive a request for additional requirements as a result of the SREP process and therefore had to comply with minimum capital requirements (inclusive of the minimum capital conservation buffer) equal to 6.375% of Common Equity, 7.875% of Tier 1 and 9.875% of Total Capital.

[15] They are viewed monthly by the Management Committee and sent to the Parent Company; then periodically, at least once a quarter, they are presented to the Board of Directors.

[16] Figures sent on a quarterly basis.

[17] Monthly with a time horizon included in the 12 months of the current year.

## B. Quantitative information

### B.1 Consolidated shareholders' equity: breakdown by type of business

The following table analyses the various items in shareholders' equity.

| Equity items | Prudential consolidation | Insurance companies | Other companies | Consolidation adjustments and eliminations | Total |
|---|---|---|---|---|---|
| 1. Share capital | 715,309 | | | (72,154) | 643,154 |
| 2. Share premium reserve | 24,177 | | | (11,772) | 12,405 |
| 3. Reserves | 301,037 | | | (45,107) | 255,930 |
| 4. Equity Instruments | | | | | |
| 5. (Treasury shares) | | | | | |
| 6. Revaluation reserves: | (220) | | | | (220) |
| - Equity instruments designated at fair value through other comprehensive income | | | | | |
| - Hedge accounting of equity instruments designated at fair value through other comprehensive income | | | | | |
| - Financial assets (different from equity instruments) at fair value through other comprehensive income | | | | | |
| - Property, plant and equipment | | | | | |
| - Intangible assets | | | | | |
| - Foreign investment hedges | | | | | |
| - Cash flow hedges | | | | | |
| - Hedging instruments [Unspecified Elements] | | | | | |
| - Foreign Exchange differences | | | | | |
| - Non-current assets and groups of assets held for sale | | | | | |
| - Financial liabilities designated at fair value through profit or loss (own creditworthiness changes) | | | | | |
| - Actuarial gains (losses) on defined benefit plans | (220) | | | | (220) |
| - Part of valuation reserves from investments valued at equity method | | | | | |
| - Special revaluation laws | | | | | |
| Net (Loss) (+/-) of Group and minorities | 117,173 | | | | 117,173 |
| **Shareholders' equity** | **1,157,477** | | | **(129,034)** | **1,028,443** |

### B.2 Valuation reserves for financial assets measured at fair value through comprehensive income: breakdown

As at 31 December 2017, the item “Valuation reserves for available-for-sale financial assets” showed a net balance of Euro 90 thousand. Due to the first time adoption of IFRS 9, the methods of accounting for government securities held in the portfolio have changed, and the balance has therefore been adjusted. For further details, please refer to Annex 1 of the Financial Statements.

### B.3 Valuation reserves for financial assets measured at fair value through comprehensive income: change in the year

As at 31 December 2017, the item “Valuation reserves for available-for-sale financial assets” showed a net balance of Euro 90 thousand. Due to the first time adoption of IFRS 9, the methods of accounting for government securities held in the portfolio have changed, and the balance has therefore been adjusted. For further details, please refer to Annex 1 of the Financial Statements.

### B.4 Valuation reserves related to defined-benefit pension plans: change in the year

During the year there was an increase in valuation reserves related to defined-benefit pension plans of Euro 173 thousand (Euro 155 thousand net of the corresponding tax effect).

## Section 2 – Own funds and capital adequacy ratios

### 2.1 Scope of application of the regulation

Own Funds and the capital adequacy ratios are calculated on the basis of the current instructions (Circular 285 and 286 and update of Circular 154 of 22 November 1991) issued by the Bank of Italy following the transposition of Directive 2013/36/EU (CRD IV) and (EU) Regulation 575/2013 (CRR) which introduce into the European Union the standards laid down by the Basel Committee on Banking Supervision.

Note that the scope of application of the regulations on own funds and capital ratios is the same as the one for financial statement regulation.

## Section 2 – Own funds and capital adequacy ratios

The information on own funds and capital adequacy contained in the public disclosure (Pillar 3) is not applicable at individual level since such information is required from the Spanish Parent Company.

Since Santander Consumer Bank is subject to the capital adequacy requirements established by the Basel Committee, as incorporated into the current regulations of the Bank of Italy, quantitative information concerning the composition of own funds and capital adequacy is provided below.

| Consolidated Own Funds In €MM | Total | |
|---|---|---|
| | 31/12/2018 | 31/12/2017 |
| **A. Capital primary Class 1 (Common Equity Tier 1 - CET1) before application of prudential filters** | **949,662** | **835,579** |
| of which CET1 instruments subject to transitional provisions | | 66,968 |
| **B. Prudential filters CET1 (+/-)** | **(10)** | **(376)** |
| **C. CET1 before items to be deducted and the effects of the transitional arrangements (A +/- B)** | **949,652** | **835,203** |
| **D. Deductions from CET1** | **11,149** | **10,264** |
| **E. Transitional regime - Impact on CET1 (+/-)** | | 14,624 |
| **F. Total Capital primary Class 1 (Common Equity Tier 1 - CET1) (C - D +/- E)** | **938,502** | **839,562** |
| **G. Additional Tier 1 Capital (Additional Tier 1 - AT1) before items to be deducted and the effects of the transitional arrangements** | **20,911** | **17,482** |
| of which AT1 instruments subject to transitional provisions | | 17,482 |
| **H. Deductions from AT1** | | |
| **I. Transitional regime - Impact on AT1 (+/-),** | | **(3,496)** |
| **L. Total Capital Additional Tier 1 (Additional Tier 1 - AT1) (G - H +/- I)** | **20,911** | **13,986** |
| **M. Capital Class 2 (Tier 2 -T2) before items to be deducted and the effects of the transitional arrangements** | **131,631** | **98,552** |
| of which T2 instruments subject to transitional provisions | | 12,060 |
| **N. Deductions from T2** | | |
| **O. Transitional regime - Impact on T2 (+/-)** | | **(153)** |
| **P. Total Share of Class 2 (Tier 2 -T2) (M - N +/- O)** | **131,631** | **98,399** |
| **Q. Total own funds (F + L + P)** | **1,091,044** | **951,947** |

The table shows the amount of capital for supervisory purposes and its fundamental components which correspond to those indicated in supervisory reports.

| Categories/Values | Non weighted assets | | Weighted assets | |
|---|---|---|---|---|
| | 12/31/2018 | 12/31/2017 | 12/31/2018 | 12/31/2017 |
| **A. RISK ASSETS** | | | | |
| A.1 Credit and counterparty risk | 9,861,252 | 9,076,356 | 7,110,980 | 6,500,403 |
| 1. Standardized approach | 9,861,252 | 9,076,356 | 7,110,980 | 6,500,403 |
| 2. IRB approach | | | | |
| 2.1 Foundation | | | | |
| 2.2 Advanced | | | | |
| 3. Securitizations | | | | |
| **B. CAPITAL REQUIREMENTS** | | | | |
| B.1 Credit and counterparty risk | | | 509,896 | 520,032 |
| B.2 Risk valuation adjustment credit | | | 64,111 | |
| B.3 Regulation Risk | | | | |
| B.4 Market Risk | | | | |
| 1. Standardized approach | | | | |
| 2. Internal models | | | | |
| 3. Concentration risk | | | | |
| B.5 Operational risk | | | 49,270 | 42,438 |
| 1. Basic indicator approach (BIA) | | | 20,565 | 13,326 |
| 2. Traditional standardized approach (TSA) | | | 28,706 | 29,112 |
| 3. Advanced measurement approach (AMA) | | | | |
| B.6 Other calculation elements | | | | |
| B.7 Total capital requirements | | | 623,278 | 562,470 |
| **C. RISK ASSETS AND CAPITAL RATIOS** | | | | |
| C.1 Weighted risk assets | | | 7,790,971 | 7,030,872 |
| C.2 Capital primary class1 / Risk | | | 12.05 % | 11.94 % |
| C.3 Capital Class 1 / Risk-weighted assets (Total capital ratio) | | | 12.31 % | 12.14 % |
| C.4 Total own funds / Risk-weighted assets (Total capital ratio) | | | 14.00 % | 13.54 % |

The table shows the amount of risk assets and capital requirements, according to information reported in supervisory reports.

# Part G – Business combinations

## Section 1 – Transactions carried out during the year

During the year there were no business combinations, as regulated by IFRS 3, which resulted in the acquisition of control of business or legal entities.

As regards the acquisition of the business unit carried out by the Parent Company, as part of the under common control transaction, reference is made to the same section of the Separate Financial Statements.

## Section 2 – Transactions subsequent to the year end

The Group has not carried out any business combination after the balance sheet date.

## Section 3 – Retrospective adjustments

The Group has not carried out any business combination after the balance sheet date.

# Part H – Related-party transactions

## 1. Information on the remuneration of directors, auditors and managers

The following table shows the amounts of compensation paid in 2018 to members of the management and control bodies and to managers with strategic responsibilities that fall within the definition of “related party”.

| | 12/31/2018 |
|---|---|
| Short-term benefits | 2,431 |
| Post-employment benefits | |
| Other long-term benefits | |
| Termination indemnities | 856 |
| Share-based payments | 210 |
| **Total** | **3,498** |

## 2. Related party disclosures

Shown below are the principal relationships with related parties according to the size of the year-end balance (in thousands of euros):

| | Receivables | Payables | Derivatives | Expenses | Income |
|---|---|---|---|---|---|
| Banco Santander | 312,379 | 1,011,981 | 2,358,438 | 15,232 | 5,207 |
| Santander Consumer Finance | | 4,626,178 | | 17,571 | |
| Società del Gruppo Peugeot SA | 8,961 | 54,156 | | 12,327 | 9,555 |
| Other Santander Group companies | 1,837 | 91,001 | | 5,814 | 6,782 |

In respect of the Spanish Parent Company Banco Santander:

- the receivables mainly relate to transactions in derivative contracts entered into with the Spanish counterparty and to cash deposits belonging to the segregated funds of the securitisations;
- the payables mainly relate to the securitisation transactions established by the companies of the Group and signed by the Parent Company;
- the derivatives refer to interest risk hedging transactions as mentioned in Part E, Section 2. The amount shown in the table is the algebraic sum of the notional amounts;
- the expenses mainly relate to hedging activities;
- income mainly relates to hedging activities.

While in respect of the direct Parent Company Santander Consumer Finance:

- the payables relate to loans and related interest accruals received from all the Group companies as part of normal funding activities and subordinated loans;
- the charges relate mainly to interest expenses on loans received.

Relationships are also maintained with other companies of the Santander Group. The payables mainly consist of subordinated loans and hybrid capital instruments (Euro 39,149 thousand) and current accounts (Euro 27,788 thousand), whereas the expenses mainly consist of interest expense accrued on loans requested (Euro 1,960 thousand) and costs for consulting and services offered by Group companies (Euro 5,324 thousand). Income derives mainly from fees earned for the distribution of insurance products (Euro 6,541 thousand).

Finally, the relations between the subsidiary Banca PSA Italia and PSA Renting and the Banque PSA Finance Group, which owns 50% of the shares, are shown.

As regards relations with related parties, it should be noted that there are amounts due in the amount of Euro 238 thousand and amounts payable in the amount of Euro 347 thousand.

## Other Information

As required by Art. 2427, paragraph 16 bis) of the Italian Civil Code, the following table shows the total amount of fees due to the independent auditors for the statutory audit of the annual accounts, including audit activities during the year on the regularity of the bookkeeping, correct recognition of transactions in the accounting records and verification of the result included in the capital for supervisory purposes at 30 June. The amounts are shown net of an expense allowance, supervisory contribution and VAT.

| Type of services | Supplier | Recipient | Description | Fees (euro) |
|---|---|---|---|---|
| Audit | PricewaterhouseCoopers SpA | Parent Company | Audit services (annual report, consolidated financial statements, interim report, accounting checks) | 174,679 |
| | PricewaterhouseCoopers SpA | Subsidiaries | Audit services (annual report, consolidated financial statements, interim report, accounting checks) | 163,590 |
| | PricewaterhouseCoopers SpA | SPV Golden Bar | Audit services (annual report, consolidated financial statements, interim report, accounting checks) | 23,532 |
| Other services | PricewaterhouseCoopers SpA | Parent Company | Validation of specific long term funding operations (TLTRO). | 25,000 |
| | PricewaterhouseCoopers SpA | Subsidiaries | VAT compliance, translation activity, verification procedures | 7,518 |
| **Total** | | | | **394,319** |

# Part I – Share-based payments

The Group has not entered into any payment agreements based on its own equity instruments.

# Part L – Segment reporting

Based on the analyses carried out to verify whether the quantitative thresholds laid down in IFRS 8 had been exceeded, the predominant operating segment of the Group is “consumer credit”. It is therefore not necessary to provide separate information for the various operating segments of the Group.

Report on operations of Santander Consumer Bank S.p.a.

# Report on operations of Santander Consumer Bank S.p.A.

Below is the Report on operations of Santander Consumer Bank S.p.A.

With reference to the macroeconomic scenario and sector trends, please refer to the relevant sections of the Report on Operations of the Consolidated Financial Statements.

## Strategic guidelines and outlook for 2019

Against the background of the dynamic outlined above, Santander Consumer Bank operations are geared to a sustainable growth of profits aimed at creating value for shareholders, to an ability to independently generate capital and to a conscious assumption and management of risks. More specifically:

- **Customers.** To collaborate long-term and strengthen relationships with existing customers/partners, in addition to seeking new opportunities for collaboration in different channels, maintaining market share and preserving its position in the reference market.
- **Shareholders.** To ensure steady, adequate and sustainable growth with value creation (RoRWA).
- **Funding management.** Collection activities aimed at supporting customer disbursement activities, with a focus on increasing the diversification of sources of finance, aiming to limit financial risks.
- **Control/optimisation of operating costs**, ensuring their growth is lower than the growth in revenue.
- **Digitalisation.** Fully digitalise the sales process in order to create competitive advantages and to automate procedures and improve the Bank's online visibility.
- **Effective risk management.** Constant monitoring of the quality of the managed portfolio and maintaining a steady level in dispute using an effective strategy of acceptance and recovery.
- **Capital.** Ability to generate capital independently and achieve levels of capitalisation in line with current regulations, with constraints imposed by the Supervisory Authority, or with the objectives of the Santander Group.
- **Internal culture.** Updating, developing and strengthening business skills and know-how, nurturing talent and encouraging internal mobility.
- **Community and environment.** Continuously supporting the communities in which the Bank operates: schools and universities through work experience/internship programmes, financial education and active participation in academic events; support for voluntary associations, in addition to internal eco-sustainability initiatives and sustainable mobility incentives.

As part of this mission and strategic direction, the expectations for 2019 take into consideration:

- Further growth in loans granted in the car sector, thanks to agreements with "captive" manufacturers, and in the personal loans sector, thanks to cross-selling activities and the expected developments on digital channels.
- A gradual stabilisation of the managed portfolio, with an increasing focus on the Car sector.
- Confirmation of current profitability levels, in a context of declining margins, offset by a careful policy to control operating expenses and the cost of risk.

## The Sales Network

As regards consumer credit, Santander Consumer Bank recorded an increase in volumes compared to the previous year, with a good performance in the Automotive sector and in personal loans, while it recorded a drop in salary assignment and in specific-purpose loans.

The automotive sector recorded an increase of 15.2%, with a significant impact by brands relating to Captive Agreements, which reflect the efforts made by the Group to strengthen such partnerships.

In terms of personal loans, the Bank closed the year with an increase of 8.9% compared to the previous year.

In 2018, sales of the salary assignment product were down compared with the previous year (-17.2%), mainly due to a very competitive market linked to the presence of competitors with more aggressive financial positions. Special-purpose loans closed the year down with respect to the performance achieved in the previous year (-9.7%): this decrease is mainly due to a review of the corporate strategy, linked to direct sales.

| Santander Consumer Bank | dec '18 | dec '17 | Δ | Δ% |
|---|---|---|---|---|
| (Million euros) | | | | |
| TOTAL New Business * | 1,916.8 | 1,810.0 | 106.9 | 5.9% |
| Total car | 1,268.5 | 1,100.8 | 167.7 | 15.2% |
| *New Car* | *1,012.3* | *870.8* | *141.5* | *16.3%* |
| *Used car* | *256.2* | *230.0* | *26.2* | *11.4%* |
| Special Purpose Loan | 218.2 | 241.7 | -23.5 | -9.7% |
| Credit Card | 5.6 | 6.1 | -0.5 | -8.1% |
| Personal Loan | 177.6 | 163.0 | 14.6 | 8.9% |
| Salary Assignment | 246.9 | 298.4 | -51.4 | -17.2% |

## Marketing

As regards Digital, the current software, used on the new company website and designed to simulate a conversation with a human being (chatbot), helps to create commercial opportunities; the user can use this tool for help and guidance on matters related to Santander Consumer Bank products and for support on after-sales matters.

Moreover, lead generation activities and the functionality of the site are not limited to products intended for end consumers but also to enhancing the brand through the creation of new trade contacts; in addition to generating new business, new potential partners can increase the visibility of the brand across the country.

The car and motorcycle loans business saw the management of standard customer contact processes with Trade Cycle Management (TCM) products and support for key partners on the occasion of new model launches and campaign events aimed at strengthening customer loyalty and establishing greater engagement with dealerships. The first in-dealer renewal events were run during the week, with excellent results in terms of renewals.

With regard to personal loan products, efforts to optimise customised customer marketing campaigns continued with the use of various channels of contact and management of the champion challenger activities linked to specific promotions.

To support salary assignment products, the campaign focused on renewals, already extended across the entire agency network, was run.

On the direct channel, work also continued to improve marketing efforts with respect to the territorial distribution of Santander customers and service points.

As regards insurance products, there was an upward trend in the placement of insurance services combined with loans. In 2018, insurance proceeds came to approximately Euro 25.7 million, a significant increase compared to the 2017 figure (Euro 21.2 million).

In general, on the traditional “point of sale” channel there was an improvement in the performance of CPI products (Creditor Protection Insurance), CVT products (in particular Theft & Fire) particularly for the Captive channel and ancillary products.

The trend in “alternative” channels has been very positive, with a proportion of overall insurance sales of over 20%. The potential of the “telemarketing” channel was boosted thanks to the introduction of a fully digital channel which, by reducing the cost of contact, will allow the customer offering to be improved.

Profits in absolute terms were up on budget expectations, mainly due the improvement of performances on CPI products and on volumes financed in general. It should be noted that there was an increase in commissions being refunded, attributable to the phenomenon of early repayments.

## Automotive Development Service

Captive agreements were handled in coordination with the Parent Company, Santander Consumer Finance, as part of agreements at European level, both in terms of governance and strategic approach.

Captive agreements pertaining to the automotive sector, together with specialisation by the dedicated sales structure (Captive network) and loyalty programmes (TCM and lease products, CRM activities) make it possible, on one hand, to improve performance in terms of market share and volumes and, on the other hand, to strengthen the loyalty of dealers and customers.

The Bank’s increasing capacity and specialisation in managing Captive programmes has made it possible to increase the volumes financed and the redemption rate on renewals of maturing TCM and Retail contracts.

More specifically, the volumes financed for Hyundai increased in the year (+12% compared to 2017), as was the case for KIA (+12% compared to 2017), Mazda (+21% compared to 2017) and Mitsubishi/SsangYong (+61% compared to 2017).

As regards the motorcycle sector, despite the difficulties encountered by some Partners on sales volumes, 2018 saw a general growth in volumes financed with particularly interesting performances on the main brands (Yamaha and Harley-Davidson +20%, KTM +30%, Husqvarna +60% compared to 2017).

The financed portion of sales increased further across all the partnerships, exceeding 40% with most of the brands and reaching the highest levels on the market.

## Salary assignment

The salary and pension assignment market grew in 2018, albeit moderately, showing a trend generally in line with the entire consumer credit sector. In the more general context, more operators and investors entered the market, keen to develop what now objectively continues to be, across the entire sector, the product with the lowest incidence of credit risk cost, the legal bases of which, as noted, are rooted in the framework law of Presidential Decree 180 of 5/1/1950 and subsequent amendments and integrations. Furthermore, during the early months of the year the Bank of Italy issued specific “Supervisory Guidelines” related to salary/pension-backed loans, i.e. guidelines for all operators, aimed at strengthening and developing good operational and commercial practices, in terms of conduct and transparency, in respect of the customers of these transactions. At the same time, the Bank strengthened its commercial strategy focused on sustainable development, pursuing profitability objectives appropriate to the nature of the business, in addition to focusing more actively on diversifying the distribution channels. The three main lines of commercial activity carried out in 2018 were: the consolidation of activities for the promotion and placement of loans through its highly specialised network, composed of financial agents; the gradual increase of distribution through its 21 branches across the country; the launch, from May 2018, of the first collaborations with Financial Intermediaries (pursuant to Article 106 and 107 of the Consolidated Banking Act) for the purchase of non-recourse receivables and contracts, a loan portfolio development strategy that will be developed further in the course of 2019. The financed capital of new disbursements in 2018 was Euro 246.9 million, with a clear majority brought in by tied agents with respect to the total volumes of new disbursements, reaching more than 85%. Still with regard to new disbursements, the overall volume allocated in terms of mix, i.e. between the different sectors of employment of customers, breaks down as follows: state and public 45%, para-public 4%, private 18% and pensioners 33%.

## Personal Loans

2018 confirms the excellent results of the strategic actions on the personal loan portfolio, noted as from the end of 2017 and consolidated over the course of this year.

In the overall context of the personal loans market, therefore, 2018 was a positive year.

The results obtained, which increased significantly with respect to 2017, were achieved thanks to efficient management of the customer segmentation processes, the relative customisation of the offer and maximisation of the digital channel (as regards the product offering and technological developments for use by the division).

The distribution model adopted by Santander Consumer Bank, which is adequate to meet the current needs of the market and customers, has enabled customers to request personal loans both through the traditional channel (branches and agency network) and through the remote and digital channels.

## Deposit accounts

What the market offers essentially comes down to deposit accounts with or without a time constraint and an interest rate linked to this constraint.

The Bank has always offered its clients a demand deposit account and a time deposit account in order to provide a balance between funding stability and cost.

The new management software platform has made it possible to stabilise the product offering, which is made up of:

- IoPosso (demand deposit account);
- IoScelgo (basic demand deposit account to which the opening of a series of tied lines can be linked)

From a commercial point of view, there was an expansion of the portfolio of customers for both products which has increased the funding volume in line with the Group’s funding policies.

Set out below is a summary of the more quantitative aspects pertaining to 2018:

- time deposit funding amounted to Euro 402 million (+23% compared to the previous year);
- demand deposit funding amounted to Euro 672 million (+1.5% compared to the previous year);

## Debt Collection

Within Santander Consumer Bank Italia, the Collection Department (hereinafter CBU, Collection Business Unit) is responsible for the entire collection process and handles the management of the portfolio from one day of delay, in compliance with legal provisions, Group policies and operating procedures.

The mission of the CBU is to optimise collection at all stages in order to minimise the volume of insolvencies and the level of provisions to the income statement. To ensure the effectiveness of debt collection activities, we distinguish between the various types based on the age of the defaults, the type of product, the payment method and the dossier risk, deciding on collective action or personalised management addressed to the individual customer; depending on the stage the dossier has reached, this may be outsourced to specialist debt collection agencies, or handled internally at a local level.

In 2018, the introduction of IFRS 9 led to an increasing level of provisions for managed dossiers in the early stages of collection. For this reason the CBU has worked to vary some of the debt-recovery strategies with the aim of minimising the impacts of the new model of provision on the income statement.

Collection performance shows an improvement in the early stages of management, both over the telephone and at home.

The volume of restructuring in 2018 is in line with the trends of recent years, recording a slight reduction in volumes.

As for salary assignment as a product, recovery activities - again following the Group model - are headed up by the Collection Business Unit which focuses on recovering any amounts not paid by the third-party administrations involved in the assignment, applying priorities according to the level of risk and age of the positions. In this context, relations with the distribution network are strengthened with a view to reducing and preventing the state of insolvency.

In 2018, the stock of claims decreased compared to 2017 in terms of the number of open positions; the management process is focused on minimising the time needed to open and manage claims.

## Financial Management

For more details on the macroeconomic scenario and on the financial markets please refer to the corresponding section of the directors' report on the consolidated financial statements.

With reference to collection, at the end of 2018 Santander Consumer Bank had net debt of Euro 5,427 million (+1.19% compared to the previous year).

This debt is mainly composed of structured funding, Group funding, customer deposits and bond issues.

At 31 December 2018, the amount resulting from having participated in ECB auctions had fallen to Euro 872 million (TLTRO-II), as a result of the full repayment of TLTRO-I, in September 2018, for Euro 723 million.

The Bank also finalised a new securitisation transaction, obtaining Euro 330 million from the sale of part of the Senior class A security.

Finally, in December 2018, the Bank finalised a repurchase transaction, with quarterly duration, for an amount of Euro 109 million with an institutional investor.

Medium- to long-term liabilities include loans granted by the Spanish Parent Company and subordinated loans provided by Santander Consumer Group companies and by the Santander Group. The Spanish parent company also provides short-term liabilities.

The increase in retail customer deposits was smaller compared with the previous year, from approximately Euro 972 million at the end of 2017 to approximately Euro 1,074 million at December 2018. Further details on funding results are provided in the Deposit accounts section of the separate financial statements.

Between October and November 2018, bonds totalling Euro 113 million reached maturity. As at the reporting date, outstanding EMTN issues represented a total of Euro 151 million (approximately 2.8% of the total).

On the whole, the cost of funding decreased in 2018 as a result of the use of more economic forms of financing and the reduction of interest rates and spreads paid.

Finally, the Bank has a portfolio of highly liquid securities, for the purposes of compliance with the regulatory requirements for short-term liquidity. This portfolio, consisting of Italian government bonds, amounted to Euro 354 million at the end of 2018.

## IT systems

Management of the Bank's information assets, data and technological infrastructures is coordinated by the Information Technology (IT) department.

In accordance with Group policies, the IT department's objective is to ensure the regular renewal of the computer and information systems, as well as keeping their design, implementation and maintenance up-to-date. It also ensures the availability of information, technological and data systems, as well as processes and related services (hereinafter referred to as "the technological infrastructure" or "IT"). Furthermore, it ensures their adequacy in relation to the strategic guidelines of the Bank and the support required to meet the needs of customers. It is also responsible for providing reliable, timely and comprehensive information to company bodies, guaranteeing compliance with the applicable regulations at all times.

The IT department is responsible for managing the following activities or services:

- defining, developing and implementing projects relating to the information systems and technology infrastructure;
- maintaining and managing the existing application systems and technological infrastructures;
- managing communication technological structures and ensuring their integrity;
- managing and checking operational services and customer and shareholder support, and managing internal operational services.

The IT department is structured in such a way as to cover the following macro areas:

- **IT Governance**: management of the IT budget and contractual, cost and monitoring aspects of service levels in respect of third parties, together with the "Demand management" function; management of relations with the Spanish Parent Company through regular meetings and alignments; management and oversight of IT incidents; preparation and monitoring of the System Plan; preparation and management of the IT committee.
- **Demand management**: in order to improve the interaction between IT and the user and respond effectively and efficiently to the Bank's changing environment, improvement initiatives were carried out in 2018 in relation to IT tools and processes, particularly those related to change management. Requests relating to application and infrastructure are redirected, their technical/economic/temporal feasibility is verified.
- **Overseeing of architecture, ICT security (Information, Communication & Technology) and technological risks**: policies and procedures for an IT risk management consistent with the risk appetite and the internal and external regulations to which the bank is subject have been defined and implemented in this regard. For technological and operational risk oversight, the Bank applies a risk management model defined in agreement with the Parent Company Santander Consumer Finance, which provides for the updating of operational risk indicators, the consolidation of risk events, regular risk reporting to the Parent Company and to the appropriate levels of the organisation, the maintenance of the Business Continuity Plan to the extent of its competence; the Bank also has a Cybersecurity Master Plan for the strengthening of the controls put in place to protect its physical assets and the confidentiality, integrity and availability of its information from threats coming from cyber space, which will be fully implemented in the three-year period 2019-2021.

A three-year strategic plan was developed during the year. The plan supports the challenges and priorities established by the Board of Directors and by senior management, and identifies the following macro objectives in its development strategy:

- **Total Customer Value**: to understand and serve our customers better and to go beyond their expectations, launching a project to integrate all processes and channels that involve customers;
- **Digital Experience & IT Transformation**: to innovate, digitise and streamline our customers' business, and thereby promote the growth of our business and improve the efficiency of processes through initiatives to develop platforms for the digitisation of business processes guaranteed by a revision of the IT architecture;
- **Empowerment & Continuous Improvement**: to begin optimisation analysis, in order to ensure the efficiency of processes, in terms of time, costs and resources, through the use of methods aimed at digitisation and innovation.

## Institutional Relations, Legal and Compliance Department

The Bank's Institutional Relations, Legal and Compliance Department oversees the following areas:

- **Governance and extraordinary operations**: handles the organisational aspects relating to the Group companies' operations, the preparation of the supporting documentation for ordinary and extraordinary operations and the coordination of relationships with the Spanish Parent Company to ensure compliance with Group procedures and the maintenance of an adequate flow of information;
- **Transparency of banking and financial transactions and services** - Consumer credit agreements: with regard to consumer credit agreements, performs a periodic review of contractual documentation in order to comply with current regulations and to ensure the clarity and transparency thereof;

- **Captive agreements**: support in the management of the agreements in coordination with the Sales and Marketing Department and the Parent Company's legal department;
- **Complaints and disputes established with the BFA**: it handles, within the regulatory deadlines, complaints received from customers and seeks the best solution to meet customers' demands, where founded; it also reports any critical issues that have arisen.
- **Banking and Financial Arbitrator** (BFA): handling of disputes made by customers to the Banking and Financial Arbitrator and preparation of the defence. As part of this work, it updates the departments involved on any new guidelines issued by the BFA in areas of interest and recommends improvements in critical areas that emerged from the complaints and from the appeals presented by customers to the BFA.

With reference to complaints and the main causes managed by the Unit, reference is made to that described in Part E – Operational risks section.

With respect to Compliance and AML, the main activities relate to:

- The definition of the content of and planning for training courses on the main regulatory principals applicable to the Group's operations; training is carried out with different levels of interaction and analysis, also for the external product distribution network;
- Ex-ante and continuous checks, verification of compliance with internal rules prior to their adoption and dissemination, ex-post checks on business processes via systematic and sample testing to identify any critical issues pertaining to the regulatory/procedural framework, assessment of compliance risk, as well as guidance to the structures in question on the measures and/or the organisational formalities to be implemented for the resolution or mitigation of the critical issues that have arisen;
- Support and assistance to business functions, inclusive of control functions, in the implementation of policy, processes and procedures for the application in practice of operational rules and procedures, on the launch of new products or services to customers and in the assessment of risks and consequent opportunities;
- Implementation of procedures for periodic checks on transactions and relationships;
- Customer profiling both in the activation phase of the relationship and subsequently;
- The monthly monitoring of abnormal transactions and their evaluation for the purposes of suspicious transactions reports;
- Regular monitoring of the correct and timely recording of information in the Centralised Computer Archive (Archivio Unico Informatico - AUI) and activation of specific analyses of potential anomalies found, in order to take corrective action.
- Preparation of policies, procedures and information on GDPR, advice in relation to the obligations arising from the Regulation. Monitoring of observance by employees of data protection rules, the drafting of opinions in relation to the data protection impact assessment and overseeing that this is correctly performed. Activities to supervise the process for managing enquiries from data subjects and to support the data controller in the preparation and updating of the data processing register; awareness raising and training of employees and collaborators of the Bank that handle personal data; assessment and reporting of any data breaches; cooperation with the Supervisory Authority; participation in the service provider approval process to ensure observance of the obligations provided for by regulations; monitoring activities carried out through a framework of internal controls.

## Human Resources

Santander Consumer Bank's workforce at 31 December 2018 consists of 642 persons (including 11 managers, 187 middle managers and 444 office workers). The office workers include seven fixed-period contracts. At the end of the year, there are 16 employees on post-graduate internships.

The average age is 41.6 years, with female workers representing 46% of total employees.

Resources are allocated 37.5% in the commercial area, the rest in the various functions of General Management.

Personnel costs for the year amount to Euro 44.7 million.

In 2018, Santander Consumer Bank was certified for the first time as a Top Employer Europe and Top Employer Italy, for the excellent working conditions offered to employees and for its ability to continually improve the management of staff and the development of talents.

In addition to this prestigious international recognition, it was also awarded the Olivetti "Super Mamma e Neopapà" Prize, for an educational initiative to support new parents, and the Welfare Awards 2018 for the best company welfare plans according to Easy Welfare.

In September 2018, the 5th edition of the People Survey was conducted, involving all of the Group's employees. Participation in the survey nationally was 92%. The initiative, which is an important opportunity for feedback on personnel management matters and the internal climate, makes it possible to analyse employee engagement and enablement and, therefore, initiate action plans to improve them further. In addition to this initiative, another more personal feedback project, HR4Us, was launched, involving individual meetings between employees and Human Resources representatives.

A sustained internal communication campaign also continued this year, through which it was possible to promote the main employee-related initiatives, company projects and ad-hoc campaigns for important business issues using various digital, social and meeting tools. The now traditional Santander Week was organised for employees, which saw particularly high participation in the specific activities organised for employees, for their well-being, for their children and to support the local community through volunteering. In addition, a number of initiatives to promote attention to health and prevention were rolled out during Be Healthy Week.

There has been renewed collaboration with the major Italian universities, particularly locally, including internationally renowned business schools: more than 40 undergraduates and recent graduates were able to take part in curricular and extra-curricular training programmes. A number of high school pupils got to know the business by participating in several weeks of professional training.

The partnership with the consortium Almalaurea was renewed in order to promote the Santander brand at national level through the creation of a company profile on the Almalaurea website and participation in two national events (Rome and Turin). The collaboration with ESCP Europe was also consolidated, for the provision of work placements for students of the Master in Management, which envisages placements in three European countries over three years.

The financial education campaign aimed at students also continued, through participation in a training programme carried out in cooperation with the Foundation for Financial Education and Savings.

In addition, the Campus Santander project was launched, aimed at introducing university students to the banking sector. This provides the opportunity for young graduates to write their thesis in Santander with the support of internal experts.

Significant professional training courses have been provided on different topics: from the analysis of IT processes with 45 employees ITIL Foundation certified at SAS, through which they achieved certification, to 4 modules of specialised training designed and planned with the CRIF Academy in Bologna for 30 specialists and managers of the Retail Operations, Wholesale, Supervision and CQS areas.

Courses were put together to develop knowledge of leasing throughout the sales network and various educational modules for the upgrading and consolidation of knowledge on personal loans, salary-guaranteed loans and TCM for the various commercial professionals.

A training plan dedicated to all staff for the development of English with two dedicated courses, one for the head office and one for the sales network, was undertaken for the first time. Participation in the training programme was voluntary and over 60% of staff joined in.

Compulsory training was duly provided to all working staff with over 5,000 hours of training.

The managerial development programme also continued, aimed at the whole of middle management (30 participants) on issues relating to "Innovative Leadership", through 8 days of training and 3 themed Masterclasses.

Again in 2018, industrial relations were based on a culture of dialogue and sharing of objectives. The year was characterised by increased awareness that change and innovation, essential aspects of business, are achieved in close conjunction with a productive, dynamic and flexible organisation.

On 11 January 2018, the agreement was signed for the incorporation of ISBAN into Santander Consumer Bank, with the aim of achieving greater efficiency through a process to streamline the activities of ISBAN - provider of Information Technology to Santander Consumer Bank - at European level, via its incorporation.

19 employees joined Santander, some of whom were already former employees before the transfer of individual employment contracts which took place with the sale of the branch in 2007.

On 29 May 2018, an important agreement was signed between the Parties on the pilot project "Flexible Spaces and Flexible Working in the context of Smart-Working, to improve Work-Life Balance" (*Flessibilità negli Spazi e Lavoro Agile nell'ambito dello Smart-Working, volto alla Conciliazione Vita-Lavoro*) The new working mode - initially experimental - aims to align with an economic and working environment in continuous transformation, especially with the spread of digital.

Indeed, Smart Working aims to encourage an increase in work productivity and effectiveness and, in the context of a relationship of trust between employees and managers, promotes flexibility and autonomy in the choice of alternative spaces rather than traditional ones.

## Taxation

The Bank's fiscal policies are governed by the general principles of the Group in the field of taxation, set out in Corporate Tax Policy which defines the guidelines adopted by the Parent Company Banco Santander in relation to the governance and management of tax risk.

Transposition of the corporate policy at local level is ensured through the definition of the "Tax Strategy", approved annually by the Board of Directors of the Bank.

In 2016, the parent company Banco Santander issued a specific Corporate Tax Policy. In application of this policy, the Bank implemented a specific Tax Control Framework, containing the policy, principles, governance, risk analyses, processes and related controls aimed at managing, monitoring and mitigating tax risk; this was carried out in accordance with regulatory requirements and with a view to collaborative performance. This model was approved by the Board of Directors of the Bank on 13 December 2016, after obtaining the opinion of the group's tax office and the bank's supervisory bodies.

As required by Group policies, the annual report was also presented to the Board of Directors of the Bank. The report described the tax policies implemented in the course of the year, which are fully compliant with the principles provided for by the said tax strategy.

With reference to the tax periods subject to tax litigation or subject to verification, the following should be noted.

With regard to the tax audit on 2012, following the submission of the memorandum relating to the correctness of the "determination of the upper limit, namely the "total receivables" for the purposes of quantifying the write-downs deductible in the year", the Italian Tax Authorities accepted the arguments of the Company, cancelling the charge in question.

On 11 July 2018, Santander Consumer Bank SpA received a questionnaire, issued by the Italian Tax Authorities - Turin Office, concerning the request for information and support documentation in relation to the tax calculation for 2013 and in particular to the determination of the amount of non-deductible interest, to the amount deducted for loan write-downs and to the determination of the tax benefit for increases in capital (ACE).

Santander Consumer Bank SpA provided, within the terms set out in the questionnaire, the documentation and information requested by the tax office in question.

In the course of November 2018, the Bank received, from the relevant tax office, the request for further information in relation to the provisions for bad debt and any changes. Santander Consumer Bank SpA complied with this additional request.

As a result of this audit, the company proceeded to submit the supplementary tax return for IRES and IRAP and pay the necessary additional taxes, corresponding to a greater amount of non-deductible interest, amounting to approximately Euro 102 thousand including sanctions. No further irregularities were noted by the Tax Authorities.

On 12 April 2018, Santander Consumer Bank SpA received a summons from the tax office to appear in order to provide explanations and documentation, readily provided by the Bank, in relation to the amount declared for the purposes of the registration duty for the purchase, on 31 October 2016, of a business unit made up of agent and affiliate relationships.

On 27 September 2018, Santander Consumer Bank SpA received a payment notice for increased registration duty, in relation to the higher value attributed to said business unit, for an amount equal to Euro 399 thousand inclusive of interest and penalties.

Upon receiving the payment notice, Santander Consumer Bank undertook to submit, on 16 November 2018, a tax settlement proposal in order to reach, including by producing the documents and defence arguments, a possible amicable settlement of the dispute jointly with the Tax Authorities.

On 18 December 2018, following the partial acceptance of the Bank's arguments, the tax office reduced the tax demand connected with the higher valuation of the business unit purchased to a total of approximately Euro 165 thousand, including interest and penalties, which was paid on 21 January 2019.

With reference to the dispute with the Italian Tax Authorities relating to the reimbursement of the "IRAP ninths on write-downs of prior period receivables" for which Santander Consumer Bank had duly submitted a refund request in the course of 2018, the Tax Authorities formally waived the right to appeal in the Court of Cassation for the years 2005, 2006 and

2007, proceeding then to settle, for 2005, the amount of approximately Euro 140 thousand together with interest. The Bank is waiting for clearance of the repayments for the years 2006 and 2007 for Euro 360 thousand.

Santander Consumer Bank SpA is also awaiting further repayments, in the amount of Euro 170 thousand, that are not the subject of litigation and for which the bank has already renewed the relative repayment requests.

On 6 August 2018, the special-purpose vehicle Golden Bar (Securitisation) Srl received a summons from the tax office to appear in order to provide explanations and supporting documentation in relation to the repayment request submitted by the company and concerning, among other things, withholding tax in the amount of approximately Euro 740 thousand arising from the securitisation transaction "2,500,000,000 Euro Medium Term Asset-Backed Notes Programme" which began in December 2003 with the purchase of a loan portfolio sold by Santander Consumer Bank SpA as originator.

As a result of the various meetings held with the tax authorities, as well as the production of appropriate explanatory statements, the tax office recognised ownership of the receivable for withholding taxes incurred by Golden Bar (Securitisation) Srl and the right to repayment, in relation to which payment is awaited.

With reference to new tax changes envisaged by the 2019 Budget Law, the following measures, which will have the greatest impact on the Bank, are noted in particular.

As from 2019, the "*Aiuto alla Crescita Economica*" (Aid to Economic Growth) instrument has been cancelled, replaced by a facilitated IRES tax in favour of investments in tangible capital equipment and an increase in employment. This had an impact on 2018 in terms of reduced IRES in the amount of approximately Euro 2.1 million.

The deduction of 10 per cent from the amount of negative components arising from loan write-downs, envisaged, for the purposes of IRES and IRAP, for the tax period under way at 31 December 2018, is deferred to the tax period under way at 31 December 2026. This has an impact on the capital requirements of the bank for 2018, as a result of an increase in deferred tax assets, amounting to Euro 21 million.

The deduction from the IRES and IRAP taxable base of income items resulting from the first-time adoption of IFRS 9 is envisaged for the tax period under way at 31 December 2018, for an amount equal to 10% of their amount, while the remaining part is deferred to the nine subsequent taxable periods, in equal instalments. This has an impact on the capital requirements of the bank for 2018, as a result of an increase in non-monetisable deferred tax assets, amounting to approximately Euro 3 million.

## Other facts worth mentioning

With regard to the main risks and uncertainties to which the Bank is exposed, in accordance with the provisions of Article 2428 of the Italian Civil Code, it should be noted that the operating results, financial position and cash flows could be influenced by the general macro-economic framework and by financial market trends and the performance of the reference sector, as described in detail previously.

With regard to the information required by the Italian Civil Code on the Bank's objectives and policies in financial risk management, as per paragraph 6-bis of Article 2428 of the Italian Civil Code, as well as in relation to the use of financial instruments, for a detailed analysis reference should be made to Part E of the Notes to the financial statements.

The Company operates in full managerial autonomy in accordance with the strategic and operational guidelines issued by the Parent Company Santander Consumer Finance S.A., which carries out management and coordination activities pursuant to Article 2497 bis of the Italian Civil Code and Article 23 of Legislative Decree 385 of 1 September 1993, as updated to incorporate the amendments introduced by Legislative Decree 223 of 14 November 2016.

Management and coordination activities generally produce positive effects on the business and its results, as they permit economies of scale by using professional skills and specialised services with continuous improvements in quality, allowing the Bank to focus its resources on managing the core business.

The notes are supplemented by an appendix that summarises the key figures from the latest approved financial statements of the entity that carries out management and coordination activities (Santander Consumer Finance S.A.); Santander Consumer Bank does not own any treasury shares either directly or through trust companies or nominees.

In the course of financial year 2018, activities were performed that did not qualify as research and development at the time of writing this report.

Given the nature of its activity, the Group has not caused any environmental damage nor is it likely to ever cause environmental damage. In order to further reduce this impact, note that these financial statements will only be available in an electronic format, with the exception of copies that have been filed in accordance with the law.

Related party disclosures are provided in the notes accompanying the main balance sheet and income statement items that are affected, as well as in Part H which is specifically on related-party transactions. This information is considered exhaustive with respect to the requirements of Article 2428 of the Italian Civil Code and IAS 24.

All transactions with related parties are carried out at arm's length, taking into account the quality and type of services rendered.

Lastly, note that no transactions have been carried out with persons other than related parties, that could be considered atypical or unusual, outside the normal course of business or that would significantly impact on the economic and financial position of Santander Consumer Bank.

With regard to the going-concern assumption, note that in accordance with the instructions provided in Document no. 4 of 3 March 2010 issued jointly by the Bank of Italy, Consob and Isvap, regarding "Information to be provided in financial reports on impairment tests, on debt covenants, on debt restructuring and on the fair value hierarchy", which makes reference to the corresponding document no. 2, again issued jointly by these three Authorities on 6 February 2009, the Bank has a reasonable expectation that it will remain in operation for the foreseeable future and has therefore prepared its financial statements on a going-concern basis.

The following corporate transactions were concluded during the year:

- acquisition of the Italian subsidiary of the company Ingenierìa de Software Bancario S.L.;
- indirect acquisition of the shareholding in PSA Renting S.p.A;
- derecognition of the investment in Santander Consumer Finance Media S.r.l. following the conclusion of the process to liquidate the company.

For further details relating to these transactions, reference is made respectively to Part G of the Separate Financial Statements - Transactions carried out during the year and to Part A – Main considerations and assumptions for the determination of the scope of consolidation, and in general to the more detailed explanations included in the individual sections of the Financial Statements.

Since the end of the year and up to the date of approval of the draft financial statements by the Board of Directors, there have been no events or transactions that could have a significant impact on the results explained in this report. The draft financial statements therefore reflect all events that affected the Bank's operations in 2018.

## Comments on the results and key figures in the separate financial statements

The table below shows the key income statement and balance sheet figures for the year, with comparative figures from the previous year (in millions of euros).

In the year in question, there was a slight decrease in the net interest margin from Euro 217.5 million in 2017 to Euro 216.6 million in 2018, with a decrease in interest income (-3.5%) due mainly to the change in the portfolio mix, as well as a marked reduction in interest expense (-17.2%), favoured by the drop in rates and spreads paid to the market which resulted in a lower cost of funding.

Net commissions increased from Euro 31.1 million to Euro 37.7 million. Commission income linked to insurance products placed with customers financed by the Bank increased (+2.5%), while commission expense decreased more significantly (-11.6%), mainly due to lower commissions paid.

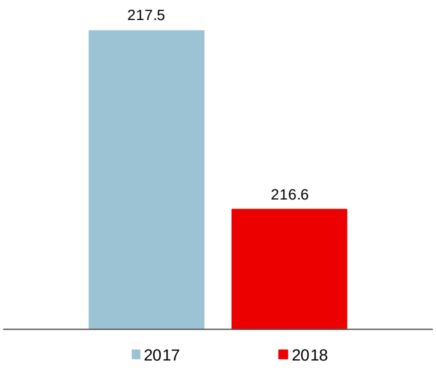
Net trading income (loss) represents the effect of the increase in fair value of securitisation derivatives.

The item Gains on disposal or repurchase of loans represents the balance net of receivables sold without recourse, insignificant with respect to that resulting from sales in the previous year.

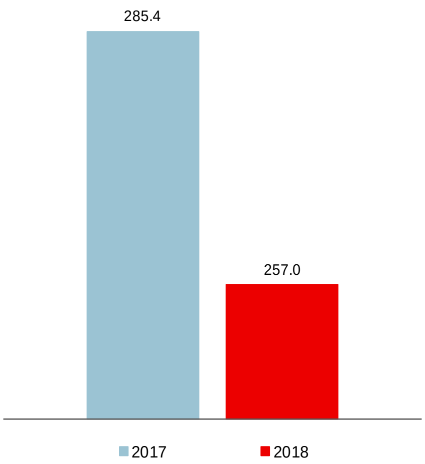
Operating income decreased by 9.9%, falling from Euro 285.4 to 257.0 million due to the dynamics described above.

Adjustments on loans decreased (-27.0%), from Euro 48.2 to 35.2 million, due to the effect of the sale of the portfolio in the previous year and the gradual change in the mix of the portfolio managed, with an increased focus on the Car sector.

## Net Investment Margin




## Net income




Administrative costs on the whole remained largely stable (+1.0%), increasing from Euro 110.0 to 111.1 million, which includes slightly increased personnel costs, offset in part by lower overheads.

Net provisions for risks and charges decreased significantly, due to the decrease compared to the previous year in complaints from customers.

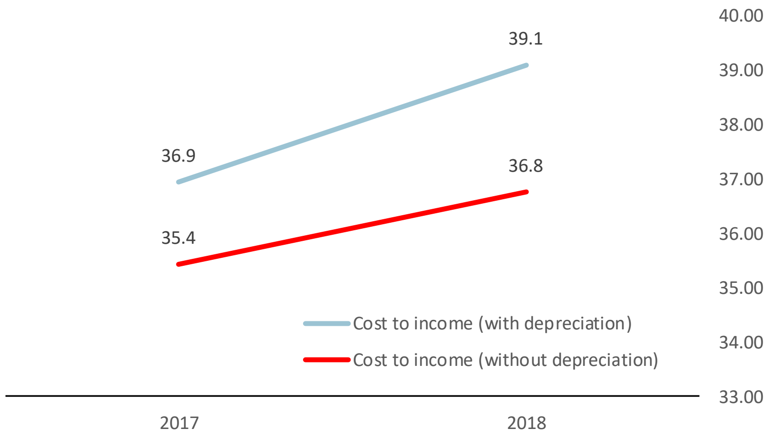
The above aspects led to a result before tax of Euro 117.1 million and a net profit of Euro 79.5

million.

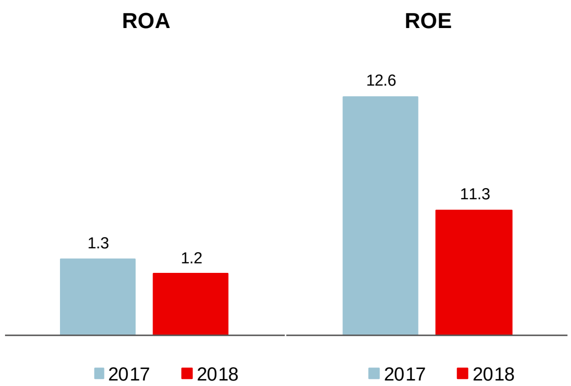
The cost-to-income ratio, calculated as the ratio between the sum of administrative costs and other net operating income

(with and without depreciation and amortisation) and operating income, increased compared with the previous year from 36.9% (35.4% without depreciation and amortisation) to 39.1% (36.8% without depreciation and amortisation).

## Cost to income

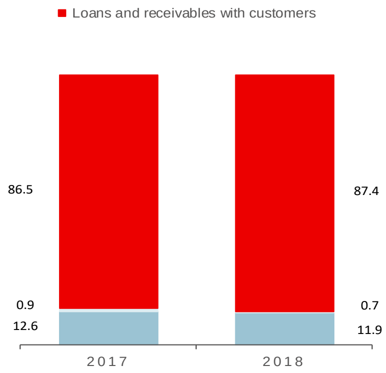


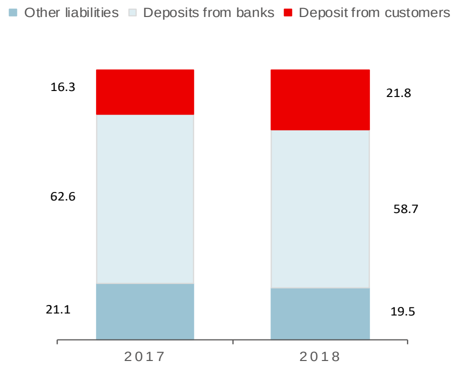

As a result of the above mentioned trends, the profitability indicators remained substantially in line with the previous year: the ROA (Return on Asset) stood at 1.2%, while the ROE (Return on Equity) decreased to 11.3% due to the effect of the increase in Equity aimed at enhancing capital strength (CET1 equal to 16.0%).




As regards the asset mix, customer loans increased, mainly due to the increase in lending (particularly in the Car sector), while loans to credit institutions and other assets decreased in absolute terms while the percentage of assets remained more or less stable.

Regarding the structure of sources of funds, on the other hand, there was an increase in amounts due to customers, consisting mainly of demand and time deposit accounts, a decrease in the amounts owed to credit institutions as a result of lower borrowings, and a reduction in other liabilities




As regards the change in loans to customers, the total increased slightly compared to the previous year (+1.9%). Analysing the details by product, there was an increase in Car loans (+13.7%), leasing (+21.1%), stock financing (+15.1%) and special-purpose loans (+34.6%). Salary assignment (-7.4%), personal loans (-9.3%) and credit cards (-15.3%) are down.

The decrease in “Other loans to customers” (-36.7%) is due to the reduction in the components attributable to the SPE Golden Bar.

“Other components of amortised cost” mainly relate to net amounts of contributions and commissions that are paid when a loan is granted but for which the income statement effect thereof is deferred over the expected residual life of the loan.

| Amounts in millions of Euro | 2018 | 2017 | Change | |
|---|---|---|---|---|
| | | | Amounts | ( % ) |
| Car loan | 2,533 | 2,228 | 305 | 13.7 |
| Special-purpose loan | 292 | 217 | 75 | 34.6 |
| Personnel loan | 705 | 777 | (72) | (9.3) |
| Cards | 6 | 8 | (1) | (15.3) |
| Leasing | 69 | 57 | 12 | 21.1 |
| Salary assignment | 1,509 | 1,630 | (121) | (7.4) |
| Stock financing | 523 | 454 | 69 | 15.1 |
| Other loans to customers | 245 | 387 | (142) | (36.7) |
| Other components of amortised cost | 104 | 82 | 22 | 26.3 |
| **Gross loans to customers** | **5,987** | **5,841** | **146** | **2.5** |
| Provision for loan losses | (272) | (235) | (37) | 15.8 |
| **Net loans to customers** | **5,715** | **5,606** | **109** | **1.9** |

Report of the Board of Statutory

# Report of the Board of Statutory

**SANTANDER CONSUMER BANK SPA**
Head office in Turin, Corso Massimo D'Azeglio 33/E
Share capital Euro 573,000,000
Turin Companies' Register no. 05634190010
Parent Company of Santander Consumer Bank Spa Banking Group

**REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE GENERAL SHAREHOLDERS' MEETING PURSUANT TO ART. 2429, PARAGRAPH 2 OF THE ITALIAN CIVIL CODE.**

Dear Shareholders,

this Report has been drawn up to illustrate the supervisory and control activities carried out by the Board of Statutory Auditors throughout 2018 in execution of its mandate and in compliance with articles 2403 -2403 bis of the Italian civil code and in observance of applicable primary and secondary legislation.

In the course of 2018, the Board of Statutory Auditors fulfilled its institutional duties pursuant to the Italian Civil Code, Legisl. Decrees no. 385/1993 (Consolidated Banking Law -TUB) and subsequent modifications and supplements, to the rules envisaged in the articles of association and regulations issued by Authorities carrying out supervisory and control activities, taking into account the rules of conduct recommended by the Italian National Board of Accountants.

We have based this report on the tenets contained in principle no. 7.1 "*Layout and contents of statutory-auditor reports*" from the "*Rules of Conduct for the Board of Statutory Auditors – Code of Conduct for the Board of Statutory Auditors of non-listed companies" (CNDCEC - Italian National Board of Accountants - September 2015)* and, in particular, on the most recently approved version (CNDCEC - Italian National Board of Accountants - May 2018).

The Board of Directors has made available the following documents approved during the meeting held on 20 February to discuss the business year ended 31 December 2018:

- draft financial statements complete with explanatory notes and cash-flow statement;
- report on operations.

This report was collectively approved in sufficient time to file it on the company's premises 15 days prior to the shareholders' meeting convened to approve the financial statements commented herein.

**Supervisory activities pursuant to art. 2403 et seq. of the Italian Civil Code.**

Timewise, the activities carried out by the Board of Statutory Auditors related to the entire business year in the course of which regular meetings were duly held, as envisaged by the law and the Articles of Association; special minutes were taken of these meetings and duly signed in unanimous approval (it should be pointed out that the statutory auditor Franco Riccomagno was appointed during the Shareholders' Meeting on 7 December 2018; this means that he took part in the meetings after this date, whereas the previous meetings for the rest of the year were attended by his predecessor Stefano Caselli).

In particular, we testify to the fact that the Board of Statutory Auditors:

- monitored compliance with the Law and the Articles of Association and ensured that the principles of good administration were adhered to, as well as, within the confines of its remit, supervising the adequacy of the organisational set-up of the Bank; these monitoring activities took place by gathering data and information from those placed in charge of the company functions, amongst other things;
- took part in the Shareholders' Meetings and Board Meetings held throughout the year, constantly keeping tabs on the development of corporate decisions and the performance of the Bank from the various operational points of view, as well as monitoring the various passing and non-routine issues with a view to identifying the economic and financial impact on the operating results and on the capital structure, not to mentioned any possible risks which were monitored on an ongoing basis; the meetings took place in compliance with statutory laws as well as legislative and regulatory provisions governing the functioning of such meetings. Specifically, we confirm that there is no evidence of any departure from the law or the articles of association; nor have any transactions taken place that were patently imprudent, reckless, potentially in conflict of interest or likely to compromise the value of the company's assets;
- acquired information on the overall business performance and on its expected development from the chief executive officer during the meetings held, as well as information on the transactions of greater importance, in terms of size or characteristics, carried out by the company. On the basis of the information acquired, we have no specific comments to report;
- ran checks on the areas falling under the area of supervision and control, drawing on the information provided by the corporate functions of second and third level control;
- monitored the activities performed by the Bank in conformity with money-laundering requirements and the rules on counter-terrorist financing;
- verified the adequacy of the "Internal-Control System" and the "Corporate Governance" rules, as established by the Law, the Articles of Association and relevant secondary legislation;

- arranged for regular meetings with the independent auditors PricewaterhouseCoopers S.p.A in order to exchange information on the supervisory and control activities each to its own remit; nothing emerged from the meetings which might be construed as being reprehensible or anything else of note that could be held against the Bank;
- verified the adequacy of the "Corporate Governance" rules, as established by the Law, the articles of association and relevant secondary legislation;
- verified the objectivity of the independent auditor; specifically, it ascertained that the independency report issued by the auditor, pursuant to article 17 of Legislative Decree 39/2010, did not show situations jeopardising its independence or indicate grounds for incompatibility;
- verified the adequacy and regulatory compliance of the remuneration policies and practices adopted by the Bank.

Furthermore, the Board of Statutory Auditors notes that:

- in the course of 2018, no complaints have been submitted as per article 2408 of the Italian civil code nor have any other claims been made that are worthy of being mentioned in this Report. No complaints have been lodged, pursuant to article 2409, paragraph no. 7 of the Italian Civil Code. The Board of Statutory Auditors has not had to step in in order to compensate for omissions made by the Board of Directors, pursuant to article 2406 of the Italian Civil Code;
- no evidence was found of atypical or unusual transactions entered into with third parties and/or related parties; transactions with related parties are shown in part H of the Explanatory Notes and mentioned in the Report on Operations, as envisaged by article 2428, paragraph 3 of the Italian Civil Code;
- relations and transactions with company members have been carried out in compliance with art. 2391 of the Italian Civil Code, art. 136 of Consolidated Law on Banking -T.U.B. and the Provisions on risk management and conflict of interest in respect of related parties.

**Observations on the financial statements**

We inform you that the financial statements were audited by PricewaterhouseCoopers S.p.A. (the company responsible for the statutory audit) and, basing ourselves on the meetings held periodically with the aforesaid auditing firm for the purposes of exchanging data and information relevant to the performance of the respective duties, we are able to state that nothing reprehensible or significant on the Company's part emerged, as can also be inferred from the Report drawn up pursuant to art. 14 of Legislative Decree 39/2010, which confirmed that no irregularities were found.

Therefore, the draft financial statements were examined and the following additional information is provided to this end here below:

- Pursuant to Legislative Decree no. 38 of 28 February 2005, the measurement and presentation criteria used to prepare the financial statements at 31 December 2018 are compliant with international IAS/IFRS accounting standards adopted by the European Union and adapted according to the technical forms outlined in Circular no. 262/05 "*Guidelines for the preparation of the financial statements and the consolidated financial statements of banks and financial companies holding banking groups*" issued by the Bank of Italy, as updated following the entry in force of accounting standards IFRS 9 and IFRS 15. We feel that the information complies with relevant provisions and provides a fair and full picture of the Bank's situation as well as an indication of the risks to which the Bank is exposed;
- attention was paid to the structure of the draft financial statements, to their overall compliance with IAS/IFRS accounting standards and to the technical forms outlined in the aforementioned Circular as far as their preparation and structure are concerned and, in this regard, we deem that there is nothing worthy of comment in this report;
- it should be noted that your company is not subject to the obligation to make the Statements non-financial since it is a subsidiary included in the consolidated non-financial statements made by Banco Santander, the European parent company subject to the same regulatory obligations;
- compliance with legislation about the preparation of the report on operations was verified and we have no comments to make on this point;
- we ascertained that the financial statements are consistent with the events and information we have become acquainted with in pursuit of the customary duties of the Board of Statutory Auditors and we are of the opinion that nothing is worthy of comment in this sense;
- tests on recoverability were performed in compliance with the new international accounting principle IFRS 9 on the value of the receivables, as verified by the independent auditors and disclosed by them when we met to discuss and exchange information;

**Conclusions**

In the light of the above and considering the contents of the reports drawn up by the independent auditors appointed to carry out the statutory audit, the Board of Statutory Auditors has no more observations or proposals to make as regards the Financial Statements; therefore, it expresses a favourable opinion, within the confines of its remit, as regards the approval of the financial statements and recommends the Board's proposal relating to the allocation of the profit for the year.

Turin, 12 March 2019

The Board of Statutory Auditors

Walter Bruno

Franco Riccomagno

Maurizio Giorgi

Santander Consumer Bank

Notice of calling of the Shareholder’s Meeting

# Notice of calling of the Shareholders' Meeting

The Ordinary General Meeting of the shareholders of Santander Consumer Bank S.p.A. has been convened, on first call, for 27 March 2019 at 12.00 in Turin, Corso Massimo D'Azeglio no. 33/E, and, if necessary, on second call for 28 March 2019, at the same place and time, to discuss and vote on the following agenda:

- Proposed confirmation of a director co-opted under Article 2386 of the Italian Civil Code; related resolutions;
- Report on operations and financial statements at 31.12.2018; Report of the Board of Statutory Auditors and Report of the Independent Auditors. Related resolutions;
- Information on the 2018 remuneration and incentives system and the 2019 remuneration and incentive policies; related resolutions.

Santander Consumer Bank

Proposal to the Shareholders's Meeting

# Proposals to the Shareholders' Meeting

## Proposal of allocation of the net profit

Shareholders,

as we have mentioned already, the year ended with a net profit of Euro 79,475,902.

We propose that profit be allocated as follows:

| | euro |
|---|---|
| Net profit for the period | 79,475,902 |
| Legal reserve | 3,973,795 |
| Previous losses coverage | 242,031 |
| Extraordinary reserve | 75,260,076 |
| Dividends | |

Santander Consumer Bank

Independent Auditors' Report on the financial statements at 31 December 2018

# Independent Auditors' report on the Financial Statements at 31 December 2018

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## *Independent auditor's report*

*in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014*

To the Shareholders of Santander Consumer Bank SpA

### *Report on the Audit of the Financial Statements*

#### *Opinion*

We have audited the financial statements of Santander Consumer Bank SpA (the Company), which comprise the balance sheet as of 31 December 2018, the income statement, statement of comprehensive income, statement of changes in shareholders' equity, cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2018, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15.

#### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of this report. We are independent of the Company pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Key Audit Matters*

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

*PricewaterhouseCoopers SpA*

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

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| *Key Audit Matters* | *Auditing procedures performed in response to key audit matters* |
|---|---|
| **First-time application of IFRS 9**<br><br>*Notes to the financial statements:*<br>*Part A – Accounting policies*<br>*Part E – Information on risks and related hedging policies*<br>*Annex 2 – Reconciliation statements of the Separate Financial Statements*<br><br>Starting from 1 January 2018 Santander Consumer Bank SpA (hereinafter also the "Bank") adopted the accounting standard IFRS 9 "Financial Instruments" which governs the classification and measurement of financial instruments, as well as the determination of related impairment losses.<br><br>IFRS 9 introduces new rules for classifying and measuring financial assets which are based on the methods whereby such assets are managed (*Business Model*) and on the contractual cash flow characteristics of the instrument, while with reference to the evaluation of financial assets other than those measured at fair value through profit & loss and off-balance-sheet exposures (guarantees and commitments), the new standard replaced the model to determine impairments under IAS 39 which was based on the "incurred loss" with a valuation model consisting in the "Expected Credit Loss" ("ECL").<br><br>The result is that IFRS 9, beside introducing significant changes in the classification and measurement criteria, brings significant operating impacts requiring new models and additional parameters, information and assumptions, which have therefore increased the degree of subjectivity and uncertainty.<br><br>The Bank presented the impact on the opening shareholders' equity arising from the adoption of IFRS 9 in appropriate reconciliation statements appended to the notes to the financial statements.<br><br>Due to the reasons above, although the quantitative impacts recognised in a special equity reserve were limited, we considered the | In conducting our audit we paid special attention to understanding and evaluating the activities planned and performed by the Bank for the application of the new accounting standard, as well as the Bank's governance and the set of control activities implemented by management and the Risk Management function.<br><br>Considering that IFRS 9 was adopted on 1 January 2018, our audit procedures covered the opening balances in order to verify the effects of the transition from IAS 39. These procedures consisted, among other things, in assessing that the accounting selections, the adjustments made and the information disclosures provided were in accordance with the new standard's requirements.<br><br>With specific regard to classification and measurement, our audit procedures, which were also carried out with the support of our PwC network experts, included, *inter alia*:<br><br>• understanding and critical analysis of the policies, procedures and solutions adopted by the Bank with reference to significant matters, such as the definition of the Business Model, analysis of the contractual cash flows and evaluation methods, in order to assess their compliance with the new standard;,<br>• review of the completeness and accuracy of the new accounting categories based on the Business Model defined and on the results of the analysis of the contractual cash flows (SPPI test – "Solely Payments of Principal and Interest");<br>• independent review of the SPPI test in relation to a sample of financial assets selected taking into account the different products held in portfolio.<br><br>With reference to the new calculation criteria |

| | |
|---|---|
| first-time application of IFRS 9 as a key matter in the audit of the separate financial statements of Santander Consumer Bank SpA as at 31 December 2018. | for impairment losses, our audit procedures that were performed also with the support of our PwC network experts, included among others:<br><br>• understanding and critical analysis of the new policies, methods and relevant assumptions, as well as the models implemented with the aim of checking their reasonableness, appropriateness and compliance with IFRS 9. These activities covered the methods and models adopted to measure the "Significant increase in credit risk" (SICR) and the allocation of the assets to the various stages of risk, as well as those to determine the Expected Credit Loss (ECL);<br>• checks on the new SICR models, allocation to the various risk stages and ECL defined and on the methods to determine the main estimate parameters behind them, in order to verify the adequate implementation and determination thereof;<br>• analyses aimed at verifying the correctness of the data feeding the models and the correct determination of the main parameters and estimate elements (Probability of Default, Loss Given Default and Exposure at Default);<br>• critical analysis of the findings of the reviews carried out by the internal functions in charge of controls and remedy actions that might have been put in place.<br><br>Finally, we examined the completeness and adequacy of the financial statement disclosures. |
| **Evaluation of loans and advances to customers for loans measured at amortised cost**<br><br>*Report on operations of Santander Consumer Bank SpA:*<br>*Comments on the results and key figures in the separate financial statements* | In performing our audit we took into consideration the internal control relevant to the preparation of the financial statements in order to define appropriate audit procedures in the circumstances. Specifically, in order to address this key audit matter, we obtained an understanding and assessed the administrative and accounting process behind |

*Notes to the financial statements:*
*Part A – Accounting policies*
*Part B – Information on the balance sheet, section 4*
*Part C – Information on the income statement, section 8*
*Part E – Information on risks and related hedging policies*

Loans and advances to customers for loans, which at 31 December 2018 represented a considerable share of item 40 b) *"Financial assets measured at amortised cost – Loans and advances to customers"*, show a balance of Euro 5,715 million, accounting for about 87 per cent of total assets in the separate financial statements.
The net value adjustments to loans and advances to customers for loans charged to the year amounted to Euro 35 million and represent the best estimate made by the directors in order to reflect the expected credit losses on the loan portfolio at the balance-sheet date on the basis of the applicable accounting standards.

We focused our attention on the evaluation of these loans as part of our audit work, considering the significance of the financial statement value and changes in the estimate criteria introduced during the year as a consequence of the application of IFRS 9 "Financial Instruments"; this evaluation process therefore represents a key audit matter since it is one of the most significant and complex estimates in the preparation of the financial statements.

The evaluation models adopted by the Bank further to the implementation of IFRS 9 for determining the expected value adjustments are characterised by a high degree of subjectivity and require complex processes of estimation of a number of variables. The use of significant assumptions especially deserves attention in relation to the review of the significant increase in credit risk (*SICR*), the elaboration and determination of risk parameters which incorporate the use of macro-economic scenarios and prospective information, together with the identification of objective evidence of deterioration.

the valuation of loans and advances to customers for loans and carried out a validation of the operating efficacy of the key controls.

Special focus was given to understanding and verifying the appropriateness of the policies, procedures and models used to measure the significant increase in credit risk (SICR), as well as the methods to determine and estimate the main parameters used within these models with regard also to the changes during the financial year due to the adoption of IFRS 9.

We performed specific audit procedures regarding the methodological basis for the evaluation models adopted and the examination of the reasonableness of the parameters and variables being estimated and used in the context of these models, also through performing ad-hoc quantitative checks, including the activities performed on the completeness and accuracy of the data input into these models.

In order to assess the reasonableness of the directors' conclusions over the evaluation of loans, we considered their classification in the financial statements according to the categories under the applicable financial reporting and regulatory framework, as well as the overall statistical evaluation method of the whole portfolio. We then selected a sample of individual positions and checked them for reasonableness of classification based on available information about the debtor status and other evidence, in addition to checking the correct application of the above-reported risk parameters.

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### *Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements*

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained 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;
- We obtained 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 Company's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required

to draw attention in our auditor's report to the related disclosures in the 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 Company to cease to continue as a going concern;

- We evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

### *Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014*

On 30 March 2016, the shareholders of Santander Consumer Bank SpA in general meeting engaged us to perform the statutory audit of the Company's and consolidated financial statements for the years ending 31 December 2016 to 31 December 2024.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.
We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

## *Report on Compliance with other Laws and Regulations*

### *Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98*

The directors of Santander Consumer Bank SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of Santander Consumer Bank SpA as of 31 December 2018, including their consistency with the relevant financial statements and their compliance with the law.
We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information

included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the financial statements of Santander Consumer Bank SpA as of 31 December 2018 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of Santander Consumer Bank SpA as of 31 December 2018 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Milan, 11 March 2019

PricewaterhouseCoopers SpA

*Signed by*

Marco Palumbo
(Partner)

*This report has been translated into English from the Italian original solely for the convenience of international readers.*

Financial statements

## Balance Sheet

In euros

| | Balance sheet - Assets | 12/31/2018 | 12/31/2017 |
|---|---|---|---|
| 10. | Cash and cash balances | 1,144 | 2,414 |
| 20. | Financial assets designated at fair value through profit or loss | 1,827,515 | 1,032,653 |
| | a) Financial assets held for trading | 1,827,515 | 1,032,653 |
| 40. | Financial assets measured at amortised cost | 6,115,079,334 | 6,072,311,497 |
| | a) Loans and advances to banks | 45,691,978 | 59,768,720 |
| | b) Loans and advances to customers | 6,069,387,356 | 6,012,542,777 |
| 50. | Hedging derivatives | - | 644,075 |
| 60. | Changes in fair value of portfolio hedged items (+/-) | 4,013,196 | 713,828 |
| 70. | Equity investments | 122,939,712 | 127,489,712 |
| 80. | Property, plant and equipment | 5,690,536 | 1,524,036 |
| 90. | Intangible assets | 11,094,968 | 10,263,931 |
| 100. | Tax assets | 226,573,236 | 222,923,721 |
| | a) current | 25,009,942 | 23,207,536 |
| | b) deferred | 201,563,294 | 199,716,185 |
| 110. | Non current assets and disposal groups classified as held for sale | 1,800 | 3,000 |
| 120. | Other assets | 53,123,966 | 47,168,803 |
| | **Total Assets** | **6,540,345,407** | **6,484,077,669** |

| | Liabilities and Shareholders' equity | 12/31/2018 | 12/31/2017 |
|---|---|---|---|
| 10. | Financial liabilities valued at amortized cost | 5,415,365,635 | 5,379,968,489 |
| | a) Deposits from banks | 3,836,963,711 | 4,059,020,064 |
| | b) Deposits from customers | 1,427,343,143 | 1,056,883,167 |
| | c) Debt securities in issue | 151,058,781 | 264,065,259 |
| 40. | Hedging derivatives | 4,633,265 | 2,823,535 |
| 60. | Tax liabilities | 42,712,963 | 30,033,846 |
| | a) current | 42,712,963 | 29,993,307 |
| | b) deferred | - | 40,539 |
| 80. | Other liabilities | 240,614,591 | 298,838,610 |
| 90. | Provision for employee severance pay | 3,135,661 | 3,198,707 |
| 100. | Provisions for risks and charges | 17,479,734 | 25,805,029 |
| | a) commitments and guarantees given | 23,747 | - |
| | b) other | 17,455,987 | 25,805,029 |
| 110. | Valuation reserves | (599,106) | (552,705) |
| 140. | Reserves | 163,894,176 | 90,106,741 |
| 150. | Share premium | 632,586 | 632,586 |
| 160. | Share capital | 573,000,000 | 573,000,000 |
| 180. | Profit (Loss) of the year (+/-) | 79,475,902 | 80,222,830 |
| | **Total liabilities and Shareholders' Equity** | **6,540,345,407** | **6,484,077,669** |

## Income Statement

In euros

| | Items | 12/31/2018 | 12/31/2017 |
|---|---|---|---|
| 10. | Interest income and similar revenues | 257,703,503 | 267,047,239 |
| | of which: interest income calculated with the effective interest method | 253,529,185 | 263,646,326 |
| 20. | Interest expenses and similar charges | (41,078,630) | (49,588,975) |
| **30.** | **Net interest margin** | **216,624,873** | **217,458,264** |
| 40. | Fees and commission income | 74,114,910 | 72,310,767 |
| 50. | Fees and commission expenses | (36,402,881) | (41,159,847) |
| **60.** | **Net fees and commission** | **37,712,029** | **31,150,919** |
| 70. | Dividends and similar revenues | - | 6,100,000 |
| 80. | Net income financial assets and liabilities held for trading | 2,372,500 | 37,600 |
| 90. | Net hedging gains (losses) on hedge accounting | 363,179 | - |
| 100. | Gains and losses on disposal of: | (70,743) | 31,339,096 |
| | a) Financial assets at amortized cost | (70,743) | 31,339,096 |
| 110. | Net gains and losses on financial assets/liabilities designated at fair value with impact on overall profitability | - | (731,940) |
| | b) net result of other financial assets that are measured at fair value | - | (731,940) |
| **120.** | **Operating income** | **257,001,837** | **285,353,939** |
| 130. | Net impairment/write-backs for credit risk of: | (35,215,597) | (48,245,256) |
| | a) financial assets at amortized cost | (35,215,597) | (48,245,256) |
| **150.** | **Net profit from financial activities** | **221,786,240** | **237,108,683** |
| 160. | Administrative costs: | (111,052,820) | (109,983,882) |
| | a) payroll costs | (44,685,647) | (42,562,430) |
| | b) other administrative costs | (66,367,172) | (67,421,452) |
| 170. | Net provisions for risks and charges | (4,142,179) | (14,929,045) |
| | a) commitments and guarantees given | 15,458 | - |
| | b) other net provisions | (4,157,637) | (14,929,045) |
| 180. | Net value adjustments/write-backs on property, plant and equipment | (1,083,296) | (607,087) |
| 190. | Net value adjustments/write-backs on intangible assets | (4,907,988) | (3,695,449) |
| 200. | Other operating income/expenses | 16,568,161 | 8,868,095 |
| **210.** | **Operating costs** | **(104,618,121)** | **(120,347,369)** |
| 220. | Gain (Losses) of equity investments | (54,912) | - |
| **260.** | **Profit (Loss) before tax from continuing operations** | **117,113,206** | **116,761,314** |
| 270. | Tax (expenses) income of the year from continuing operations | (37,637,304) | (36,538,485) |
| **280.** | **Total profit or loss after tax continuing operation** | **79,475,902** | **80,222,830** |
| **300.** | **Profit (Loss) of the year** | **79,475,902** | **80,222,830** |

## Statement of comprehensive income

In euros

| | Items | 12/31/2018 | 12/31/2017 |
|---|---|---|---|
| **10.** | **Net Profit (Loss) for the year** | **79,475,902** | **80,222,830** |
| **70.** | Defined benefit plans | 35,644 | (522) |
| **140.** | Financial assets (different from equity instruments) at fair value through other comprehensive income | - | 36,811 |
| **170.** | **Total of other comprehensive income after tax** | **35,644** | **36,289** |
| **180.** | **Other comprehensive income (Item 10 + 170)** | **79,511,546** | **80,259,118** |

# Statement of changes in shareholders' equity

In euros

## Financial year 2018

| | Balance at 12.31.2017 | Changes in opening balances | Balance at 1.1.2018 | Previous year profit (loss) allocation: Reserves | Previous year profit (loss) allocation: Dividends and other allocations | Changes during the year: Changes in reserves | Shareholders' equity transactions: Issue of new shares | Shareholders' equity transactions: Purchase of treasury shares | Shareholders' equity transactions: Dividends extraordinary | Shareholders' equity transactions: Changes in equity instruments | Shareholders' equity transactions: Treasury shares dividends | Shareholders' equity transactions: Stock options | Comprehensive income for 2018 | Group shareholders' equity at 12.31.2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Share capital:** | **573,000,000** | | **573,000,000** | | | | | | | | | | | **573,000,000** |
| a) ordinary shares | 573,000,000 | | 573,000,000 | | | | | | | | | | | 573,000,000 |
| b) other shares | | | | | | | | | | | | | | |
| **Share premium** | **632,586** | | **632,586** | | | | | | | | | | | **632,586** |
| **Reserves:** | **90,106,741** | **(6,080,666)** | **84,026,075** | **80,222,830** | | **(354,729)** | | | | | | | | **163,894,176** |
| a) from profit | 50,194,054 | (6,080,666) | 44,113,388 | 80,222,830 | | (354,729) | | | | | | | | 123,981,489 |
| b) other | 39,912,687 | | 39,912,687 | | | | | | | | | | | 39,912,687 |
| **Valuation reserves** | **(552,705)** | **(82,046)** | **(634,751)** | | | | | | | | | | **35,644** | **(599,106)** |
| **Equity instruments** | | | | | | | | | | | | | | |
| **Treasury shares** | | | | | | | | | | | | | | |
| **Net profit (loss) for the period** | **80,222,830** | | **80,222,830** | **(80,222,830)** | | | | | | | | | **79,475,902** | **79,475,902** |
| **Shareholders' equity** | **743,409,452** | **(6,162,712)** | **737,246,740** | | | **(354,729)** | | | | | | | **79,511,546** | **816,403,558** |

## Financial year 2017

| | Balance at 12.31.2016 | Changes in opening balances | Balance at 1.1.2017 | Previous year profit (loss) allocation: Reserves | Previous year profit (loss) allocation: Dividends and other allocations | Changes during the year: Changes in reserves | Shareholders' equity transactions: Issue of new shares | Shareholders' equity transactions: Purchase of treasury shares | Shareholders' equity transactions: Dividends extraordinary distribution | Shareholders' equity transactions: Changes in equity instruments | Shareholders' equity transactions: Treasury shares dividends | Shareholders' equity transactions: Stock options | Comprehensive income for 2017 | Group shareholders' equity at 12.31.2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Share capital:** | **573,000,000** | | **573,000,000** | | | | | | | | | | | **573,000,000** |
| a) ordinary shares | 573,000,000 | | 573,000,000 | | | | | | | | | | | 573,000,000 |
| b) other shares | | | | | | | | | | | | | | |
| **Share premium** | **632,586** | | **632,586** | | | | | | | | | | | **632,586** |
| **Reserves:** | **40,222,665** | | **40,222,665** | **49,884,076** | | | | | | | | | | **90,106,741** |
| a) from profit | 309,979 | | 309,979 | 49,884,076 | | | | | | | | | | 50,194,055 |
| b) other | 39,912,687 | | 39,912,687 | | | | | | | | | | | 39,912,687 |
| **Valuation reserves** | **(588,993)** | | **(588,993)** | | | | | | | | | | **36,288** | **(552,705)** |
| **Equity instruments** | | | | | | | | | | | | | | |
| **Treasury shares** | | | | | | | | | | | | | | |
| **Net profit (loss) for the period** | **66,484,076** | | **66,484,076** | **(49,884,076)** | **(16,600,000)** | | | | | | | | **80,222,830** | **80,222,830** |
| **Shareholders' equity** | **679,750,334** | | **679,750,334** | | **(16,600,000)** | | | | | | | | **80,259,118** | **743,409,452** |

# Cash flow statement (indirect method)

| A. OPERATING ACTIVITIES | Amount | |
|---|---|---|
| | 12/31/2018 | 12/31/2017 |
| **1. Liquidity generated from operations** | **78,929,136** | **50,251,930** |
| - profit (loss) for the year (+/-) | 79,475,902 | 80,222,830 |
| - gains/losses on financial assets held for trading and | (780,999) | |
| - financial assets designated at fair value through profit or loss (+/-) | 122,584 | |
| - gains (losses) on hedging accounting (+/-) | (363,179) | 1,909,587 |
| - net adjustments for credit risk (+/-) | 44,339,330 | (104,177,333) |
| - impairment/recoveries to property and equipment and intangible assets (+/-) | 5,990,083 | 4,300,937 |
| - net provisions for risks and charges and other expenses/income (+/-) | 2,503,253 | 19,387,396 |
| - net premiums not collected (-) | | |
| - other income insurance income/expense not collected (-/+) | | |
| - paid duties, taxes and tax credits (+/-) | 1,314,997 | 28,691,742 |
| - impairment/write-backs after tax on discontinued operations (-/+) | 1,200 | 1,600 |
| - other adjustments (+/-) | (53,674,036) | 19,915,171 |
| **2. Liquidity generated/absorbed by financial assets** | **(68,494,828)** | **(258,877,598)** |
| - financial assets held for trading | | |
| - financial assets designated at fair value through profit and loss | | |
| - financial assets mandatorily designated at fair value | | |
| - financial assets at fair value through other comprehensive income | | |
| - financial assets at amortised cost | (60,906,735) | (250,303,006) |
| - other assets | (7,588,093) | (8,574,592) |
| **3. Liquidity generated/absorbed by financial liabilities** | **906,772** | **258,261,343** |
| - financial liabilities at amortised cost | 62,454,847 | 236,194,391 |
| - financial liabilities held for trading | | |
| - financial liabilities designated at fair value through profit and loss | | |
| - other liabilities | (61,548,075) | 22,066,952 |
| **Net cash generated/absorbed by operating activities** | **11,341,080** | **49,635,675** |
| **B. INVESTING ACTIVITIES** | | |
| **1. Cash generated by** | **114,255** | **295** |
| - sale of equity investments | | |
| - dividends collected on equity investments | | |
| - sale of property and equipment | 114,255 | 295 |
| - sale of intangible assets | | |
| - sale of business units | | |
| **2. Cash absorbed by** | **(11,456,604)** | **(33,037,250)** |
| - purchase of equity investments | | |
| - purchase of property and equipment | (5,362,850) | (755,748) |
| - purchase of intangible assets | (5,739,025) | (5,781,503) |
| - purchase of business units | (354,729) | (26,500,000) |
| **Net cash generated/absorbed by investing activities** | **(11,342,349)** | **(33,036,955)** |
| **C. FUNDING ACTIVITIES** | | |
| - issue/purchase of treasury shares | | |
| - issue/purchase of equity instruments | | |
| - dividends distributed and other allocations | | (16,600,000) |
| **Net cash generated/absorbed by financing activities** | | **(16,600,000)** |
| **NET CASH GENERATED/ABSORBED IN THE YEAR** | **(1,269)** | **(1,281)** |

## Reconciliation

| *Items* | Amount | |
|---|---|---|
| | 12/31/2018 | 12/31/2017 |
| Cash and cash equivalents at beginning of year | 2,414 | 3,695 |
| Net increase (decrease) in cash and cash equivalents | (1,269) | (1,281) |
| Cash and cash equivalents: effect of change in exchange rates | | |
| Cash and cash equivalents at end of year | 1,144 | 2,414 |

Notes to the financial statements

# Part A – Accounting policies

## A.1 – General information

### Section 1 – Declaration of compliance with International Financial Reporting Standards

Pursuant to Legislative Decree 38 of 28 February 2005, the Separate Financial Statements of Santander Consumer Bank have been prepared in compliance with the IAS/IFRS issued by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission, as established by Regulation no. 1606 of 19 July 2002.

The Separate Financial Statements for the year ended 31 December 2018 have been prepared in accordance with Circular 262/05 as subsequently amended by the 5th update of 22 December 2017 "Guidelines for the preparation of the financial statements and the consolidated financial statements of banks and financial companies holding banking groups" issued by the Bank of Italy, in the exercise of the powers established by art. 9 of Legislative Decree no. 38/2005 and with the Regulation of 22 December 2005. These Instructions establish binding rules governing the financial statements and how they are to be prepared, including the contents of the notes.

In preparing the financial statements the IAS/IFRS in force at 31 December 2018 have been applied (including the SIC and IFRIC interpretations), as endorsed by the European Commission.

### Section 2 – Basis of preparation

The financial statements consist of the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity, cash flow statement and the notes to the financial statements and are also accompanied by the directors' report on the operations, results and financial position of Santander Consumer Bank.

In accordance with the provisions of art. 5 of Legislative Decree 38/2005, the financial statements have been prepared using the euro as the functional currency.

The amounts in the financial statements are expressed in euros, whereas unless otherwise specified, those in the notes and the report on operations are expressed in thousands of euros.

The financial statements are prepared in accordance with the general principles laid down in IAS 1 and the specific accounting standards endorsed by the European Commission, as described in Part A.2 of these notes. In particular, these financial statements have been prepared on a going concern basis (IAS 1 para. 25 and para. 26), in accordance with the principle of accrual accounting (IAS 1 para. 27 and para. 28) and in compliance with the consistency of presentation and classification of items in the financial statements (IAS 1 para. 29). The assets and liabilities, income and expenses have not been offset unless required or permitted by a standard or interpretation (IAS 1 para. 32).

No exceptions have been made to the application of IAS/IFRS.

The following criteria were taken into account for the drafting of the financial statements:

*a) Going concern*

Assets, liabilities and off-balance sheet transactions are measured according to their function, since they are expected to continue in operation for the foreseeable future;

*b) Accrual principle*

Costs and revenues are recognised, irrespective of the moment in which the amount is paid/received, for the period over which they are accrued and in accordance with the matching criterion;

*c) Aggregation and relevance*

All groupings of items of a similar nature or function, unless they are insignificant, are shown separately.

*d) Prohibition of offsetting*

Assets and liabilities, costs and revenues are not offset against each other, unless this is required or permitted by an International Financial Reporting Standard or an interpretation or by the schedules and instructions drawn up by the Bank of Italy for the financial statements of banks;

*e) Comparative information*

Comparative information is shown by reporting, in addition to the figures for the reporting period, also the corresponding data for comparison reported at 31 December 2017.

It should be noted that Santander Consumer Bank has made use of the exemption from the requirement to restate comparative data provided for by paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 "First-Time Adoption of International Financial Reporting Standards", according to which in the first financial statements in which the new principle applies the requirement to restate comparative data on a uniform basis is waived. It follows that the balances related to the statement of financial position and to the income statement relating to the previous year, since they were drawn up in accordance with the previous accounting standard IAS 39, are not completely comparable with the new accounting categories and with the relevant assessment criteria introduced by the new standard IFRS 9.

For this reason, also taking into account that in adopting the 5th update of Circular No. 262 (adopted in particular to transpose IFRS 9 "Financial Instruments" and the consequent changes introduced in other international accounting standards, including IFRS 7 "Financial Instruments: Disclosures", as well as the new standard IFRS 15 "Revenue from contracts with customers") the Bank of Italy gave the competent corporate bodies the independence to choose the form and content of the information relating to the IFRS 9 transition, Santander Consumer Bank decided to show the comparative information in accordance with the new formats pursuant to the Circular even though the balances from the previous financial year, both relating to the statement of financial position and to the income statement, have not been determined since the balance sheet items have not been restated in such a way as to distort the comparison. The information contained in the tables in Part B and Part C of the Notes affected by reclassifications, has been shown for comparison but without restatement of the data since the items affected have not been restated in such a way as to distort the comparison. For the information contained in Part E of the Notes, no comparative data has been shown so as not to distort the data comparison, except for the disclosure not substantially impacted by the regulatory update.

Further details on the balances of the previous financial year are set out in Annex 1 to these Financial Statements.

The report on operations and the notes provide the information required by International Accounting Standards, by Italian law and by the Bank of Italy, as well as other non-mandatory information considered necessary to give a true and fair view of the Bank's situation.

The preparation of financial reports requires the use of estimates and assumptions that may have a significant effect on the amounts recognised in the balance sheet and income statement, and on the disclosure of contingent assets and liabilities reported in the financial statements. The development of such estimates involves the use of available information and the adoption of subjective judgements based on past experience, which are used to formulate reasonable assumptions for recording corporate events. By their nature, the estimates and assumptions used can vary from year to year, which means that it cannot be excluded that in future years the figures in the financial statements may differ significantly due to changes in the subjective judgements used.

The main situations in which management has to make subjective judgements include the following:

- the quantification of impairment losses on receivables and financial assets generally;
- the use of valuation models for determining the fair value of financial instruments not quoted in active markets;
- assessing whether the value of intangible assets is fair;
- quantifying personnel provisions and provisions for risks and charges;
- making estimates and assumptions regarding the recoverability of deferred tax assets.

## Contents of the consolidated financial statements

### Consolidated Balance sheet and Consolidated Income statement

The formats used for the balance sheet and income statement are made up of items, sub-items and other details. In the income statement, revenues are shown without a sign, whereas costs are shown in brackets.

### Statement of comprehensive income

The statement of changes in comprehensive income is presented in the manner prescribed by the Bank of Italy, based on the information required by IAS 1.

"Net profit (loss)" is the same amount shown in item 350 of the income statement.

The "other comprehensive income after tax" includes changes in the value of assets recorded during the year with contra-entry to the valuation reserves (net of tax).

### Statement of changes in shareholders' equity

The statement of changes in shareholders' equity is presented in the manner prescribed by the Bank of Italy. It shows the composition and changes in shareholders' equity accounts during the year, divided into share capital, capital reserves, retained earnings and the result for the year.

### Cash flow statement

The cash flow statement for the current and previous years has been prepared using the indirect method, whereby cash flows from operating activities are represented by the result for the year adjusted for non-monetary transactions.

Cash flows are broken down into those generated by operating activities, investing activities and financing activities.

In this statement, the cash flows generated during the year are shown without a sign, whereas those that are absorbed are preceded by a minus sign.

### Contents of the notes to the financial statements

The notes include the information set out in Bank of Italy Circular no. 262/2005, as well as the additional disclosures required by International Accounting Standards.

To reflect in full the formats laid down by the Bank of Italy, we also show the headings of sections on items with zero balances in both years.

## Section 3 – Subsequent events

Pursuant to IAS 10, these financial statements were authorised for publication by the Board of Directors on 20 February 2019.

Since the end of the year and up to the date of approval of the draft financial statements by the Board of Directors, there have been no events or transactions that could have a significant impact on the results explained in this report. The draft financial statements therefore reflect all events that affected the Bank′s operations in 2018.

## Section 4 – Other aspects

Complete copies of the last financial statements with the reports on operations of the companies that at 31 December 2018 were subsidiaries or associates, and that their respective Boards of Directors will submit for approval of their shareholders ' meeting by 30 April 2019, will be deposited at head office.

The related reports of the Board of Statutory Auditors and Independent Auditors will also be deposited. The prior year financial statements of these companies will also be deposited.

Information on the activities and results achieved by the subsidiaries in 2018 is included in the report accompanying the Financial Statements.

The Financial Statements are audited by PricewaterhouseCoopers S.p.A., pursuant to the Resolution of the Shareholders' Meeting of 31 March 2016, which appointed this firm to perform the audit for the nine years from 2016 to 2024.

Listed below are changes to international accounting standards or related interpretations, approved by the European Commission, that have become effective as from 1 January 2018:

- **IFRS 15** - Revenue, in replacement of IAS 18 - Revenue, establishes the criteria and timing for the recognition of revenue from contracts to customers (Reg. EU 2016/1905 and 2017/1987). In 2018, the bank performed a preliminary assessment and this work focused on the applicability of the new principle to the different types of contracts, as well as the study of possible management and accounting consequences. Generally speaking, the accounting treatment of the cases analysed is in line with the provisions of the new standard and there are consequently no significant impacts at accounting level;
- **IFRS 9** - Financial Instruments, in replacement of IAS 39 - Financial Instruments: Recognition and Measurement, establishes the new criteria for the recognition and measurement of financial instruments, as well as the transition from an incurred losses to an expected losses impairment model (EU Reg. 2016/2067);
- **IFRIC 22** - Foreign Currency Transactions and Advance Consideration, the interpretation clarifies the accounting for transactions that include the receipt or payment of advances in foreign currency (EU Reg. 2018/519);
- **IAS 40** - Investment Property - Transfers of investment property, the changes clarify when an undertaking is authorised to change the status of a property that was not a "property investment" or vice versa (EU Reg. 2018/400);
- **IFRS 2** - Share-based Payment, clarifies how companies should apply the standard in certain specific cases (EU Reg. 2018/289);
- **Amendments to IAS 28** Investments in associates and joint ventures, IFRS 1 First-time Adoption of International Financial Reporting Standards and IFRS 12 Information on holdings in other entities, the aim of the annual improvements is to resolve non-urgent issues relating to inconsistencies in IFRS or clarifications of terminology, which were discussed by the IASB in the course of the project cycle (EU Reg. 2018/182);
- **Amendments to IFRS 4**, seek to remedy the temporary accounting consequences of the timing difference between the date of entry into force of IFRS 9 and the date of entry into force of the new IFRS 17 on insurance contracts that replaces the IFRS 4 (EU Reg. 2018/1988).

An analysis of the significant qualitative/quantitative impacts, as a result of the introduction of IFRS 9 in the financial year, is provided below.

## From IAS 39 to IFRS 9

### 1) Basic Principles

The new standard IFRS 9 Financial Instruments, published in the Official Journal of the European Union of 29 November 2016, entered into force as from 1 January 2018. This standard:

- changes the rules of classification and the subsequent ways of measuring financial assets which, as regards debt instruments will be based on the business model and on the characteristics of the cash flows of the financial instrument, while for equity instruments they will be based on the measurement at fair value through profit and loss, without prejudice to the possibility of making use of the OCI option;
- provides for a new accounting model for impairment based on an expected losses approach rather than an incurred losses approach, as in the current IAS 39, and also introduces, for performing loans, the concept of lifetime expected loss, which could lead to an advance and structural increase of value adjustments;
- makes changes to hedge accounting, rewriting the rules for designating a hedging relationship and verifying its effectiveness with the aim of ensuring greater alignment between the accounting representation of hedges and the underlying management approaches.

### 2) Recognition and measurement

Financial assets can therefore be classified into three categories, two main (HTC and FVTOCI) and one residual (FVTPL):

- assets measured at amortised cost (HTC);
- assets measured at fair value through other comprehensive income (FVTOCI);
- assets measured at fair value through profit and loss (FVTPL).

The classification of financial assets carried out by the bank is performed by assessing the business model and the specific characteristics of the cash flows that are connected to it.

Taking into account that:

- the first category, Hold to Collect, therefore includes assets that possess the characteristics of a loan, with cash flows relating to the repayment of the nominal amount and of interest at fixed dates connected to a business model whose purpose is to hold the instrument for the entire duration of the loan in order to collect all the cash flows;
- the second category includes the instruments whose contractual flows are characterised exclusively by the payment of capital and interest. the business model that guides the holding of these instruments is referred to as "Hold to Collect and Sell", the objective being both to collect the contractual flows and to sell the asset.
- the final category includes assets that cannot be classified in the first two. All assets, therefore, with a business model other than those above, in which the cash flows are secondary while the sale of the asset is the priority.

The Bank places its current portfolio of financial assets, both receivables and securities, in the first category, with measurement at amortised cost.

The Bank, having mapped the business areas, taking account of the products sold, the distribution channels and the assets held, its management model and the characteristics of the cash flows of the financial instruments themselves (Solely Payments of Principal and Interests criterion), places its current portfolio in the HTC category.

In addition to being carried out on the new portfolio, this exercise was also performed on financial assets present at 31 December 2017, which were reclassified to the new categories.

Financial liabilities have not been reclassified and all payables for cash and technical forms of direct deposits in the form of securities have been categorised under financial liabilities at amortised cost, as per the previous IAS 39.

### Objectives and content of the Santander Consumer Bank business model

The Model adopted involves the collection of savings from the public, the granting of credit in its various forms and, in particular, the professional practice of consumer credit.

The identification of strategic guidelines and the general management of the Bank are the responsibility of the Board of Directors. These guidelines are defined during the preparation of the strategic plan and the subsequent annual budget.

The entire local organisational structure is involved in implementing the strategic planning process, as is the Spanish parent, Santander Consumer Finance, which provides the development guidelines and the general and specific objectives.

The mission is to be the best bank in the world for consumer credit, building loyalty among employees, customers, shareholders and, more generally, the community in which it operates.


The bank's main goal is to allow its customers and employees to achieve their objectives and, in particular:

- to be the best bank to work for, thanks to a solid and innovative internal culture;
- to achieve a lasting partnership with customers/partners;

- to provide ongoing support to the communities in which the Bank operates;
- to maintain solid capital and optimise risk management;
- to increase profitability.

The bank is managed using a strategy that combines the maximisation of economic results, pursuing income generation without compromise, with maintaining adequate levels of capitalisation and with a conscious and measured assumption of risk.

The main objectives can be summarised as follows:

- achieving lasting partnerships with customers and business partners;
- geographic presence throughout the country in order to be closer to customers;
- innovation and continuous improvement of processes in order to understand and serve customers better;
- promotion of the risk culture at all levels of the organisation;
- optimisation of risk management, keeping the level of disputes stable, even with the increase in volumes, by means of an effective strategy of acceptance and recovery, as well as the minimisation of risk costs in order to ensure the profitability objective (RoRWA);
- maintaining an adequate capital level and a capital structure that is able to cover all the risks to which the Bank is exposed through efficient management and allocation, creating value for shareholders and complying with regulatory requirements;
- make more efficient use of capital and liquidity by optimising the cost of funding, keeping regulatory indicators above the risk propensity limits, increasing financial autonomy and developing of new products;
- transform the internal culture in order to be the best bank to work for, through training, internal communication, incentive systems, operational flexibility and the development of digital systems for employees.

The strategic guidelines are constantly updated and shared with the Santander Group, with the aim of integrating and implementing best business practices.

### Business Activities - Products Distributed and Distribution Channels

The Bank's main activity is the supply of consumer credit through a variety of products and distribution channels.

The term consumer credit refers to the market for credit to private individuals and companies. This type of financing is generally intended for the purchase of goods or services and is disbursed in the form of loans or revolving credit.

Specifically, the Bank's reference market can be broken down into the following macro-areas:

- Car loans;
- Personal loans;
- Salary and pension assignment;
- Delegation of payment;
- Special-purpose loans;
- Credit cards;
- Leasing;
- Wholesale Stock Financing and Revolving Dealer products;
- Demand Deposit and Time Deposit accounts.

The distribution channels for the marketing of the products are the following:

- Subsidiaries;
- Affiliates;
- Agents;
- Internet.

### 3) Impairment

For activities related to the impairment model, the scope of the financial assets subject to application of the principle has been defined and the methods for estimating risk parameters and for carrying out staging allocation have begun to be defined with the aim of developing models and methods for the purposes of IFRS 9.

Indeed, the new impairment model provided for by IFRS 9 introduces a significant new change related to the analysis of the portfolio and to its classification into three different stages depending on the deterioration in the credit quality observed with respect to the initial recognition and which correspond to the different methods of calculation of the expected loss and interest:

- Stage 1: classified in this stage are loans defined as performing, i.e. loans that have not deteriorated since initial recognition. In this case, the expected loss for the calculation of corrections is measured over a 12-month time period (12-month PD), while interest is calculated on the gross exposure;
- Stage 2: comprises loans that have undergone a significant qualitative worsening compared to initial recognition. For these loans, expected loss is calculated over the lifetime of the loan (lifetime PD), and interest is calculated on the basis of the gross exposure;
- Stage 3: includes impaired assets, i.e. that have objective evidence of deterioration (over 90 days past due). Included in this category are past due non-performing, unlikely to pay and doubtful. In this case a lifetime PD is calculated, while interest is calculated on the basis of the receivable net of impairment.

In this regard, the preliminary methodological choices aimed at determining the expected loss (lifetime probability of default, risk parameters, forward looking information) were made, and the main criteria for the allocation of financial instruments into the various classes of risk proposed by legislation and indicated above were defined.

The method applied for the calculation of expected loss is supported, therefore, by risk analyses that take into consideration, in the calculation models applied, local performance in terms of collection activities, relevant events observed over time and long-term information related to macroeconomic analyses both in ordinary and stress situations.

Analysis of the SICR (significant increase in credit risk) component, the objective of which is to identify positions for which a significant increase in credit risk is determined with respect to initial recognition, requiring classification to stage 2, is performed by analysing qualitative and quantitative components. Given below is an extract of these components, applied by way of example to the main retail and non-retail portfolios of the Parent Company.
The main elements identified that result in a significant increase in risk are listed below:

- the presence of a loan more than 30 days past due;
- the presence of a past loan more than 30 days past due;
- forborne positions:
    - for which the original terms of the contract have been changed
    - and/or for which the debt has been partially or fully refinanced in order to allow the customer in difficulty to meet the financial commitments undertaken;
- customers being managed by Credit Collection due to legal action or bankruptcy procedures;
- customers with a total overdue amount greater than 5% of the total exposure.

For these in particular, the components include the assessment rating, which involves the observation of macroeconomic variables and the monitoring of customer behaviour.

The other component to be taken into account for the calculation of lifetime PD is the RTOB (remaining times on book) variable: required to define the maximum time period that will be taken into consideration in terms of the calculation of expected loss. This variable takes into consideration the duration of the contract including any extension periods or early termination.

Combining the qualitative/quantitative elements identified and the remaining times on book allows for classification to the second stage in accordance with the IFRS 9 impairment model.

Wholesale portfolios, on the other hand, are classified into stages using the combination of components observed for individual counterparties (DPD 30/90, positions in recovery, etc.)

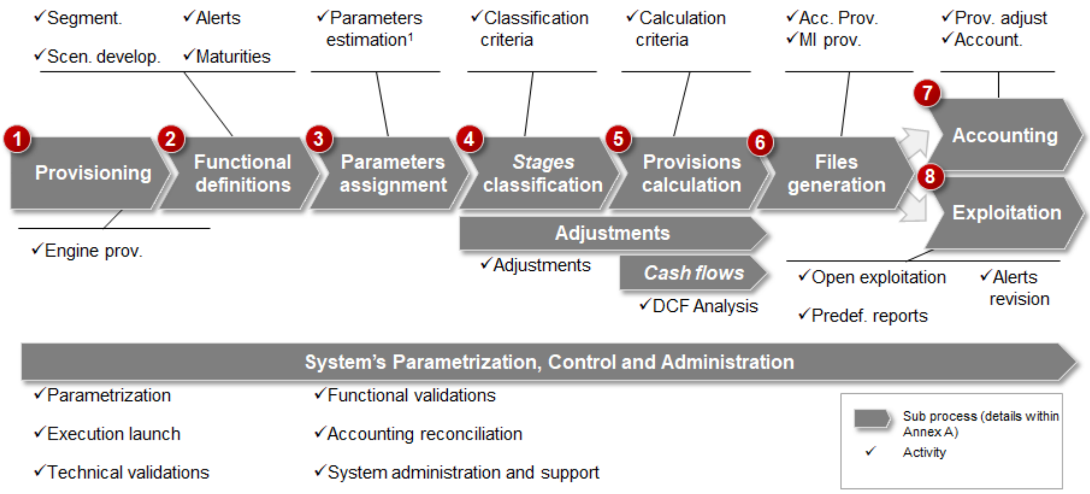
Anything not falling into categories 2 and 3 is classified to stage 1.

As regards securities owned and inter-bank relations, the new legislation provides for an assessment and impairment process similar to that provided for the loan portfolio.

No significant impacts were observed over the course of the year in relation to the effects resulting from the introduction of the new assessment model, as described above; however, for an in-depth analysis please refer to Annex 1 of these Financial Statements, where the effects related to the first application of the standard are described in detail.

From an operational point of view, implementation of the model involved revising internal business processes, making it necessary to implement appropriate IT tools and create specific dedicated professional profiles within the areas involved in all units of the group. The operational processes and the IT facilities provided guarantee the quality and integrity of the data processed. In addition, the internal control model has been enhanced with new specific controls, implementation of which will continue in 2019 with a view to continuously improving and optimising the process. The updates made to the governance and monitoring processes developed guarantee compliance with the new provisions.

Below is a representation of the process developed according to the guidelines of the Spanish Parent Company.




### 4) Other aspects

Finally, as regards the adoption of the new hedging model, the Bank has chosen to continue to apply the existing requirements provided for by IAS 39.

As regards liabilities, the classification and measurement criteria provided by IAS 39 remain substantially unchanged with the entry into force of IFRS 9, meaning there is no need for values to be reclassified and restated on the basis of the new principle.

### From IAS 17 to IFRS 16 – Basic Principles

The main new aspects introduced by IFRS 16 relate to:

- The widening of the scope of application of the rules on leasing. The standard requires entities to identify whether a contract is (or contains) a lease, based on the concept of control of use of an identified asset for a period of time; as a result, rent or leasing contracts, previously not treated as leasing, can be included;
- The introduction of a single model of accounting for lease contracts by the lessee, with the consequent elimination of the distinction between operating leases and financial leases; the model requires the recognition in assets of a right to the use of the asset subject to leasing, classified on the basis of the nature of the underlying asset, and a financial liability, as a direct contra-entry. Any depreciation and impairment of the right of use is recorded in the income statement, as is any interest expense on the financial liability;
- The revision of the information relating to leasing contracts and their accounting treatment.

The model of accounting for lease contracts by the lessor remains, instead, unchanged.

**From IAS 17 to IFRS16 – Implementation and expected estimates**

The process to implement IFRS 16 was carried out under the supervision of the Spanish parent company for all the companies in the Group. The involvement began in February 2018 and continued throughout the year. For the most part the information related to the state of development of the project and the findings of the processing during the Parallel Run stage.

The main expected effects in terms of Right of Use (ROU) and connected liabilities are approximately Euro 20 million and relate to the rental of premises used by the Bank to carry out its activities and the hire of cars for employees.

The expected overall economic impact is minimal and will relate to the items Interest expense and Adjustments to property and equipment, which will increase respectively due to the discounting of liabilities and the depreciation charge; conversely, the costs recorded in the item Other administrative expenses will decrease in the amount of approximately Euro 4 million.

Finally, below are the main standards currently awaiting approval:

- Amendments to IAS 19;
- Amendments to IFRS 3;
- Amendments to IAS 1 and IAS 28 on the definition of materiality.

## A.2 – Main captions in the financial statements

This section explains the accounting policies used to prepare the 2018 Financial Statements. The company's accounting policies are explained with reference to the classification, recognition, measurement and derecognition of assets and liabilities. A description of the economic effects is given for each of these stages, where relevant.

## 1 – Financial assets at fair value through profit and loss

### Recognition

Financial assets held for trading are initially recognised on the subscription date. They are recognised at fair value without considering transaction costs or income directly attributable to the instrument concerned.

### Classification

All financial assets not classified in the portfolio of financial assets at fair value through comprehensive income and in the portfolio of financial assets measured at amortised cost are classified in this category. Derivatives traded, in connection with securitisation transactions represented as an asset if the fair value is positive, are shown in the sub-item financial assets held for trading. If the fair value is negative, they are posted in financial liabilities held for trading. These contracts are not subject to net settlement by either counterparty.

According to the general rules provided for by IFRS 9 in relation to reclassification of financial assets (with the exception of equity securities for which no reclassification is allowed), no reclassifications to other categories of financial assets are permitted except in the event that the entity changes its business model for the management of financial assets. In these cases, which are expected to be highly infrequent, financial assets may be reclassified from the 'at fair value through profit and loss' category to one of the other two categories provided for by IFRS 9 (Financial assets measured at amortised cost or financial assets at fair value through comprehensive income). The transfer value is represented by the fair value at the time of the reclassification and the effects of the reclassification operate prospectively from the date of reclassification. In this case, the effective interest rate of the reclassified financial asset is determined on the basis of its fair value at the date of reclassification and that date will be considered the date of initial recognition for the assignment to the various stages of credit risk (stage assignment) for the purposes of the impairment test.

### Measurement and recognition of components affecting the income statement

Subsequent to initial recognition, financial assets held for trading are measured at fair value. The effects of the application of this criterion are recognised in the income statement. For the determination of fair value, estimates and valuation models are used based on prices quoted on an active market.

### Derecognition

Financial assets are only derecognised if the sale involves the substantial transfer of all the risks and benefits related to the assets. On the other hand, if a portion of the risks and benefits of the financial assets transferred has been retained, they continue to be recognised, even if ownership of the assets has been transferred.
Financial liabilities are derecognised when they expire or are settled.

## 2 – Financial assets at fair value through comprehensive income

The company does not have any financial assets at fair value through comprehensive income.

## 3 – Financial assets measured at amortised cost

### Recognition

Financial assets measured at amortised cost are initially recognised on the payout date, with reference to the fair value of the financial instrument concerned. This is represented by the amount paid out including costs/revenues that are both directly attributable to the individual loans and identifiable from the start of the transaction, even if they are settled at a later time.

### Classification

Financial assets measured at amortised cost include loans to customers and banks, whether granted directly or acquired from third parties, which are placed in a Hold to Collect business model and have passed the SPPI test as provided for by IFRS 9. Loans also include lease receivables covered by IAS 17, as well as the previously sold loans relating to securitisation transactions for which the condition for the transfer of risks and benefits referred to in IFRS 9 in the matter of derecognition, as well as in accordance with IFRS 10 in the matter of consolidated financial statements, has not been met.

According to the general rules provided for by IFRS 9 in relation to reclassification of financial assets, no reclassifications to other categories of financial assets are permitted except in the event that the entity changes its business model for the management of financial assets. In these cases, which are expected to be highly infrequent, financial assets may be reclassified from the 'amortised cost' category to one of the other two categories provided for by IFRS 9 (Financial assets measured at fair value through comprehensive income or Financial assets measured at fair value through profit and loss). The transfer value is represented by the fair value at the time of the reclassification and the effects of the reclassification operate prospectively from the date of reclassification. Gains or losses arising from the difference between the amortised cost of a financial asset and its fair value are recognised in profit or loss in the event of reclassification to Financial assets measured at fair value through profit and loss and to Equity, in the appropriate valuation reserve, in the event of reclassification to Financial assets measured at fair value through comprehensive income.

### Measurement and recognition of components affecting the income statement

After initial recognition, these assets are measured at amortised cost, corresponding to the initial cost less/plus principal repayments, net adjustments/recoveries and amortisation - calculated using the effective interest method - of the difference between the amount paid out and the amount repayable on maturity, which is generally attributable to the costs/income directly allocated to the individual loans. The effective interest rate is the rate that equates the present value of future cash flows of loans, for principal and interest, to the amount granted, including costs/income attributable to the loan. This accounting method, using a financial logic, allows distribution of the economic effect of costs/income over the estimated residual life of the loan.

Loans are assessed at the end of each accounting period to identify any objective evidence, arising from events subsequent to initial recognition, that their value may be impaired, following the procedures set out in Part E – Information on risks and related hedging policies.

### Derecognition

Apart from those situations where the impairment of the loans reduces their fair value to zero, the assets sold are only eliminated from the balance sheet if their disposal leads to the transfer of substantially all of the risks and benefits associated with them. This situation takes place in the case of a transfer without recourse with respect to non-performing loans, the economic effects of which are recorded in item 100 (gains/losses on disposal or repurchase of loans) in the income statement. Conversely, if the risks and benefits relating to loans that have been sold are retained, these continue to be reported as assets in the balance sheet, even if legal ownership of the loans has been effectively transferred. Cancellation also takes place following the expiry of the contractual rights or when the loan is considered permanently unrecoverable.

## 4 – Hedging transactions

### Types of hedges

Hedges are arranged to neutralise losses that may be incurred in relation to a given element or group of elements, as a consequence of a given risk, via profits that would be earned on another element or group of elements should that particular risk crystallise. Of the types of hedges that are allowed, the Group uses cash flow hedging (CFH) to neutralise the exposure of its liabilities to changes in future cash flows arising from unexpected fluctuations in interest rates, and fair value hedging (FVH) on a portion of its fixed-rate assets.

As explained in more detail in the section *From IAS 39 to IFRS 9*in the same part of the Financial Statements, the Group uses the option to continue to apply the rules provided by IAS 39, rather than those provided by IFRS 9 which makes changes to hedge accounting, providing for greater alignment between hedging relationships and the underlying risk management strategies.

### Measurement

Hedging derivatives are measured at their fair value. Changes in the fair value of a cash flow hedge (CFH) are recognised directly in equity to the extent of the portion that is determined to be an effective hedge and are only recognised in the income statement when the related cash flows are actually generated by the hedged item. In the case of FVH derivatives, any change in the fair value of the hedging instrument is recognised in the income statement, as are changes in the fair value of the hedged item, with a net effect to reflect the partial ineffectiveness of the hedge.
Hedging transactions are formally documented and subject to regular testing by:

- prospective tests that justify the application of hedge accounting, by demonstrating the expected effectiveness of the hedge;
- retrospective tests that show the effectiveness of the hedge during the period under review.

The tests described here are designed to determine the extent to which the actual results differ from the perfect hedge. If the tests do not confirm the hedge's effectiveness, hedge accounting is interrupted for the ineffective portion and it is reclassified to financial instruments held for trading.

### Recognition of components affecting the income statement

In the case of CFH derivatives, as long as the effectiveness of the hedge remains, changes in the fair value of the hedging derivative are recorded in a specific cash flow hedging reserve with these reserves merely being released on expiry of the derivative or the ineffective portion being transferred to the income statement on failing the effectiveness test. In the case of FVH derivatives, changes in the fair value of the hedging derivative and of the hedged item are recognised in the income statement.

Differentials on hedging derivatives, whether FVH or CFH, are recognised in the income statement on a pro-rata basis. There are no CFH derivatives as at 30 June 2018.

## 5 – Equity investments

### Recognition and measurement

This category includes investments in subsidiaries carried at cost, in accordance with IAS 27, paragraph 37. If there is evidence that an investment may be impaired, its recoverable amount is estimated. If the recoverable amount is lower than the carrying amount, the related difference is charged to the income statement. If the reasons for impairment cease to exist due to an event occurring after recognition of the impairment, write-backs are made against the income statement.

### Derecognition

Equity investments are derecognised on expiry of the contractual rights over the related cash flows or when the investment is sold with the transfer of essentially all the related risks and benefits of ownership.

## 6 – Property and equipment

### Recognition

Property and equipment are initially recorded at purchase price, including any directly attributable purchasing costs or costs involved in bringing the asset to working condition.

### Classification

Property and equipment include motor vehicles owned by the company, furniture and furnishings and equipment of any kind. They are property and equipment that are held for use in the production or supply of goods or services or for administrative purposes and expected to be used for a number of years. This category also includes leasehold improvements to fixed assets, which have not been included in other assets as permitted by the Bank of Italy.

### Measurement

Tangible fixed assets are measured at cost less depreciation and any impairment losses. Fixed assets are depreciated systematically over their estimated useful life, taking into account the date of entry into operation of the asset. Any adjustments are recorded in the income statement.

### Derecognition

Property and equipment are derecognised on disposal, or when the assets concerned are permanently taken out of use and no further economic benefits are expected from their disposal.

## 7 – Intangible assets

### Classification

This category includes non-monetary, identifiable intangible assets with a useful life of several years, represented in the company's operational activities by charges for the purchase of software. Intangible assets are recognised if they are identifiable and reflect legal or contractual rights.

### Recognition and measurement

Intangible assets are stated at cost, adjusted for any ancillary charges only if it is probable that the future economic benefits attributable to the asset will be realised and if the cost of the asset can be measured reliably. Otherwise, the cost of the intangible asset is recognised in the income statement in the period that the cost is incurred. The cost of intangible assets (classified as assets with a finite duration) is amortised on a straight-line basis over their useful lives. An estimate of recoverable value is made if there is any evidence of asset impairment at the reporting date. The impairment loss, expensed to income, is the difference between the carrying amount of an asset and its recoverable amount.

### Derecognition

Intangible assets are derecognised on retirement and when no further economic benefits are expected.

## 8 – Non-current assets held for sale and discontinued operations

### Recognition

In this category are recognised non-current assets whose carrying amount will be recovered principally through a sale rather than through its continuing use. This case includes leased assets that have been repossessed as a result of the premature interruption or termination of the period of the contract, without the purchase option being exercised. The related recognition occurs once the full availability of the asset is ascertained, for an amount equal to the lower of the carrying amount and its fair value net of costs to sell, that meets the requirements of high probability that it will be sold, as well as reduced time lag between initial recognition and subsequent disposal, usually within a year.

### Classification and recognition of components affecting the income statement

Assets that meet the criteria to be classified as non-current assets held for sale are shown separately in the balance sheet.

### Measurement

Assets that meet the criteria to be classified in this category are valued at the lower of their carrying amount and fair value, net of costs to sell. The related adjustment is recorded under impairment losses on property and equipment, as required by the instructions for preparation of the financial statements of banks issued by the Bank of Italy.

### Derecognition

The derecognition of non-current assets held for sale takes place when the asset is sold.

## 9 – Current and deferred taxation

The effects of current and deferred taxation are recognised by applying the tax rates in force in the relevant country. Income taxes are recognised in the income statement.

The provision for income taxes is determined on the basis of a prudent estimate of current taxes, deferred tax assets and deferred tax liabilities. In particular, deferred tax assets and liabilities are determined on the basis of temporary differences - without time limits - between the value of an asset or a liability according to statutory criteria and the corresponding values for tax purposes.

Deferred tax assets, representing the future tax benefit deriving from deductible temporary differences or tax losses carried forward, are recognised to the extent that their recovery is likely.

Deferred tax assets and liabilities are systematically assessed to take account of any changes in regulations or tax rates.

## 10 – Provisions for risks and charges

### Classification and recognition

The provisions for risks and charges cover liabilities whose timing and extent are uncertain, when all the following conditions are met:

- a current obligation exists at the balance sheet date, deriving from a past event;
- the origin of the obligation must either be legal (deriving from a contract, regulation or the provisions of law) or implicit (arising when the business causes third parties to expect that commitments will be met, even if these do not fall into the category of legal obligations);
- a financial outflow is likely;
- the extent of the obligation can be estimated reliably.

In addition to the provisions for risks and charges dealt with in IAS 37, the item Provisions for risks and charges also includes the provisions for commitments and guarantees given, determined in accordance with IFRS 9.

### Measurement

Provisions are measured on the basis of reliable forecasts in terms of the expected disbursement, discounted at current market rates when the time element is significant. Provisions are charged to the income statement.

### Derecognition and recognition of components affecting the income statement

The liabilities relating to provisions for risks and charges are eliminated on settlement of the expected amount or in circumstances where the conditions that led to the initial provision no longer exist. Accruals to the provisions in question and their increase due to the passage of time are recognised under “Net provisions for risks and charges” in the income statement.

## 11 – Financial liabilities measured at amortised cost

### Recognition

The initial recognition of these financial liabilities takes place on receipt of the amounts collected or on issue of the debt securities. These liabilities are initially recognised at their fair value, usually corresponding to the amount collected or the issue price, plus any additional costs/proceeds directly attributable to the individual funding transaction or issue that are not reimbursed by the creditor.

### Classification

Amounts due to banks, amounts due to customers, and debt securities issued cover the various forms of interbank and customer funding and the deposits paid into current accounts with customers and debt securities in issue. These items also include liabilities related to the recognition in the financial statements of loans subject to securitisation where the relative securities have been placed on the market.

### Measurement

After initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method. As an exception, short-term liabilities are measured at the amount collected, as the effect of the time factor is insignificant.

### Derecognition

Financial liabilities are derecognised when they expire or are settled. The repurchase of debt securities issued in prior periods results in their derecognition.

## 12 – Financial liabilities held for trading

### Recognition

Financial liabilities held for trading include derivatives traded in connection with securitisations originated by the Group. They are recognised on the subscription date at fair value, without considering transaction costs or income directly attributable to the instrument concerned.

### Measurement

All liabilities held for trading are measured at fair value with fair value changes recognised in the income statement.

### Derecognition

These liabilities are derecognised when the contractual rights to the cash flows cease or when a liability is sold and substantially all of the risks and benefits associated with it are transferred.

## 13 – Financial liabilities designated at fair value

The company does not have any financial liabilities designated at fair value.

## 14 – Foreign currency transactions

The company has not carried out any transactions in foreign currency.

## 15 – Other information

### Treasury shares

There are no treasury shares to be deducted from shareholders' equity.

### Provision for employee termination indemnities

The provision for employee termination indemnities is recognised on the basis of its actuarial value. For the purposes of discounting, the projected unit credit method is used, which involves the projection of future payments based on historical statistical analyses and the demographic curve, and the discounting of these flows on the basis of a market interest rate. The contributions paid in each year are considered as separate units, recorded and evaluated individually in order to determine the final obligation.

According to IAS 19 - Employee Benefits, interest costs (which correspond to the change in the current value with respect to the actuarial estimate at the previous year-end, merely due to the fact that the estimated date of disbursement is getting closer) and service costs (which correspond to the higher cost due mainly to the increase in salaries and in the workforce) are included in personnel costs, while actuarial gains/losses (reflecting any change in the current value caused by changes in macroeconomic scenarios or in interest rate estimates), are recognised in shareholders' equity.

### Share-based payments

Not applicable.

### Revenue recognition

The recognition of revenue related to contracts with customers, excluding revenue related to contracts with customers subject to IFRS 9 and IAS 17, takes place in accordance with IFRS 15.

This envisages a revenue recognition model that is substantially different with respect to the past, since the basic principle refers to the identification of the contractual obligations contained in the contract and the time at which each obligation is fulfiled. It does not distinguish, therefore, between the various types of goods or services rendered but takes into consideration only the fact that the obligation in relation to the customer is made at a given time rather than over the course of time. In principle, the revenue is recognised when a good or service is transferred to a customer, with emphasis on the concept of control.

More generally, the remaining types of revenues are recognised when received or when it is likely that the future benefits will be received and these benefits can be measured reliably. The effects of transactions and other events are recognised when they occur and not when the amount involved is received or paid; they are shown in the accounting records and reported in the financial statements of the periods to which they relate on an accrual basis.

### Fair value measurements

Fair value may be defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As required by IFRS 13, fair value measurement has been adopted for each specific asset or liability. Accordingly, the characteristics of the asset or liability being measured have been taken into account.

Fair value measurement assumes that the sale or transfer of the asset or liability takes place:

- in the principal market for the asset or liability;
- or in the absence of a principal market, the most advantageous market for the asset or liability.

The valuation techniques used have been adapted to the specific characteristics of the assets and liabilities being measured. In choosing the inputs used in valuation techniques, the highest priority is given to observable market data and the lowest priority to internal estimates.

The valuation techniques used by the Group are:

- Market approach. This method uses prices and other relevant information generated by market transactions involving identical or comparable assets.
- Revenue approach. This method converts future amounts (cash flows or income and expenses) to a single current (discounted) amount. When this approach is used, fair value measurement reflects current market expectations about future amounts. This technique involves the use of a net present value calculation.

As regards the impact of the Credit Value Adjustment and the Debit Value Adjustment on the determination of fair value, as far as the consumer credit portfolio is concerned, the counterparty risk is included in the impairment of the portfolio, while, for the measurement of derivatives, the risk is neutralised by means of the weekly settlement of positions.

To increase consistency and comparability in fair value measurements, IFRS 13 establishes a hierarchy based on inputs used for the various valuation techniques.

The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. More in detail, the inputs used to measure fair value are categorised as follows:

- Level 1. Fair value is directly observable in active markets that the entity can access at the date of fair value measurement of identical or similar assets or liabilities.
- Level 2. Fair value is determined internally based on directly observable market inputs.
- Level 3. Fair value is determined internally based on unobservable inputs. The company makes use of assumptions determined internally.

### Method of determining amortised cost

The amortised cost of a financial asset is the amount at which it was measured on initial recognition, net of repayments of principal, plus or minus accumulated amortisation (calculated using the effective interest method) of the differences between the initial value and its value on maturity, less any impairment loss.

The effective interest rate is the rate that equates the present value to the contractual flow of future cash payments, either received up to the expected maturity or to the next date that the price is recalculated. To calculate the present value, the effective interest rate is applied to the future cash flows received or paid through the entire life, or for a shorter period under certain conditions (for example, if there is a change in market rates).

After initial recognition, the amortised cost permits the allocation of revenues and costs to decrease or increase the instrument over its entire expected life through the amortisation process.

With particular reference to loans or finance that arise from the consumer finance business, leases and salary assignment and delegation of payment, contributions received from affiliates under special conventions as part of promotional campaigns (consumer contracts and leases at subsidised rates of interest) and preliminary fees in excess of the costs incurred are classified as transaction income; reimbursements of stamp duty and legal fees, on the other hand, are excluded, as they are mere recoveries of expenses. Reimbursements of collection expenses are also excluded from the calculation of the effective interest rate because of the low mark-up compared with the actual charges incurred for the collection of loan repayments.

With reference to costs, commissions and rappels paid to credit intermediaries and insurance premiums relating to salary assignment and delegation of payment are attributed to the financial instrument.

With regard to credit cards, the immateriality of the amounts of associated transaction costs, and the absence of a sinking fund plan known beforehand because of their floating-rate structure, means that the income and expenses associated with such an instrument tend to be excluded from the scope of amortised cost.

As already mentioned in the section relating to the criteria for the measurement of financial assets and liabilities measured at amortised cost, measurement is not applied to financial assets and liabilities whose short duration means the effect of discounting is insignificant, nor to non-performing loans.

### Method of determining the impairment of financial assets

The new impairment model provided for by IFRS 9 requires the classification of loans into three different stages depending on the deterioration in the credit quality observed with respect to the initial recognition and which correspond to the different methods of calculation of the expected loss and interest:

Stage 1: classified in this stage are loans defined as performing, i.e. loans that have not deteriorated since initial recognition. In this case, the expected loss for the calculation of corrections is measured over a 12-month time period (12-month PD), while interest is calculated on the gross exposure;

Stage 2: comprises loans that have undergone a significant qualitative worsening compared to initial recognition. For these loans, expected loss is calculated over the lifetime of the loan (lifetime PD), and interest is calculated on the basis of the gross exposure;

Stage 3: includes impaired assets, i.e. that have objective evidence of deterioration (over 90 days past due). Included in this category are past due non-performing, unlikely to pay and doubtful. In this case a lifetime PD is calculated, while interest is calculated on the basis of the receivable net of impairment.

### Method of determining the impairment of other non-financial assets

Tangible and intangible assets with a defined useful life are subject to impairment testing if there is an indication that the carrying amount of the asset may no longer be recovered in full. The recoverable amount is determined with reference to the fair value of the tangible or intangible asset net of disposal costs or the value in use if determinable and if it is higher than the fair value.

For other tangible and intangible fixed assets (other than goodwill) it is assumed that the carrying amount corresponds to the value in use, as it is determined by an amortisation process estimated on the basis of the actual contribution of the asset to the production process resulting in the determination of a fair value being extremely uncertain. The two values differ, giving rise to impairment, in the event of damages, exit from the production process or other similar non-recurring circumstances.

Receivables classified to Other Assets are subject to impairment losses on the basis of the recoverability of the loan itself.

### Intercompany transactions

Banking and commercial transactions with the Shareholder, with the subsidiaries Banca PSA Italia S.p.A. and PSA Renting S.p.A. and with other companies of the Santander Group are regulated on an arm's-length basis.

### Securitisations

With reference to the provisions contained in IFRS 9, in continuity with IAS 39 in the matter of derecognition, according to which the derecognition of assets and liabilities is permitted only when the risks and benefits associated with the asset being sold are transferred, securitised loans are recognised and measured in the same manner as loans to customers, with the recognition of a corresponding payable to the SPE (classified among amounts due to customers, liability item 20), where the relative securities have been placed on the market. This payable is stated at a value equal to the liabilities issued by the special purpose entity held by entities other than the bank, minus the value of the assets of the special purpose entity generated by the securitised portfolio.

In self-securitisations, in which there are no liabilities in respect of the special purpose entity, the liquidity generated by the securitised portfolio is shown as a receivable from the securitisation, net of any payables of the special purpose entity.

In terms of the income statement, the related income items, as a result of reclassification, are recorded in the financial statements as follows:

- interest expense on the payable, corresponding to the total costs recorded by the securitised portfolios, net of income other than the income statement components generated on the portfolio;
- Income statement components of the portfolio being re-recorded;
- adjustments to the securitised portfolio, under the corresponding balance sheet item.

### Significant subsequent events

There are no significant events worthy of mention subsequent to the close of financial year 2018.

## A.3 – Information on transfers between portfolios of financial assets

### A.3.1 Reclassified financial assets: change in business model, carrying amount and interest income

The Bank has not reclassified any financial assets during the year.

### A.3.2 Reclassified financial assets: change in business model, fair value and effects on comprehensive income

The Bank has not reclassified any financial assets during the year.

### A.3.3 Reclassified financial assets: change in business mode and effective interest rate

The Bank has not reclassified any financial assets during the year.

## A.4 Information on fair value

## Qualitative information

### A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used

The valuation techniques used have been adapted to the specific characteristics of the assets and liabilities being measured. In choosing the inputs used in valuation techniques, the highest priority is given to observable market data and the lowest priority to internal estimates.

The valuation techniques used by the Bank are:

- Market approach. This method uses prices and other relevant information generated by market transactions involving identical or comparable assets.
- Income approach. This method converts future amounts (cash flows or income and expenses) to a single current (discounted) amount. When this approach is used, fair value measurement reflects current market expectations about future amounts. This technique involves the use of a net present value calculation.

As regards the impact of the Credit Value Adjustment and the Debit Value Adjustment on the determination of fair value, as far as the consumer credit portfolio is concerned, the counterparty risk is included in the impairment of the portfolio, while, for the measurement of derivatives, the risk is neutralised by means of the weekly settlement of positions.

## A.4.2 Valuation processes and sensitivity

The process used for the determination of the fair value of individual financial statement components is illustrated below.

With respect to balance sheet assets:

- Cash, bank accounts, demand loans and current amounts due from banks: for these items, it is assumed that their fair value corresponds to their carrying amount.
- Short term amounts due from banks: the fair value is calculated by discounting expected cash flows.
- Derivatives: fair value is determined by means of daily measurement based on expected cash flows.
- Securities portfolio: fair value is based on quoted market prices of financial instruments in active markets, or, if not available, on those for comparable assets.
- Loans to customers:
  - Demand loans. It is assumed that their fair value corresponds to their carrying amount.
  - Other assets. The fair value of the portfolio is calculated by discounting expected cash flows, net of impairment adjustments, using the average interest rate on loans granted in the month on which the valuation is based for each type of product.

With respect to balance sheet liabilities:

- Due to banks: on demand. It is assumed that their fair value corresponds to their carrying amount.
- Short and medium-to-long term amounts due to banks and debt securities issued. The fair value is calculated by discounting expected cash flows based on an interest rate curve observed directly in the market plus the

intercompany spread applicable at the measurement date. For floating rate transactions, expected cash flows do not take account of the variable component that is not capable of being determined at the measurement date.

- Due to customers:
  - Time deposit accounts. Fair value is determined by discounting expected cash flows using the interest rate actually applied to the customer at the measurement date for the same maturities.
  - Current accounts and deposits. For these items, it is assumed that their fair value corresponds to their carrying amount.
- Hedging derivatives. Please see the assumptions given for hedging derivatives under balance sheet assets.

## A.4.3 Fair value hierarchy

To increase consistency and comparability in fair value measurements, IFRS 13 establishes a hierarchy based on inputs used for the various valuation techniques.

The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. More in detail, the inputs used to measure fair value are categorised as follows:

- Level 1. Fair value is directly observable in active markets that the entity can access at the date of fair value measurement of identical or similar assets or liabilities.
- Level 2. Fair value is determined internally based on directly observable market inputs.
- Level 3. Fair value is determined internally based on unobservable inputs. The company makes use of assumptions determined internally.

## A.4.4 Other information

There is no further information that needs to be disclosed to comply with IFRS 13 paragraphs 51, 93 i) and 96.

## Quantitative information

## A.4.5 Fair value hierarchy

### A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: distribution by levels of fair value

| | 12/31/2018 | | | 12/31/2017 | | |
|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | L1 | L2 | L3 |
| 1. Financial assets valued at fair value with impact on income | | 1,828 | | | 1,033 | |
| a) financial assets held for trading | | 1,828 | | | 1,033 | |
| b) Financial assets designated at fair value | | | | | | |
| c) Other financial assets compulsorily assessed at fair value | | | | | | |
| 2. Financial assets valued at fair value with impact on overall profitability | | | | | | |
| 3. Cover derivatives | | | | | 644 | |
| 4. Property, plant and equipment | | | | | | |
| 5. Intangible assets | | | | | | |
| **Total** | | 1,828 | | | 1,677 | |
| 1. Financial liabilities held for trading | | | | | | |
| 2. Financial liabilities designated at fair value | | | | | | |
| 3. Cover derivatives | | 4,633 | | | 2,824 | |
| **Total** | | 4,633 | | | 2,824 | |

**Key:**
L1= Level 1
L2= Level 2
L3= Level 3

The above table shows the comparative balances relating to 2017 not restated using the tables provided by the 5th update of Circular No. 262 since the items affected have not been restated in such a way as to distort the comparison. For further details, please see that indicated in Part A, in the section “Basis of preparation”.

As at the reporting date, there were no transfers of assets and liabilities between level 1 and level 2 to be disclosed.

### A.4.5.2 Annual changes in financial assets measured at fair value on a recurring basis (level 3)

The Bank does not hold any financial assets measured at fair value (Level 3).

### A.4.5.3 Annual changes in financial liabilities measured at fair value on a recurring basis (level 3)

The Bank does not hold any financial assets measured at fair value (Level 3).

A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on non-recurring basis: distribution by levels of fair value

| Assets / Liabilities not measured at fair value or measured at fair value on a non-recurring basis | 12/31/2018 | | | | 12/31/2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | VB | L1 | L2 | L3 | VB | L1 | L2 | L3 |
| 1. Financial assets at amortised cost | 6,115,079 | 354,835 | | 5,648,407 | 6,072,311 | 406,364 | | 5,547,817 |
| 2. Property, plant and equipment held for investment | | | | | | | | |
| 3. Non current assets and disposal groups classified as held for sale | 2 | | 2 | | 3 | | 3 | |
| **Total** | **6,115,081** | **354,835** | **2** | **5,648,407** | **6,072,314** | **406,364** | **3** | **5,547,817** |
| 1. Financial liabilities measured at amortised cost | 5,415,366 | | | 5,409,327 | 5,379,968 | | | 5,375,390 |
| 2. Liabilites included in disposal group classified as held for sale | | | | | | | | |
| **Total** | **5,415,366** | | | **5,409,327** | **5,379,968** | | | **5,375,390** |

**Key:**
BV = Book value
L1= Level 1
L2= Level 2
L3= Level 3

## A.5 – Information on "Day One Profit/Loss"

The Bank does not hold any financial instruments that meet the conditions referred to in paragraph 28 of IFRS 7.

# Part B – Information on the balance sheet

## ASSETS

### Section 1 – Cash and cash equivalents – Item 10

#### 1.1 Cash and cash equivalents: breakdown

| | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| a) Cash | 1 | 2 |
| b) Demand deposits with Central banks | | |
| **Total** | **1** | **2** |

### Section 2 – Financial assets at fair value through profit and loss – Item 20

#### 2.1 Financial assets held for trading: breakdown by type

These amount to Euro 1,828 thousand (Euro 1,033 thousand at 31 December 2017) and include the fair value of derivatives entered into in connection with securitisations with companies of the Santander Group.

| Items/Values | Total 12/31/2018 | | | Total 12/31/2017 | | |
|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | L1 | L2 | L3 |
| **A. Financial assets** | | | | | | |
| 1. Debt securities | | | | | | |
| 1.1 Structured securities | | | | | | |
| 1.2 Other securietes | | | | | | |
| 2. Equity securites | | | | | | |
| 3. Units in investment funds | | | | | | |
| 4. Loans | | | | | | |
| 4.1 REPOs | | | | | | |
| 4.2 Others | | | | | | |
| **Total (A)** | | | | | | |
| **B. Derivates** | | | | | | |
| 1. Financial derivates | | 1,828 | | | 1,033 | |
| 1.1 trading | | 1,828 | | | 1,033 | |
| 1.2 linked to fair value option | | | | | | |
| 1.3 others | | | | | | |
| 2. Credit derivates | | | | | | |
| 2.1 trading | | | | | | |
| 2.2 linked to fair value option | | | | | | |
| 2.3 others | | | | | | |
| **Total (B)** | | **1,828** | | | **1,033** | |
| **Total (A+B)** | | **1,828** | | | **1,033** | |

**Key:**
L1= level 1
L2= level 2
L3= level 3

### 2.2 Financial assets held for trading: breakdown by borrower/issuer/counterparty

| Items/Values | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| **A. Cash assets** | | |
| **1. Debt securities** | | |
| a) Central Banks | | |
| b) Governments and other Public Sector Entities | | |
| c) Banks | | |
| d) Other financial companies | | |
| of which: insurance companies | | |
| e) Non financial companies | | |
| **2. Equity instruments** | | |
| a) Banks | | |
| b) Other financial companies | | |
| of which: Insurance companies | | |
| c) Non financial companies | | |
| d) Other issuers | | |
| **3. Units investment funds** | | |
| **4. Loans** | | |
| a) Central Banks | | |
| b) Governments and other Public Sector Entities | | |
| c) Banks | | |
| d) Other financial companies | | |
| of which: insurance companies | | |
| e) Non financial companies | | |
| f) Households | | |
| **Total (A)** | | |
| **B. DERIVATIVE INSTRUMENTS** | | |
| a) Central counterparties | | |
| b) Others | 1,828 | 1,033 |
| **Total (B)** | **1,828** | **1,033** |
| **Total (A+B)** | **1,828** | **1,033** |

### 2.3 Financial assets designated at fair value: breakdown by type

The Bank does not hold any financial assets designated at fair value.

### 2.4 Financial assets designated at fair value: breakdown by borrower/issuer

The Bank does not hold any financial assets designated at fair value.

### 2.5 Financial assets mandatorily measured at fair value: breakdown by type

The Bank does not hold any financial assets mandatorily measured at fair value.

### 2.6 Other financial assets mandatorily measured at fair value: breakdown by borrower/issuer

The Bank does not hold any other financial assets designated at fair value.

## Section 3 – Financial assets at fair value through comprehensive income – Item 30

The Company has not designated any financial assets to this category.

## Section 4 – Financial assets measured at amortised cost – Item 40

### 4.1 Financial assets measured at amortised cost: due from banks, breakdown by type

Amounts due from banks come to Euro 45,692 thousand (Euro 59,769 thousand at 31 December 2017) and are made up as follows:

| Type of transaction/Values | Total 12/31/2018 | | | | | | Total 12/31/2017 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Balance value | | | Fair value | | | Balance value | | | Fair value | | |
| | Stage 1 and Stage 2 | Stage 3 | of which: purchased or originated credit impaired financial assets | L1 | L2 | L3 | Stage 1 and Stage 2 | Stage 3 | of which: purchased or originated credit impaired financial assets | L1 | L2 | L3 |
| **A. Loans to Central Banks** | **13,121** | | | | | **13,121** | **12,169** | | | | | **12,169** |
| 1. Time deposits | | | | X | X | X | | | | X | X | X |
| 2. Compulsory reserves | 13,121 | | | X | X | X | 12,169 | | | X | X | X |
| 3. Repos | | | | X | X | X | | | | X | X | X |
| 4. Others | | | | X | X | X | | | | X | X | X |
| **B. Loans to banks** | **32,571** | | | | | **32,645** | **47,600** | | | | | **47,600** |
| 1. Loans | 32,571 | | | | | 32,645 | 47,600 | | | | | 47,600 |
| 1.1 Current accounts and demand deposits | 7,425 | | | X | X | X | 21,448 | | | X | X | X |
| 1.2. Time deposits | | | | X | X | X | | | | X | X | X |
| 1.3 Other loans: | 25,146 | | | X | X | X | 26,152 | | | X | X | X |
| - Repos | | | | X | X | X | | | | X | X | X |
| - Finance leases | | | | X | X | X | | | | X | X | X |
| - Others | 25,146 | | | X | X | X | 26,152 | | | X | X | X |
| 2. Debts securities | | | | | | | | | | | | |
| 2.1 Structured | | | | | | | | | | | | |
| 2.2 Other | | | | | | | | | | | | |
| **Total** | **45,692** | | | | | **45,765** | **59,769** | | | | | **59,769** |

**Key:**
L1= level 1
L2= level 2
L3= level 3

Amounts due from Central Banks of Euro 13,121 thousand (Euro 12,169 thousand at 31 December 2017) consist of receivables due from the Bank of Italy relating to the compulsory reserve.

Amounts due from banks refer to current accounts and demand deposits for Euro 2,585 thousand (Euro 2,680 thousand at 31 December 2017) and to the temporary debit balances on current accounts to affiliates for Euro 4,840 thousand (Euro 18,768 thousand at 31 December 2017).

Other loans relate mainly to the capital granted in 2017 as a subordinated loan to the subsidiary Banca PSA Italia in the amount of Euro 22,500 thousand. The item also includes the amounts paid as a guarantee deposit to the other party, Banco Santander, in the amount of Euro 2,550 thousand (Euro 3,600 thousand at 31 December 2017), corresponding to the negative fair value of the derivative contracts entered into with it.

For further information about the methodology used for the determination of the fair value of this component, please see Part A Accounting policies – A.4 Information on fair value.

## 4.2 Financial assets measured at amortised cost: due from customers, breakdown by type

Loans to customers amount to Euro 6,069,387 thousand (Euro 6,012,542 thousand at 31 December 2017) and are made up as follows:

| Type of transaction/Values | Total | | | | | | Total | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 12/31/2018 | | | | | | 12/31/2017 | | | | | |
| | Book value | | | Fair value | | | Book value | | | Fair value | | |
| | Stage 1 and Stage 2 | Stage 3 | of which: purchased or originated credit impaired financial assets | L1 | L2 | L3 | Stage 1 and Stage 2 | Stage 3 | of which: purchased or originated credit impaired financial assets | L1 | L2 | L3 |
| **1. Loans** | **5,658,272** | **56,541** | **1,634** | | | **5,602,641** | **5,552,851** | **53,328** | | | | **5,488,048** |
| 1.1. Current accounts | 8,448 | 603 | | X | X | X | 13,301 | 4 | | X | X | X |
| 1.2. REPOs | | | | X | X | X | | | | X | X | X |
| 1.3. Mortgages | | | | X | X | X | | | | X | X | X |
| 1.4. Credit cards, personal loans and wage assignemnt | 2,052,216 | 37,559 | 1,634 | X | X | X | 2,243,195 | 36,276 | | X | X | X |
| 1.5. Financial leasing | 63,261 | 779 | | X | X | X | 53,020 | 2,053 | | X | X | X |
| 1.6. Factoring | 450,699 | | | X | X | X | 396,792 | 158 | | X | X | X |
| 1.7. Other loans | 3,083,649 | 17,600 | | X | X | X | 2,846,543 | 14,838 | | X | X | X |
| **2. Debt securities** | **354,574** | | | **354,835** | | | **406,364** | | | **406,364** | | |
| 2.1. Structured | | | | | | | | | | | | |
| 2.2. Other | 354,574 | | | 354,835 | | | 406,364 | | | 406,364 | | |
| **Total** | **6,012,847** | **56,541** | **1,634** | **354,835** | | **5,602,641** | **5,959,215** | **53,328** | | **406,364** | | **5,488,048** |

Specifically, the loans include:

- Euro 8,448 thousand (of which, Euro 603 thousand non-performing loans) for current accounts balances to customers and postal current accounts;
- Euro 2,052,216 thousand (of which, Euro 37,559 thousand non-performing loans) for loans to customers arising from financing personal loan transactions, credit cards and loans guaranteed by salary assignment;
- Euro 63,261 thousand (of which, Euro 779 thousand non-performing loans) for loans to customers for finance leases, recorded at amortised cost;
- Euro 450,699 for factoring receivables related to operations with automotive companies;
- Euro 3,083,649 thousand (of which, Euro 17,600 thousand non-performing loans) for loans to customers resulting from financing for car loans and other special-purpose loans. This item also includes the amount due from the SPE for the proceeds arising from the portfolio involved in the self-securitisation (Euro 239,048 thousand).

The total of assets assigned and not derecognised, which, net of impairment adjustments, amounts to Euro 2,400,772 thousand, of which Euro 20,080 thousand is non-performing, was allocated to the various forms of financing, as required by the instructions for preparation of the financial statements. This amount does not include the amount due from the SPE for the proceeds arising from the portfolio involved in the self-securitisation.

Debt securities include the balance of the government securities held for the purposes of compliance with the regulatory liquidity requirements.

For further information about the methodology used for the determination of the fair value of this component, please see *Part A Accounting policies – A.4 Information on fair value*.

The above table shows the comparative balances relating to 2017 not restated using the tables provided by the 5th update of Circular No. 262 since the items affected have not been restated in such a way as to distort the comparison. For further details, please see that indicated in Part A.

### 4.3 Finance leases

| INFORMATION BY LESSOR | Amounts at 12/31/2018 | |
|---|---|---|
| | Minimum lease payments | Present value of minimum lease payments |
| **Finance lease instalments due** | | |
| Up to 12 months | 21,059 | 20,586 |
| 1 to 5 years | 50,829 | 45,483 |
| Beyond 5 years | | |
| **Total** | **71,888** | **66,069** |

The table provides information in accordance with IAS 17, paragraph 47, a), c) and f) and paragraph 65, as required by the instructions contained in the Bank of Italy's Circular 262 of 22 December 2005. Lease contracts with customers mainly come under the motor vehicle leasing category.

Unearned finance income is equal to Euro 22,328 thousand.

### 4.4 Financial assets measured at amortised cost: due from customers, breakdown by borrower/issuer

| Type of transaction / Values | Total 12/31/2018 | | | Total 12/31/2017 | | |
|---|---|---|---|---|---|---|
| | First and second stage | Third stage | Of which: impaired assets aquired or created | First and second stage | Third stage | Of which: impaired assets aquired or created |
| **1. Debt** | **354,574** | | | **406,364** | | |
| a) Governments and other Public Sector Entities | 354,574 | | | 406,364 | | |
| b) Other financial company | | | | | | |
| of which: insurance companies | | | | | | |
| c) Non financial companies | | | | | | |
| **2. Loans** | **5,658,272** | **56,541** | **1,634** | **5,552,851** | **53,328** | |
| a) Governments and other Public Sector Entities | 9,613 | 445 | | 11,777 | | |
| b) Other financial company | 241,024 | 12 | | 744,063 | 22 | |
| of which: insurance companies | 30 | | | 11 | | |
| c) Non financial companies | 703,798 | 2,736 | | 390,532 | 3,100 | |
| d) Households | 4,703,838 | 53,347 | 1,634 | 4,406,479 | 50,206 | |
| **Total** | **6,012,847** | **56,541** | **1,634** | **5,959,215** | **53,328** | |

The above table shows the comparative balances relating to 2017 not restated using the tables provided by the 5th update of Circular No. 262 since the items affected have not been restated in such a way as to distort the comparison. For further details, please see that indicated in Part A.

### 4.5 Financial assets at amortised cost: gross value and total writedowns

| | | Gross value | | | | Writedown | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Stage 1 | of which: low credit risk | Stage 2 | Stage 3 | Stage 1 | Stage 2 | Stage 3 | Partial accumulated Write offs |
| Debt securities | | 354,574 | 354,574 | | | | | | |
| Loans | | 5,657,134 | | 114,151 | 260,996 | 54,399 | 12,922 | 204,455 | |
| **Total** | **12/31/2018** | **6,011,708** | **354,574** | **114,151** | **260,996** | **54,399** | **12,922** | **204,455** | **X** |
| **Total** | **12/31/2017** | **5,890,355** | | **182,798** | **233,908** | **32,564** | **21,605** | **180,580** | **X** |
| of which: purchased or originated credit impaired financial assets | | X | X | 1,448 | 2,909 | X | 330 | 2,392 | |

The above table shows the comparative balances relating to 2017 not restated using the tables provided by the 5th update of Circular No. 262 since the items affected have not been restated in such a way as to distort the comparison. For further details, please see that indicated in Part A.

## Section 5 – Hedging derivatives – Item 50

### 5.1 Hedging derivatives: breakdown by type of hedge and level

| | FV 12/31/2018 | | | NV 12/31/2018 | FV 12/31/2017 | | | NV 12/31/2017 |
|---|---|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | | L1 | L2 | L3 | |
| **A. Financial derivatives** | | | | | | | | |
| 1. Fair Value | | | | | | 644 | | 615,908 |
| 2. Cash flows | | | | | | | | |
| 3. Net investment in foreign | | | | | | | | |
| **B. Credit derivatives** | | | | | | | | |
| 1. Fair Value | | | | | | | | |
| 2. Cash flows | | | | | | | | |
| **Total** | | | | | | **644** | | **615,908** |

**Key:**
VN= Notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

The amount shown in the above table refers to the positive fair value of interest rate swaps entered into by the Bank. As at 31 December 2018 there are no hedging derivatives with positive fair value.

As regards checking the effectiveness of the hedge with respect to the underlying, reference should be made to Part E, Section 2 - Market risk, Subsection 2.2 - Interest rate risk and price risk, paragraph A (General aspects, management processes and methods of measuring interest rate risk and price risk).

### 5.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

As at 31 December 2018 there are no hedging derivatives with positive fair value.

## Section 6 – Fair value change of financial assets in hedged portfolios – Item 60

### 6.1 Remeasurement of hedged assets: breakdown by hedged portfolio

| Remeasurement of hedged assets / Value | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| **1. Positive fair value changes** | **4,013** | **714** |
| 1.1 of specific portfolios: | 4,013 | 714 |
| a) financial assets at amortised cost | 4,013 | 714 |
| b) financial assets at fair value with through other comprehensive income | | |
| 1.2 overall | | |
| **2. Negative adjustment** | | |
| 2.1 of specific portfolios: | | |
| a) financial assets at amortised cost | | |
| b) financial assets at fair value with through other comprehensive income | | |
| 2.2 overall | | |
| **Total** | **4,013** | **714** |

## Section 7 – Equity investments – Item 70

### 7.1 Equity investments: disclosures

The Bank's equity investments at 31 December 2018 are made up as follows:

| Company name | Registered Office | Head Office | % holding | % of votes |
|---|---|---|---|---|
| **A. Subsidiaries** | | | | |
| 1. Banca PSA Italia S.p.A. | Milano | Milano | 50.0 % | |
| 2. PSA Renting Italia S.p.A. | Trento | Milano | 50.0 % | |
| **B. Joint ventures** | | | | |
| | | | | |
| **C. Companies under significant influence** | | | | |

For further information, please refer to the notes to the consolidated financial statements, Part A – Section 3 – paragraph 2 - Main considerations and assumptions for the determination of the scope of consolidation.

### 7.2 Significant investments: carrying amount, fair value and dividends received

Pursuant to the applicable legislation, with reference to the information on subsidiaries with significant minority interests, please refer to the information provided in the Consolidated Financial Statements, Part A – Section 3 – paragraph 3.1 – Investments in subsidiaries with significant minority interests.

### 7.3 Significant investments: accounting information

Pursuant to the applicable legislation, with reference to the information on subsidiaries with significant minority interests, please refer to the information provided in the Consolidated Financial Statements, Part A – Section 3 – paragraph 3.2 – Investments in subsidiaries with significant minority interests.

### 7.4 Insignificant investments: accounting information

The Bank does not hold any insignificant investments.

### 7.5 Equity investments: change in the year

Equity investments in subsidiaries are recognised in the financial statements at 31 December 2018 for Euro 122,940 thousand (Euro 127,490 thousand at 31 December 2017), as shown in the following table:

| | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| **A. Opening balance** | **127,490** | **100,990** |
| **B. Increases** | **-** | **26,500** |
| B.1 Purchases | | 26,500 |
| B.2 Writebacks | | |
| B.3 Revaluations | | |
| B.4 Other changes | | |
| **C. Decreases** | **4,550** | **-** |
| C.1 Sales | | |
| C.2 Adjustments | | |
| C.3 Devaluations | | |
| C.4 Other changes | 4,550 | |
| **D. Closing balance** | 122,940 | 127,490 |
| **E. Total revaluations** | | |
| **F. Total adjustments** | | |

Other decreases relate to the derecognition of the investment in the subsidiary Santander Consumer Finance Media in liquidation, following the conclusion of the liquidation process.

### 7.6 Commitments relating to investments in subsidiaries under joint control

The Bank has no equity investments in subsidiaries under joint control.

### 7.7 Commitments relating to equity investments in companies subject to significant influence

The Bank has no equity investments in companies subject to significant influence.

### 7.8 Significant restrictions

The equity investments held by the Bank are not subject to any significant restrictions.

### 7.9 Other information

Based on the Bank of Italy's instructions for the preparation of the financial statements, no other information has to be provided in this paragraph.

## Section 8 – Property and equipment – Item 80

### 8.1 Property and equipment used for business purposes: breakdown of assets measured at cost

Property and equipment amount to Euro 5,691 thousand (Euro 1,524 thousand at 31 December 2017) and are made up as follows, net of accumulated depreciation:

| Activities/Values | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| **1. Owened assets** | **5,691** | **1,524** |
| a) lands | | |
| b) buildings | | |
| c) office furniture and fitting | 603 | 108 |
| d) electronic system | 1,716 | 996 |
| e) other | 3,372 | 420 |
| **2. Leased assets** | | |
| a) lands | | |
| b) buildings | | |
| c) office furniture and fitting | | |
| d) electronic system | | |
| e) other | | |
| **Total** | **5,691** | **1,524** |
| of which: obtained by the enforcement of collateral | | |

The item "other" mainly includes the deferred charges relating to improvements to the new headquarters in the amount of Euro 2,800 thousand.

The table below shows the useful life determined for the purposes of calculating the annual depreciation charge:

| Category of assets | Useful life (years) |
|---|---|
| OFFICE FURNITURE AND FURNISHINGS | 9 |
| ORDINARY OFFICE MACHINES | 9 |
| DATA PROCESSING MACHINES | 5 |
| TELEPHONE SYSTEMS | 4 |
| VEHICLES | 4 |
| MISCELLANEOUS EQUIPMENT | 4 |
| SOFTWARE EXPENDITURE | 3 |
| DEFERRED CHARGES TO BE AMORTIZED | 6 |
| DEFERRED CHARGES TO BE AMORTIZED 9 YEAR | 9 |

### 8.2 Investment property: breakdown of assets measured at cost

No investment property is held.

### 8.3 Property and equipment used for business purposes: breakdown of revalued assets

There are no items of property and equipment used in operations that have been revalued.

### 8.4 Investment property: breakdown of assets measured at fair value

No investment property is held.

### 8.5 Inventories of property and equipment covered by IAS 2: breakdown

There are no property and equipment obtained through the realisation of the guarantees received or other inventories of tangible assets.

## 8.6 Property and equipment used for business purposes: change in the year

| | Lands | Buildings | Furniture | Electronic systems | Other | Total |
|---|---|---|---|---|---|---|
| **A. Gross opening balance** | | | **3,563** | **9,812** | **8,339** | **21,714** |
| A.1 Total net reduction value | | | (3,455) | (8,816) | (7,919) | (20,190) |
| **A.2 Opening net balance** | | | **108** | **996** | **420** | **1,524** |
| **B. Increase:** | | | **623** | **1,272** | **3,468** | **5,363** |
| B.1 Purchasing | | | 623 | 1,272 | 3,468 | 5,363 |
| - of which business combinations | | | | | | |
| B.2 Capitalised expenditure on improvements | | | | | | |
| B.3 Write-backs | | | | | | |
| B.4 Increases in fair value | | | | | | |
| a) in equity | | | | | | |
| b) through profit & loss | | | | | | |
| B.5 Positive exchange differences | | | | | | |
| B.6 Transfer from properties held for investment | | | | | | |
| B.7 Other adjustment | | | | | | |
| **C. Decrease:** | | | **128** | **552** | **516** | **1,196** |
| C.1 Disposal | | | 37 | 13 | 64 | 114 |
| - of which business combinations | | | | | | |
| C.2 Depreciation | | | 91 | 539 | 452 | 1,082 |
| C.3 Impairment losses | | | | | | |
| a) in equity | | | | | | |
| b) through profit & loss | | | | | | |
| C.4 Negative chages in fair value allocated to | | | | | | |
| a) net equity | | | | | | |
| b) through profit & loss | | | | | | |
| C.5 Negative exchange difference | | | | | | |
| C.6 Transfer to: | | | | | | |
| a) Property, plant and equipment held for investment | | | | | | |
| b) non-current assets and group of assets held for sale | | | | | | |
| C.7 Other adjustment | | | | | | |
| **D. Net final balance** | | | **603** | **1,716** | **3,372** | **5,691** |
| D.1 Total net reduction in value | | | (3,178) | (9,287) | (8,306) | (20,771) |
| **D.2 Gross final balance** | | | **3,780** | **11,003** | **11,678** | **26,462** |
| E. Carried at cost | | | | | | |

Each class of assets is measured at cost. Sub-item E (Carried at cost) shows a zero balance because, in accordance with Bank of Italy's Circular 262/2005, it is only for tangible assets that are carried in the balance sheet at fair value.

The main increases for the year relate to the charges relating to improvements made to the new head office building (Euro 3,083 thousand).

Depreciation relates, in particular, to data processing equipment (Euro 539 thousand).

## 8.7 Investment property: change in the year

No investment property has been recognised in the financial statements.

### 8.8 Inventories of property and equipment covered by IAS 2: change in the year

There are no property and equipment obtained through the realisation of the guarantees received or other inventories of tangible assets in the financial statements.

### 8.9 Commitments to purchase property and equipment

There are no commitments to purchase property and equipment.

## Section 9 – Intangible assets – Item 90

### 9.1 Intangible assets: breakdown by type

Intangible assets amount to Euro 11,095 thousand (Euro 10,264 thousand at 31 December 2017) and are made up as follows:

| Activities/Values | Total 12/31/2018 | | Total 12/31/2017 | |
|---|---|---|---|---|
| | Finite life | Indefinite life | Finite life | Indefinite life |
| **A.1 Goodwill** | | | | |
| **A.2 Other intangible asset** | **11,095** | | **10,264** | |
| A.2.1 Assets valued at cost | 11,095 | | 10,264 | |
| a) Internally generated intangible assets | | | | |
| b) other assets | 11,095 | | 10,264 | |
| A.2.2 Assets valued at fair value | | | | |
| a) Internally generated intangible assets | | | | |
| b) other assets | | | | |
| **Total** | **11,095** | | **10,264** | |

“Other intangible assets” refer entirely to the Bank’s software.

## 9.2 Intangible assets: change in the year

| | Goodwill | Other internally generated intangible assets | | Other intangible assets: others | | Total |
|---|---|---|---|---|---|---|
| | | Finite | Indefinite | Finite | Indefinite | |
| **A. Gross opening balance** | | | | **80,141** | | **80,141** |
| A.1 Total net reduction in value | | | | (69,877) | | (69,877) |
| **A.2 Net opening balance** | | | | **10,264** | | **10,264** |
| **B. Increases** | | | | **5,739** | | **5,739** |
| B.1 Purchases | | | | 5,739 | | 5,739 |
| B.2 Internally generated intangible assets | X | | | | | |
| B.3 Write-backs | X | | | | | |
| B.4 Increases in fair value | | | | | | |
| - in equity | X | | | | | |
| - through P&L statement | X | | | | | |
| B.5 Positive exchange differences | | | | | | |
| B.6 Other changes | | | | | | |
| **C. Reduction** | | | | **4,908** | | **4,908** |
| C.1 Disposals | | | | | | |
| C.2 Write-downs | | | | 4,908 | | 4,908 |
| - Amortisations | X | | | 4,908 | | 4,908 |
| - Write-downs | | | | | | |
| + in equity | X | | | | | |
| + through profit or loss | | | | | | |
| C.3 Reduction in fair value | | | | | | |
| - in equity | X | | | | | |
| - through profit or loss | X | | | | | |
| C.4 Transfer to non-current assets | | | | | | |
| C.5 Negative exchange differences | | | | | | |
| C.6 Other variations | | | | | | |
| **D. Net closing balance** | | | | **11,095** | | **11,095** |
| D.1 Total net write-down | | | | 74,785 | | 74,785 |
| **E. Gross closing balance** | | | | **(85,880)** | | **(85,880)** |
| F. Evaluation at cost | | | | | | |

Each class of assets is measured at cost. Sub-item F (Carried at cost) shows a zero balance because, in accordance with Bank of Italy's Circular 262/2005, it is only for intangible assets that are carried in the balance sheet at fair value.

The additions in item B.1 relate to the capitalisation of costs incurred for the implementation of EDP application packages and the development of new computer programmes.

## 9.3 Intangible assets: other information

Based on the Bank of Italy's instructions for the preparation of the financial statements, no other information has to be provided in this paragraph.

## Section 10 – Tax assets and liabilities – Asset item 100 and Liability item 60

Current tax assets recognised in asset line item 100 amount to Euro 25,010 thousand (Euro 23,208 thousand in 2017), while current liabilities recognised in liability line item 60 amount to Euro 42,713 thousand (Euro 29,993 thousand in 2017).

### 10.1 Deferred tax assets: breakdown

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| - Balancing the income statement | 201,267 | 199,403 |
| - Balancing net equity | 296 | 314 |
| **Total** | **201,563** | **199,716** |

Deferred tax assets are accounted for with reference to deductible temporary differences, based on the probability that the Company will be able to generate sufficient taxable income in the future for the deferred tax asset to meet the criteria for accounting recognition, as required by IAS 12.

The balance of deferred tax assets through the income statement of Euro 201,267 thousand (Euro 199,403 thousand at 31 December 2017) relates mainly:

- for Euro 182,361 thousand, to temporary differences arising from the deferred deductibility for IRES and IRAP purposes of adjustments on loans, the reabsorption of which in fiscal year 2018 was postponed to 2026 as a result of amendments provided for by the 2019 Budget Law, with an impact on 2018;
- for Euro 2,704 thousand, to the effects resulting from the first-time adoption of IFRS 9 on loan adjustments, the deductibility of which will take place, from 2018, in ten equal annual instalments, as per the 2019 Budget Law;
- for Euro 16,111 thousand to temporary differences generated mainly by provisions for risks and charges;
- for Euro 91 thousand to the deferred taxes generated from the reporting in the income statement of payments subject to a consistent application of accounting policies for the salary assignment loan portfolio.

Deferred tax assets through equity of Euro 296 thousand relate to the tax effect of actuarial gains and losses pertaining to termination indemnities.

### 10.2 Deferred tax liabilities: breakdown

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| - Recognised to the income statement | | |
| - Recognised to the net equity | | 41 |
| **Total** | | **41** |

### 10.3 Changes in deferred tax assets (through income statement)

| | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| **1. Opening balance** | **199,403** | **209,903** |
| **2. Increase** | **9,901** | **13,267** |
| 2.1 Deferred tax assets of the year | 9,901 | 13,267 |
| a) relating to previous fiscal year | | |
| b) due to changes in accounting policies parameters | | |
| c) write-backs | | |
| d) others | 9,901 | 13,267 |
| 2.2 New levies or increases in fiscal rates | | |
| 2.3 Other increases | | |
| **3. Decreases** | **8,036** | **23,767** |
| 3.1 Deferred tax assets derecognised in the year | 8,036 | 23,767 |
| a) reversals of temporary differences | 8,036 | 23,767 |
| b) write-downs of non-recoverable items | | |
| c) changes in accountable parameters | | |
| d) others | | |
| 3.2 Decreases in tax rates | | |
| 3.3 Other decreases: | | |
| a) conversion into tax credit under L. 214/2011 | | |
| b) others | | |
| **4. Closing balance** | **201,267** | **199,403** |

The increase included in the item "Deferred tax assets of the year- other" reflects the temporary IRES and IRAP differences deriving mainly from the provisions for risks and charges made in the year (Euro 6,716 thousand) as well as those relating to the effects resulting from the first-time adoption of IFRS 9 on loan adjustments (Euro 3,004 thousand) the future reabsorption of which will have an impact on the income statement.

"Reversals" refer mainly to the use of the provisions allocated for other risks and charges (Euro 7,617 thousand) as well as the reabsorption of the 2018 portion of loan adjustments resulting from the first-time adoption of IFRS 9 (Euro 300 thousand).

### 10.3bis Changes in deferred tax assets as per Law 214/2011

| | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| **Opening balance** | **182,361** | **198,744** |
| **2. Increases** | | **386** |
| **3. Decreases** | | **16,769** |
| 3.1 Reversals of temporary differences | | 16,769 |
| 3.2 Transformation in tax credits | | |
| a) from year losses | | |
| b) from tax losses | | |
| 3.3 Other decreases | | |
| **4. Closing balance** | **182,361** | **182,361** |

With regard to deferred tax assets recorded as a result of the deferred deductibility of the loan write-downs generated in previous years as reported in the table, it should be stressed that they are fully convertible into tax credits as a result of the exercise of the option referred to in art. 11 of Decree Law 59/2016.

### 10.4 Changes in deferred tax liabilities (through the income statement)

There are no deferred tax liabilities through the income statement in the financial statements.

## 10.5 Changes in deferred tax assets (through shareholders' equity)

| | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| **1. Opening balance** | **314** | **313** |
| **2. Increases** | | |
| 2.1 Deferred tax assets during the year | | |
| b) relating to previous years | | |
| b) due to changes in accountable criteria | | |
| c) others | | 1 |
| 2.2 New taxes or increase in tax rates | | |
| 2.3 Other increases | | |
| - of which: business combinations | | |
| **3. Decreases** | **18** | |
| 3.1 Deferred tax assets derecognised during the year | 18 | |
| a) reversals of temporary differences | | |
| b) devaluation for appeared irrecoverability | | |
| c) due to changes in accountable parameters | | |
| d) others | 18 | |
| 3.2 Decreases in tax rates | | |
| 3.3 Other decreases: | | |
| - of which: business combinations | | |
| **4. Closing balance** | **296** | **314** |

## 10.6 Change in deferred tax liabilities (through shareholders' equity)

| | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| **1. Opening balance** | **41** | **22** |
| **2. Increases** | | **18** |
| 2.1 Deferred tax liabilities during the year | | 18 |
| a) relating to previous years | | |
| b) due to changes in accountable criteria | | |
| c) others | | 18 |
| 2.2 New taxes or increase in tax rates | | |
| 2.3 Other increases | | |
| **3. Decreases** | **41** | |
| 3.1 Deferred tax liabilities derecognised during the year | 41 | |
| a) reversals of temporary differences | | |
| b) due to changes in accountable criteria | 41 | |
| c) others | | |
| 3.2 Decreases in tax rates | | |
| 3.3 Other decreases: | | |
| **4. Closing balance** | | **41** |

The decreases in deferred tax assets through shareholders' equity relate to changes in fair value of the securities recorded, according to the previous classification, in *Available-for-sale assets* and now recorded in *Financial assets measured at amortised cost*.

## 10.7 Other information

Based on the Bank of Italy's instructions for the preparation of the financial statements, no other information has to be provided in this paragraph.

## Section 11 – Non-current assets held for sale and discontinued operations and associated liabilities – Asset item 100 and Liability item 70

### 11.1 Non-current assets held for sale and discontinued operations: breakdown by type

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| **A. Assets held for sale** | | |
| A.1 Financial assets | | |
| A.2 Equity investments | | |
| A.3 Property, Plant and Equipment | 2 | 3 |
| of which: obtained by taking possession of collateral | | |
| A.4 Intangible assets | | |
| A.5 Other non current assets | | |
| **Total A** | **2** | **3** |
| of which carried at cost | | |
| of which carried at fair value level 1 | | |
| of which carried at fair value level 2 | 2 | 3 |
| of which carried at fair value level 3 | | |
| **B. Discontinued operations** | | |
| B.1 Financial assets designated at fair value through profit or loss | | |
| - Financial assets held for trading | | |
| - Financial assets designated at fair value | | |
| - Other financial assets mandatorily designated at fair value | | |
| B.2 Financial assets at fair value through other comprehensive income | | |
| B.3 Financial assets at amortized cost | | |
| B.4 Equity investments | | |
| B.5 Property, Plant and Equipment | | |
| of which: obtained by taking possession of collateral | | |
| B.6 Intangible assets | | |
| B.7 Other assets | | |
| **Total B** | | |
| of which carried at cost | | |
| of which carried at fair value level 1 | | |
| of which carried at fair value level 2 | | |
| of which carried at fair value level 3 | | |
| **C. Liabilities associated with assets held for sale** | | |
| C.1 Deposits | | |
| C.2 Securities | | |
| C.3 Other liabilities | | |
| **Total C** | | |
| of which carried at cost | | |
| of which carried at fair value level 1 | | |
| of which carried at fair value level 2 | | |
| of which carried at fair value level 3 | | |
| **D. Liabilities linked to discontinued operations** | | |
| D.1 Financial liabilities at amortized cost | | |
| D.2 Financial liabilities held for trading | | |
| D.3 Financial liabilities designated at fair value | | |
| D.4 Provisions | | |
| D.5 Other liabilities | | |
| **Total D** | | |
| of which carried at cost | | |
| of which carried at fair value level 1 | | |
| of which carried at fair value level 2 | | |
| of which carried at fair value level 3 | | |

### 11.2 Other information

There is no further information that needs to be disclosed to comply with IFRS 5, paragraph 42.

## Section 12 – Other assets – Item 120

### 12.1 Other assets: breakdown

The balance of "Other assets", amounting to Euro 53,124 thousand (Euro 47,169 thousand at 31 December 2017), is made up as follows:

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Advances to suppliers | 11,094 | 3,904 |
| Stamp duties | 3,226 | 515 |
| Withholding taxes | 36 | 25 |
| Other tax receivables | 2,163 | 2,174 |
| Due from dealers | 4,798 | 3,926 |
| Due from insurances | 20,326 | 18,045 |
| Accruals and prepaid expenses | 91 | 552 |
| Assets in transit | 8,756 | 15,346 |
| Other items | 2,473 | 2,529 |
| Other intercompany assets | 161 | 152 |
| **Total** | **53,124** | **47,169** |

"Due from insurances" relate to receivables due for insurance brokerage commission.

"Assets in transit" include items temporarily in transit relating to instalment collection.

"Other items" includes, among other things, loans to the SPE Golden Bar in the amount of Euro 742 thousand, receivables for guarantee deposits in the amount of Euro 188 thousand, and loans to Santander Private Banking, a company belonging to the Group, in the amount of Euro 227 thousand.

# LIABILITIES AND SHAREHOLDERS' EQUITY

## Section 1 – Financial liabilities measured at amortised cost – Item 10

### 1.1 Financial liabilities measured at amortised cost: due to banks, breakdown by type

Amounts due to banks amount to Euro 3,836,964 thousand (Euro 4,059,020 thousand at 31 December 2017) and are made up as follows:

| Type of transaction/Values | Total 12/31/2018 | | | | Total 12/31/2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | B V | Fair Value | | | B V | Fair Value | | |
| | | L1 | L2 | L3 | | L1 | L2 | L3 |
| **1. Deposits from central banks** | **864,937** | X | X | X | **1,591,475** | X | X | X |
| **2. Deposits from banks** | **2,972,026** | X | X | X | **2,467,545** | X | X | X |
| 2.1 Current accounts and demand deposits | | X | X | X | 45,000 | X | X | X |
| 2.2 Time deposits | 595,000 | X | X | X | 900,004 | X | X | X |
| 2.3 Loans | 2,376,817 | X | X | X | 1,522,381 | X | X | X |
| 2.3.1 Repose | 109,060 | X | X | X | | X | X | X |
| 2.3.2 Other | 2,267,758 | X | X | X | 1,522,381 | X | X | X |
| 2.4 Liabilities relating to commitments to repurchase treasury shares | | X | X | X | | X | X | X |
| 2.5 Other deposits | 209 | X | X | X | 160 | X | X | X |
| **Total** | **3,836,964** | | | **3,841,927** | **4,059,020** | | | **4,062,109** |

**Key:**
BV = Book value
L1= Level 1
L2= Level 2
L3= Level 3

"Due to central banks" includes loans received from the Bank of Italy in connection with TLTRO operations with the European Central Bank (Euro 84,937 thousand).

"Due to banks" consists of:

- Parent Company short-term loans granted (Euro 595,000 thousand);
- a repo transaction with a third party (Euro 109,060 thousand);
- other loans, relating to subordinated loans, inclusive of interest accrued thereon (Euro 154,198 thousand), loans granted by Santander Group companies as part of ordinary funding operations (Euro 2,113,560 thousand);
- accrued amounts due to banks (Euro 209 thousand).

For further details, please see the information provided on funding in the report on operations.

For further information about the methodology used for the determination of the fair value of this component, please see Part A Accounting policies – A.4 Information on fair value.

## 1.2 Financial liabilities measured at amortised cost: due to customers, breakdown by type

Due to customers amount to Euro 1,427,343 thousand (Euro 1,056,883 thousand at 31 December 2017) and are made up as follows:

| Type of transaction/Value | Total 12/31/2018 | | | | Total 12/31/2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | BV | Fair Value | | | BV | Fair Value | | |
| | | L1 | L2 | L3 | | L1 | L2 | L3 |
| 1. Current accounts and demand deposits | 708,237 | X | X | X | 720,280 | X | X | X |
| 2. Time deposits | 409,610 | X | X | X | 336,603 | X | X | X |
| 3. Loans | | X | X | X | | X | X | X |
| 3.1 Repose | | X | X | X | | X | X | X |
| 3.2 Other | | X | X | X | | X | X | X |
| 4. Liabilities relating to commitments to repurchase treasury shares | | X | X | X | | X | X | X |
| 5. Other deposits | 309,496 | X | X | X | | X | X | X |
| **Total** | **1,427,343** | | | **1,416,371** | **1,056,883** | | | **1,048,558** |

"Current accounts and demand deposits" include demand deposits from customers (Euro 674,736 thousand), the current account held by the subsidiary Santander Consumer Finance Media S.r.l. (for a total of Euro 26,804 thousand), the ordinary current accounts for affiliates (Euro 5,040 thousand) and payments in transit to customers (Euro 1,656 thousand).

Other payables to customers are instead made up mainly of "conventional" debt entered in the Bank (Euro 309,379 thousand) following the "reversal derecognition" of the receivables assigned to the special purpose entity (Golden Bar), as foreseen by regulatory instructions.

For further details, please see the information provided on funding in the report on operations.

For further information about the methodology used for the determination of the fair value of this component, please see Part A Accounting policies – A.4 Information on fair value.

## 1.3 Financial liabilities measured at amortised cost: securities issued, breakdown by type

| Tipologia titoli / Valori | Total 12/31/2018 | | | | Total 12/31/2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | BV | Fair Value | | | BV | Fair Value | | |
| | | L1 | L2 | L3 | | L1 | L2 | L3 |
| **A. Debts securities** | | | | | | | | |
| 1. bonds | 151,059 | | | 151,029 | 264,065 | | | 264,723 |
| 1.1 structured | | | | | | | | |
| 1,2 other | 151,059 | | | 151,029 | 264,065 | | | 264,723 |
| 2. other securities | | | | | | | | |
| 2.1 structured | | | | | | | | |
| 2.2 other | | | | | | | | |
| **Total** | **151,059** | | | **151,029** | **264,065** | | | **264,723** |

**Key:**
BV = Book value
L1= Level 1
L2= Level 2
L3= Level 3

"Debt securities issued" relate to securities underlying bond issue programmes that have been placed with institutional customers. This item also includes accrued interest.

For further details relating to the issues, please see the information provided on funding in the report on operations.

For further information about the methodology used for the determination of the fair value of this component, please see Part A Accounting policies – A.4 Information on fair value.

### 1.4 Details of subordinated debts/securities

This item, totalling Euro 154,000 thousand (Euro 164,500 thousand at 31 December 2017), includes loans granted by Santander Group companies consisting of:

| Type | 12/31/2018 | 12/31/2017 |
|---|---|---|
| TIER II subordinated debt to SCF - Santander Consumer Finance - maturing to 2028 | 35,000 | - |
| TIER II to subordinated debt SCF - Santander Consumer Finance - maturing to 2025 | 50,000 | 50,000 |
| TIER II subordinated debt to SCF - Santander Consumer Finance - maturing to 2027 | 30,000 | 30,000 |
| LOW TIER II subordinated debt to Santander BENELUX - maturing to 2019 | 4,000 | 8,000 |
| LOW TIER II subordinated debt to BANCO MADESANT - maturing to 2019 | 2,500 | 5,000 |
| UP TIER II subordinated debt to Santander BENELUX - maturing to 2019 | 20,000 | 20,000 |
| UP TIER II subordinated debt to BANCO MADESANT - maturing to 2019 | 12,500 | 12,500 |
| LOW TIER II subordinated debt to OPENBANK - maturing to 2018 | - | 6,500 |
| UP TIER II subordinated debt to OPENBANK - maturing to 2018 | - | 32,500 |
| **Total** | **154,000** | **164,500** |

### 1.5 Details of structured debts

The Bank has no structured debts.

### 1.6 Finance lease payables

The Bank does not have any finance lease obligations.

## Section 2 – Financial liabilities held for trading – item 20

The Bank has not designated financial liabilities under this category.

## Section 3 – Financial liabilities designated at fair value – Item 30

The Bank has not designated financial liabilities under this category.

## Section 4 – Hedging derivatives – Item 40

### 4.1 Hedging derivatives: breakdown by type of hedge and hierarchical level

| | NV | Fair value | 12/31/2018 | | NV | Fair value | 12/31/2017 | |
|---|---|---|---|---|---|---|---|---|
| | 12/31/2018 | L1 | L2 | L3 | 12/31/2017 | L1 | L2 | L3 |
| **A) Financial derivatives** | **1,418,130** | | **4,633** | | **782,822** | | **2,824** | |
| 1) Fair value | 1,418,130 | | 4,633 | | 782,822 | | 2,824 | |
| 2) Cash flows | | | | | | | | |
| 3) Net investments in foreign operations | | | | | | | | |
| **B. Credit derivatives** | | | | | | | | |
| 1) Fair value | | | | | | | | |
| 2) Cash flows | | | | | | | | |
| **Total** | **1,418,130** | | **4,633** | | **782,822** | | **2,824** | |

**Key:**
NV= notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

The amount shown in the above table refers to the negative fair value of interest rate swaps entered into by the bank with the Spanish parent company Banco Santander. The derivatives portfolio consists of contracts taken out to hedge changes in the fair value of fixed-rate underlying assets.

As regards checking the effectiveness of the hedge with respect to the underlying, reference should be made to Part E, Section 2 - Market risk, Subsection 2.2 - Interest rate risk and price risk, paragraph A (General aspects, management processes and methods of measuring interest rate risk and price risk).

The following table gives details of hedging derivatives with negative fair values at 31 December 2018 (in euros):

| Notional (euro) | Start date | Settlement date | Counterparty | Fair value (euro) |
|---|---|---|---|---|
| 1,500,000 | 02/14/2011 | 03/14/2019 | Banco Santander | 7,076 |
| 1,000,000 | 07/14/2011 | 01/14/2019 | Banco Santander | 11,808 |
| 8,500,000 | 08/12/2011 | 08/12/2019 | Banco Santander | 83,376 |
| 5,000,000 | 09/25/2012 | 03/25/2019 | Banco Santander | 10,948 |
| 20,000,000 | 11/09/2012 | 06/10/2019 | Banco Santander | 47,305 |
| 5,500,000 | 06/21/2013 | 03/21/2019 | Banco Santander | 13,954 |
| 6,000,000 | 07/01/2013 | 02/01/2019 | Banco Santander | 16,381 |
| 169,750,000 | 01/30/2017 | 10/31/2025 | Banco Santander | 332,823 |
| 117,760,000 | 04/26/2017 | 07/28/2025 | Banco Santander | 294,642 |
| 118,931,500 | 04/26/2017 | 08/26/2025 | Banco Santander | 328,095 |
| 118,598,000 | 04/26/2017 | 09/26/2025 | Banco Santander | 311,557 |
| 73,300,500 | 05/31/2017 | 06/30/2023 | Banco Santander | 196,326 |
| 73,453,000 | 05/31/2017 | 07/31/2023 | Banco Santander | 273,711 |
| 86,849,000 | 07/31/2017 | 11/29/2024 | Banco Santander | 338,099 |
| 91,182,000 | 07/31/2017 | 12/31/2024 | Banco Santander | 369,995 |
| 72,964,500 | 07/31/2017 | 01/31/2025 | Banco Santander | 359,432 |
| 28,814,500 | 09/29/2017 | 12/31/2025 | Banco Santander | 87,354 |
| 50,000,000 | 06/30/2020 | 12/31/2027 | Banco Santander | 358,900 |
| 93,365,000 | 06/29/2018 | 09/30/2024 | Banco Santander | 253,263 |
| 92,422,500 | 07/31/2018 | 07/31/2028 | Banco Santander | 455,986 |
| 75,239,000 | 08/31/2018 | 08/31/2028 | Banco Santander | 310,342 |
| 108,000,000 | 12/21/2018 | 12/21/2028 | Banco Santander | 171,890 |
| **1,418,129,500** | | | | **4,633,265** |

## 4.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

| Transactions/Type of hedge | Fair Value | | | | | | | Cash flow | | Foreign invest. |
|---|---|---|---|---|---|---|---|---|---|---|
| | Specific | | | | | | Generic | Specific | Generic | |
| | debt securities and interest rates risk | equities and equity index | currencies and gold | credit | goods | others | | | | |
| 1. Financial assets at fair value through other comprehensive income | | | | | X | X | X | | X | X |
| 2. Financial assets at amortised cost | | X | | | X | X | X | | X | X |
| 3. Portfolio | X | X | X | X | X | X | 4,633 | X | | X |
| 4. Other operations | | | | | | | X | | X | |
| **Total assets** | | | | | | | **4,633** | | | |
| 1. Financial liabilities | | X | | | | | X | | X | X |
| 2. Portfolio | X | X | X | X | X | X | | X | | X |
| **Total liabilities** | | | | | | | | | | |
| 1. Expected transactions | X | X | X | X | X | X | X | | X | X |
| 2. Financial assets and liabilities portfolio | X | X | X | X | X | X | | X | | |

For the related comments please read the description in point 4.1.

## Section 5 – Remeasurement of financial liabilities with general hedges – Item 50

No financial liabilities with general hedges have been recognised in the financial statements.

## Section 6 – Tax liabilities – Item 60

Please refer to Section 10 of Assets.

## Section 7 – Liabilities associated with non-current assets held for sale – Item 70

The Bank does not have any liabilities associated with assets held for sale.

## Section 8 – Other liabilities – Item 80

### 8.1 Other liabilities: breakdown

Other liabilities amount to Euro 240,615 thousand (Euro 298,839 thousand at the end of 2017) and consist of:

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Tax consolidation | - | 177 |
| Due to suppliers | 21,448 | 14,840 |
| Due to dealers | 35,152 | 27,529 |
| Payables to employees | 5,599 | 5,930 |
| Due to Social Security institutions | 2,798 | 2,780 |
| Tax payables | 2,633 | 3,400 |
| Other amounts due to customers | 14,696 | 15,963 |
| Due to insurances | 25,207 | 18,643 |
| Factoring payables | 70,457 | 134,494 |
| Accruals and deferred income | 128 | 128 |
| Items in transit | 47,216 | 57,621 |
| Other liabilities for commissions | 4,771 | 6,612 |
| Other payables | 10,510 | 10,723 |
| **Total** | **240,615** | **298,839** |

"Other amounts due to customers" include temporary credit balances with customers for early repayments and the temporary credit balances for instalment payments received in advance of the contractual expiry date.

"Items in transit" mainly include items in transit relating to instalment collection and the settlement of loans.

"Other payables" mainly consists of the provision for agents' leaving indemnities.

## Section 9 – Provision for termination indemnities – Item 90

### 9.1 Provision for termination indemnities: change in the year

| | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| **A. Opening balance** | **3,199** | **3,308** |
| **B. Increases** | **201** | **41** |
| B.1 Provision of the year | 40 | 41 |
| B.2 Other increases | 161 | 1 |
| **C. Reductions** | **(264)** | **(150)** |
| C.1 Payments made | (211) | (150) |
| C.2 Other reductions | (53) | |
| **D. Closing balance** | **3,136** | **3,199** |
| **Total** | **3,136** | **3,199** |

The provision for employee termination indemnities amounts to Euro 3,136 thousand (Euro 3,199 thousand at 31 December 2017) and, as required by IAS 19, this coincides with its actuarial valuation (Defined Benefit Obligation – DBO).

The actuarial assumptions adopted for the valuation of the provision at the reporting date are the following:

- discount rate: 1.45%;
- expected inflation rate: 1.75%;
- frequency of advances: 5.00%;
- frequency of termination for reasons other than death, disability, retirement: 6.50%
- number of retirements: 100% in the year in which they become eligible pursuant to law.

The following demographic assumptions were used:

- death: IPS55 generational table with age-shifting;
- disability: 1998 INPS tables;

- retirement: in accordance with law 214/2011.

With the introduction of the reform envisaged by Law 296/2006 (2007 Finance Act) on supplementary pensions, amounts provided relate to interest cost, corresponding to interest cost accrued at the beginning of the period and interest cost pertaining to movements in the year.

In addition, in line with the amendment to IAS 19 regarding the recognition of actuarial gains and losses accrued at the balance sheet date, they have been recognised with the OCI method as decreases or increases under the item “Defined-benefit pension plans” (Euro 53 thousand at 31 December 2018).

### 9.2 Other information

The provision for employee termination indemnities covers the amount of accruing employee rights, in accordance with the law in force and collective and supplementary labour agreements and amounts to Euro 3,136 thousand at the reporting date. Excluding the components relating to actuarial gains and losses, the provision amounts to Euro 2,241 thousand.

As regards the application of the amendments made to IAS 19 by EU Regulation 475/2012, set out below is a sensitivity analysis for changes in the discount rate.

| **Sensitivity analysis** | **12/31/2018** | **12/31/2017** |
|---|---|---|
| Sensitivity to the discount rate | | |
| a. Assumption (+50 bps) | 1.95 % | 1.75 % |
| b. DBO | 3,027 | 3,088 |
| c. Assumption (-50 bps) | 0.95 % | 0.75 % |
| d. DBO | 3,248 | 3,317 |

## Section 10 – Provisions for risks and charges – Item 100

### 10.1 Provisions for risks and charges: breakdown

| **Items / Values** | **Total 12/31/2018** | **Total 12/31/2017** |
|---|---|---|
| 1. Provisions for credit risk on commitments and financial guarantees given | 24 | |
| 2. Provisions for other commitments and other guarantees given | | |
| 3. Pensions and other post-retirement benefit obligations | | |
| 4. Other funds for risks and charges | 17,456 | 25,805 |
| 4.1 legal disputes | 5,443 | 6,221 |
| 4.2 staff expenses | | |
| 4.3 others | 12,013 | 19,584 |
| **Total** | **17,480** | **25,805** |

The above table does not show the comparative balance of the sub-item Provisions for credit risk on commitments and financial guarantees given in relation to 2017 in so far as it was not present at the reporting date for the previous financial year which used an IAS 39 method. The figure has not been restated using the tables provided by the 5th update of Circular No. 262 since the item is not affected by a distorting effect relevant to the comparison. For further details, please see that indicated in Part A.

For further details of the items in the table, please see 10.2 below.

### 10.2 Provision for risks and charges: change in the year

| | Provisions for other off-balance sheet commitments and other guarantees given | Pensions and post retirement benefit obligations | Other risk and obligation funds | Total |
|---|---|---|---|---|
| **A. Opening balance** | | | **25,805** | **25,805** |
| **B. Increases** | | | **6,737** | **6,737** |
| B.1 Provision for the year | | | 6,737 | 6,737 |
| B.2 Time value change | | | | |
| B.3 Difference due to discount-rate changes | | | | |
| B.4 Other variations | | | | |
| **C. Decreases** | | | **15,086** | **15,086** |
| C.1 Utilisations during the year | | | 15,086 | 15,086 |
| C.2 Difference due to discount-rate changes | | | | |
| C.3 Other variations | | | | |
| **D. Closing balance** | | | **17,456** | **17,456** |

The main increases in item “B.1 - Provision for the year” relate to provisions for legal disputes with customers and dealers, as well as allocations to provisions for customer disputes relating to the salary assignment loan portfolio. These provisions cover commissions that are a matter of dispute. For further details, please refer to the corresponding income statement table.

Item C.1 “Utilisations during the year” relates both to reversals of provisions through line item 170b) of the income statement, set up in prior years for lawsuits, for Euro 2,606 thousand, and to utilisations of provisions set up in prior years as a result of disbursements made for Euro 12,480 thousand.

### 10.3 Provisions for credit risk on commitments and financial guarantees given

| | Provisions for credit risk on commitments and financial guarantees given | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| Loan commitments given | 19 | 5 | | 24 |
| Financial guarantees given | | | | |
| **Total** | **19** | **5** | | **24** |

### 10.4 Provisions on other commitments and other guarantees given

The Bank does not have provisions on other commitments and other guarantees given.

### 10.5 Defined-benefit pension plans

The Bank has not established any company pension funds with defined benefits.

### 10.6 Provisions for risks and charges – other provisions

The Bank has not set aside any provisions as per IAS 37, paragraphs 85, 86, 91.

## Section 11 – Redeemable shares – Item 120

The Bank has not approved any share redemption plans.

## Section 12 – Shareholders' equity – Items 110, 130, 140, 150, 160, 170 and 180

### 12.1 "Share capital" and "Treasury shares": breakdown

For information on this section, please refer to paragraph 12.2.

### 12.2 Share capital – Number of shares: change in the year

| Items/Types | Ordinaries | Others |
|---|---|---|
| **A. Shares existing at the start of the fiscal year** | **573,000** | |
| - fully paid-up | 573,000 | |
| - not fully paid-up | | |
| A.1 treasury shares (-) | | |
| **A.2 Shares outstanding: Opening balance** | **573,000** | |
| **B. Increases** | | |
| B.1 New issues | | |
| - against payment: | | |
| - business combination transaction | | |
| - bonds conversions | | |
| - warrants executions | | |
| - others | | |
| - free: | | |
| - to employees | | |
| - to directors | | |
| - others | | |
| B.2 Sales of treasury shares | | |
| B.3 Other adjustments | | |
| **C. Decreases** | | |
| C.1 Cancellation | | |
| C.2 Purchase of treasury shares | | |
| C.3 Business sale operations | | |
| C.4 Other adjustments | | |
| **D. Shares in circulation: final surplus** | **573,000** | |
| D.1 Treasury shares (+) | | |
| D.2 Shares existing at the end of the fiscal year | 573,000 | |
| - fully paid-up | 573,000 | |
| - not fully paid-up | | |

### 12.3 Share capital: other information

At 31 December 2018, the share capital of the Bank amounts to Euro 573 million..

| | Total | |
|---|---|---|
| | 12/31/2018 | 12/31/2017 |
| Par value per share (zero if the shares have no par value) | 1,000 | 1,000 |
| **Fully paid** | | |
| Number | 573,000 | 573,000 |
| Amount | 573,000,000 | 573,000,000 |
| **Agreed sale of shares:** | | |
| Number of shares under contract | | |
| Total amount | | |

### 12.4 Profit reserves: other information

The Bank's profit reserves at 31 December 2018 consist mainly of the legal reserve (Euro 9,515 thousand), the extraordinary reserve (Euro 121,326 thousand), the capital reserve (Euro 39,913 thousand), the negative merger reserve (Euro -424 thousand), the IFRS 9 first-time adoption reserve and the reserve arising from the acquisition of the ISBAN business unit (Euro -599 thousand).

### 12.5 Equity instruments: breakdown and change in the year

The Bank has not issued any equity instruments.

### 12.6 Other information

The Bank has not issued any puttable financial instruments ("financial instruments repayable on demand") and has not approved any distribution of dividends.

As required by art. 2427, paragraph 7-bis of the Italian Civil Code, the following table describes in detail the items of shareholders' equity with an indication of their origin, extent to which they are available for use or for distribution, as well as how they have been used in previous years.

| Items | Amount | Permitted uses (*) | Available portion | Summary of use in the three previous fiscal year | |
|---|---|---|---|---|---|
| | | | | to cover losses | for other reasons |
| **Share capital** | **573,000** | | | | |
| **Share premium reserve** | **633** | | | | |
| **Reserves** | **163,894** | | | **1,457** | |
| *Legal reserve* | *9,515* | A(1), B | | | |
| *Extraordinary reserve* | *121,326* | A, B, C | *45,705* | | |
| *FTA reserve* | *(6,081)* | | | | |
| *Incorporation reserve* | *(355)* | | | | |
| *Changes in previous period earning* | | (2) | | | |
| *Reserve Earning* | *(424)* | | | | |
| *Capital reserve* | | A, B | | 1,457 | |
| *Merger reserve* | | | | | |
| *Other reserve* | *39,913* | | | | |
| **Revaluation reserves** | **(599)** | | | | |
| *Cash flow hedges reserves* | | (2) | | | |
| *Actuarial gains(losses) on defined benefit plans* | *(599)* | (2) | | | |
| **Net income (loss)** | **79,476** | | | **3,796** | **47,600** |
| **Total** | **816,404** | | | | |

(*) A = for increase in capital; B = to cover losses; C = for distribution to shareholders
(1) To be used to increase capital (A) for the portion exceeding one fifth of share capital
(2) The reserve is restricted pursuant to Article 6 of Legislative Decree no. 38/2005

The profit for 2017 has been allocated to the legal reserve (Euro 4,011 thousand), to the extraordinary reserve (Euro 75,621 thousand), and to cover accumulated losses (Euro 590 thousand).

# OTHER INFORMATION

## 1. Commitments and financial guarantees given (other than those designated at fair value)

| | Nominal value on financial release obligations and guarantees given | | | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | | |
| **Commitment to supply funds** | **347,288** | **51,778** | **1,133** | **400,199** | |
| a) Central banks | | | | | |
| b) Governments and other Public Sector Entities | | | | | |
| c) Banks | | | | | |
| d) Other financial companies | | | | | |
| e) Non-financial companies | 342,661 | 51,723 | 1,133 | 395,516 | |
| f) f) Households | 4,627 | 55 | | 4,683 | |
| **Financial guarantees issued** | | | | | |
| a) Central banks | | | | | |
| b) Governments and other Public Sector Entities | | | | | |
| c) Banks | | | | | |
| d) Other financial companies | | | | | |
| e) Non-financial companies | | | | | |
| f) Households | | | | | |

The item "Commitments to disburse funds" includes the amount of the irrevocable commitments relating to factoring transactions and the margins available on credit lines granted to customers.

## 2. Other commitments and other guarantees given

There are no other commitments and other guarantees given that fall respectively within the scope of IAS 37 and IFRS 4.

## 3. Assets used to guarantee own liabilities and commitments

| Portfolios | Amounts 12/31/2018 | Amounts 12/31/2017 |
|---|---|---|
| 1. Financial assets designated at fair value through profit or loss | | |
| 2. Financial assets at fair value through other comprehensive income | | |
| 3. Financial assets measured at amortised cost | 1,486,982 | 1,955,437 |
| 4. Property, plant and equipment | | |
| of which: inventories of property, plant and equipment | | |

The item "Financial assets measured at amortised cost" includes:

- the assets underlying the securities provided as collateral for the loans received from the Bank of Italy in connection with TLTRO operations with the European Central Bank;
- the portfolio of loans subject to securitisation, referred to below in Part C, Section 1 of Part E of the Notes;
- the assets underlying the securities involved in the repurchase agreement entered into with Unicredit Bank AG;
- the amounts paid as guarantee deposit to Santander Group companies as part of derivatives operations.

## 4. Information on operating leases

As a result of the upcoming application of IFRS 16, it is noted that the Bank has a number of lease agreements in place in which it is the lessee, the most significant of which in terms of amount and duration is for the rental of the head office building of the Bank, and for the rental of cars that fall within the definition of the new accounting standard, in addition to rental agreements on hardware that do not meet the requirements for classification according to the new IFRS due to their low value or short duration.

The contingent lease payments were estimated on the basis of the values provided for in the contract, taking into account any indexation clauses and the probability of renewal. None of the agreements includes asset purchase options.

The estimated total minimum payments from January 2019, for the non-cancellable period, are the following:

- within one year, approximately Euro 3,000 thousand;
- between one and five years, approximately Euro 4,000 thousand;
- beyond five years, approximately Euro 2,000.

## 5. Administration and trading on behalf of third parties

The Bank does not operate in the field of administration and trading on behalf of third parties.

## 6. Financial assets subject to offsetting in the financial statements, or subject to master netting or similar agreements

| Instrument type | | Gross amount of financial assets (a) | Financial Liabilities offset in Balance Sheet (b) | Net Balance Sheet values of financial asset (c=a-b) | Related amounts not subject to offsetting in Balance Sheet | | Net amounts (f=c-d-e) | Net amounts (f=c-d-e) |
|---|---|---|---|---|---|---|---|---|
| | | | | | Financial instruments (d) | Cash Collateral received (e) | 12/31/2018 | 12/31/2017 |
| 1. Derivatives | | 1,828 | | 1,828 | | 1,661 | 167 | 644 |
| 2. Repos | | | | | | | | |
| 3. Securities lending | | | | | | | | |
| 4. Others | | | | | | | | |
| **Total** | **12/31/2018** | **1,828** | | **1,828** | | **1,661** | **167** | **X** |
| **Total** | **12/31/2017** | **1,677** | | **1,677** | | **1,033** | **X** | **644** |

As required by IFRS 7, it is hereby disclosed that the derivatives outstanding at 31 December 2018 have the following characteristics:

derivatives with Banco Santander with positive fair value, equal to Euro 1,828 thousand (column c), subject to an ISDA based framework agreement and thus subject to net settlement arrangements. There are no arrangements in place for the offsetting of derivatives with negative balance of the same type, where present. Column e) “Cash deposits posted as collateral” shows the effect of the potential offsetting of exposures for which cash collateral has been provided.

## 7. Financial liabilities subject to offsetting in the financial statements, or subject to master netting or similar agreements

| Instrument type | | Gross amount of the financial liabilities (a) | Financial assets offset in Balance Sheet (b) | Net Balance Sheet values of financial liabilities (c=a-b) | Related amounts not subject to offsetting in Balance | | Net amount (f=c-d-e) | Net amount (f=c-d-e) |
|---|---|---|---|---|---|---|---|---|
| | | | | | Financial instruments (d) | Cash Collateral received (e) | 12/31/2018 | 12/31/2017 |
| 1. Derivatives | | 4,633 | | 4,633 | | 4,211 | 422 | |
| 2. Repos | | 109,060 | | 109,060 | 109,060 | | | |
| 3. Securities lending | | | | | | | | |
| 4. Others | | | | | | | | |
| **Total** | **12/31/2018** | **113,693** | | **113,693** | **109,060** | **4,211** | **422** | **X** |
| **Total** | **12/31/2017** | **2,824** | | **2,824** | | **2,824** | **X** | |

The financial liabilities subject to offsetting have the following characteristics:

- The derivatives with Banco Santander with negative fair value, equal to Euro 4,633 thousand (column c), are subject to an ISDA based framework agreement and are thus subject to net settlement arrangements. There are no arrangements in place for the offsetting of derivatives recognised as assets, where present. Column e) “Cash deposits posted as collateral” shows the effect of the potential offsetting of exposures for which cash collateral has been provided;
- Repos include the transaction carried out with a counterparty third. Column d) “Financial instruments” includes the fair value of the security provided as collateral against the loan received, for the maximum amount of the loan.

## 8. Securities lending

The Bank is not party to any securities lending.

## 9. Information on joint arrangements

The Bank is not party to any joint arrangements.

# Part C – Information on the income statement

## Section 1 – Interest – Items 10 20and

### 1.1 Interest and similar income: breakdown

Interest and similar income amounts to Euro 257,704 thousand (Euro 267,047 thousand at 31 December 2017) and is made up of:

| Items/Technical forms | Debt securities | Loans | Other transactions | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|---|---|---|
| 1. Financial assets valued to fv with impact to P&L | | | | | |
| 1.1 Financial assets held for trading | | | | | |
| 1.2 Financial assets designated to fv | | | | | |
| 1.3 Other financial assets mandatorly valued to fv | | | | | |
| 2. Financial assets at fair value through other comprehensive income | | | | | |
| 3. Financial assets valued to amortize cost | 233 | 253,836 | | 254,069 | 263,676 |
| 3.1 Loans to banks | | 437 | | 437 | 32 |
| 3.2 Loans to customers | 233 | 253,399 | | 253,632 | 263,644 |
| 4. Hedging derivatives | | | | | |
| 5. Other assets | | | 97 | 97 | 13 |
| 6. Other financial liabilities | | | | 3,538 | 3,357 |
| **Total** | **233** | **253,836** | **97** | **257,704** | **267,047** |
| of which: interest income on credit impaired financial assets | | | | | |

The value of interest on loans to customers mainly relates to the economic effects of customer loans, inclusive of the portfolio of securitised loans entered in the financial statements according to IFRS 9, in continuity with the previous IAS 39, on reversal derecognition.

Against a background of negative rates, the item "Financial liabilities" mainly consists of interest income accrued on financing transactions through TLTRO-II with the European Central Bank.

For more details, refer to the Financial Management section of the Report on Operations.

## 1.2 Interest and similar income: other information

### 1.2.1 Interest and similar income on foreign currency assets

The Bank does not hold any financial assets in foreign currency.

### 1.2.2 Interest and similar income on finance lease transactions

Interest income on finance lease transactions for the year 2018 amounts to Euro 2,828 thousand (Euro 2,447 thousand in 2017).

| | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| Interest income on financial leasing activities | 2,828 | 2,447 |
| **Totale** | **2,828** | **2,447** |

### 1.3 Interest and similar expense: breakdown

Interest and similar expense amounts to Euro 41,079 thousand at 31 December 2018 (Euro 49,589 thousand at 31 December 2017) and is made up of:

| Items/Technical forms | Debts | Securities | Other operations | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|---|---|---|
| 1. Financial liabilities valued at amortized cost | 33,586 | 321 | X | 33,907 | 37,956 |
| 1.1 Debts to central banks | | X | X | | |
| 1.2 Debts to banks | 14,412 | X | X | 14,412 | 21,943 |
| 1.3 Debts to customers | 19,174 | X | X | 19,174 | 15,294 |
| 1.4 Securities in circulation | X | 321 | X | 321 | 719 |
| 2. Financial trading liabilities | | | | | |
| 3. Financial liabilities designated at fair value | | | | | |
| 4. Other liabilities and funds | X | X | 3 | 3 | 23 |
| 5. Hedging derivatives | X | X | 5,956 | 5,956 | 10,717 |
| 6. Financial assets | X | X | X | 1,212 | 893 |
| **Totale** | **33,586** | **321** | **5,960** | **41,079** | **49,589** |

Interest expense on amounts due to banks mainly derives from loans granted by Santander Group companies as part of ordinary funding operations (Euro 14,292 thousand) and by other banks (Euro 120 thousand).

Interest expense on amounts due to customers consists of the cost of funding provided by customers through current and deposit accounts (Euro 15,644 thousand). Again with reference to amounts due to customers, shown under other transactions are the income statement components attributable to cash generated by the securitisation portfolio.

Interest expense on debt securities issued relates to securities issued under EMTN Programmes.

"Hedging derivatives" include the net balance of differentials on hedging derivatives as reported in table 1.5 below.

## 1.4 Interest and similar expense: other information

### 1.4.1 Interest and similar expense on foreign currency liabilities

The Bank has no liabilities in foreign currency.

### 1.4.2 Interest and similar expense on finance lease transactions

The Bank has not entered into any purchase leases.

### 1.5 Differentials on hedging transactions

| Items | Totale 12/31/2018 | Totale 12/31/2017 |
|---|---|---|
| A. Positive differentials related to hedging operations: | | |
| B. Negative differentials related to hedging operations: | (5,956) | (10,717) |
| **C. Balance (A-B)** | **(5,956)** | **(10,717)** |

## Section 2 – Commissions – Items 40 and 50

### 2.1 Commission income: breakdown

The commission income generated during the year amounts to Euro 74,115 thousand (Euro 72,311 thousand at 31 December 2017) and is broken down as follows:

| Type of service/Values | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| a) guarantees given | | |
| b) credit derivatives | | |
| c) management services, brokerage and consultancy | 57,318 | 56,293 |
| 1. securities trading | | |
| 2. currency trading | | |
| 3. portfolio management | | |
| 4. custody and administration of securities | | |
| 5. custodian bank | | |
| 6. placement of securities | | |
| 7. reception and transmission order | | |
| 8. advisory services | | |
| 8.1 relating to investments | | |
| 8.2 relating to financial structure | | |
| 9. distribution of third parties services | 57,318 | 56,293 |
| 9.1 porfolios management | | |
| 9.1.1 individuals | | |
| 9.1.2 collectives | | |
| 9.2 insurance products | 42,959 | 35,018 |
| 9.3 other products | 14,359 | 21,275 |
| d) collection and payment services | 13,633 | 12,875 |
| e) securitisation servicing | | |
| f) factoring services | | |
| g) tax collection services | | |
| h) management of multilateral trading facilities | | |
| i) management of current accounts | | |
| j) other services | 3,164 | 3,143 |
| **Total** | **74,115** | **72,311** |

Item c) includes commission income on insurance products placed with financed customers of Euro 42,959 thousand and on salary assignments of Euro 14,359 thousand;

Item d) mainly includes commissions generated during the year from collection and payment services provided to customers.

Item j) “other services”, on the other hand, comprises:

- income recognised in respect of damages for late payment (Euro 1,935 thousand);
- fees and commission income for the management of credit cards (Euro 124 thousand);
- commission income on stock financing (Euro 972 thousand);
- commissions for other services (Euro 134 thousand).

## 2.2 Commission income: distribution channels for products and services

| Channels/Values | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| **b) through Group bank branches:** | **57,318** | **56,293** |
| 1. portfolio management | | |
| 2. placement of securities | | |
| 3. third-party services and products | 57,318 | 56,293 |
| **b) off-site:** | | |
| 1. portfolio management | | |
| 2. placement of securities | | |
| 3. third-party services and products | | |
| **c) other distributive channels:** | | |
| 1. portfolio management | | |
| 2. placement of securities | | |
| 3. third-party services and products | | |

Of the amount shown in the table, Euro 42,959 thousand relates to income from insurance products placed with customers and Euro 14,359 thousand relates to income received to cover costs incurred for brokerage of salary assignment products.

## 2.3 Commission expense: breakdown

Commission expense amounts to Euro 36,403 thousand (Euro 41,160 thousand at 31 December 2017) and is broken down as follows:

| Services/Amounts | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| a) guarantees received | 19 | 22 |
| b) credit derivatives | | |
| c) management and brokerage services | 33,207 | 37,994 |
| 1.trading in financial instruments | | |
| 2. currency trading | | |
| 3. portfolios management: | | |
| 3.1 own portfolio | | |
| 3.2 third party portfolio | | |
| 4. custody and administration securities | 72 | 80 |
| 5. placement of financial instruments | | 48 |
| 6. off-site distribution of financial instruments, products and services | 33,135 | 37,866 |
| d) collection and payment services | 3,012 | 3,133 |
| e) other services | 165 | 10 |
| **Total** | **36,403** | **41,160** |

Point 6 in item c) mainly refers to commissions paid on the sale of salary assignment loans (Euro 14,562 thousand) and insurance products (Euro 16,909 thousand), contributions and termination indemnities accrued by the network of agents based on targets for the placement of loans with customers (Euro 1,664 thousand).
The total of item d) in the table refers to the cost incurred for the collection of loan instalments and for payments made.

## Section 3 – Dividends and similar income – Item 70

### 3.1 Dividends and similar income: breakdown

| Items/Incomes | Total 12/31/2018 | | Total 12/31/2017 | |
|---|---|---|---|---|
| | Dividends | Similar income | Dividends | Similar income |
| A. Financial assets held for trading | | | | |
| B. Other financial assets mandatorily designated at fair value | | | | |
| C. Financial assets at fair value through other comprehensive income | | | | |
| D. Investments | | | 6,100 | |
| **Total** | | | **6,100** | |

## Section 4 – Net trading income (loss) – Item 80

### 4.1 Net trading income (loss): breakdown

| Transactions / Income | Capital gain (A) | Realised profits (B) | Capital losses (C) | Realised losses (D) | Net result |
|---|---|---|---|---|---|
| **1. Financial assets held for trading** | | | | | **1** |
| 1.1 Debt securities | | | | | |
| 1.2 Equity stocks | | | | | |
| 1.3 Units in investment funds | | | | | |
| 1.4 Loans | | | | | |
| 1.5 Others | | | | | |
| **2. Held for trading Financial liabilities** | | | | | |
| 2.1 Debt securities | | | | | |
| 2.2 Debts | | | | | |
| 2.3 Others | | | | | |
| **Financial assets and liabilities: exchange differences** | X | X | X | X | 1 |
| **3. Derivatives** | **2,804** | | **(432)** | | **2,372** |
| 3.1 Financial derivatives: | 2,804 | | (432) | | 2,372 |
| - On debt securities and interest rates | 2,804 | | (432) | | 2,372 |
| - On equity securities and shares indexes | | | | | |
| - On currency and gold | X | X | X | X | |
| - Others | | | | | |
| 3.2 Credit derivatives | | | | | |
| of which: natural hedges connected to fv option | X | X | X | X | |
| **Total** | **2,804** | | **(432)** | | **2,372** |

The item includes the net positive result arising from financial derivatives held to hedge interest rate risk associated with securitisations that do not meet the requirements for classification as hedging derivatives.

## Section 5 – Net hedging gains (losses) – Item 90

### 5.1 Net hedging gains (losses): breakdown

This table shows the income generated by the valuation of the derivatives hedging the fair value of financial assets and the corresponding charge resulting from the valuation of the hedged assets.

| P&L component/Values | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| **A. Gains on:** | | |
| A.1 Fair value hedges | 1,905 | 9,092 |
| A.2 Hedged asset items (fair value) | 3,299 | |
| A.3 Hedged liability items (fair value) | | |
| A.4 Cash-flow hedging derivatives | | |
| A.5 Foreign currency assets and liabilities | | |
| **Total income in hedging activity (A)** | **5,204** | **9,092** |
| **B. Losses on:** | | |
| B.1 Fair value hedges | (4,841) | (65) |
| B.2 Hedged asset items (fair value) | | (9,027) |
| B.3 Hedged liabilities items (fair value) | | |
| B.4 Cash-flow hedging derivatives | | |
| B.5 Foreign currency assets and liabilities | | |
| **Total charges in hedging activity (B)** | **(4,841)** | **(9,092)** |
| **C. Net hedging activity (A-B)** | **363** | |
| of which: net gains (losses) of hedge accounting on net positions | | |

## Section 6 – Gains (losses) on disposal or repurchase – Item 100

### 6.1 Gains (losses) on disposal or repurchase: breakdown

| Items / Income | Total 12/31/2018 | | | Total 12/31/2017 | | |
|---|---|---|---|---|---|---|
| | Gain | Losses | Net profit | Gain | Losses | Net profit |
| **A. Financial assets** | | | | | | |
| 1. Financial assets valued at amortized cost | | (71) | (71) | 32,312 | (973) | 31,339 |
| 1.1 Loans to banks | | | | | | |
| 1.2 Loans to customers | | (71) | (71) | 32,312 | (973) | 31,339 |
| 2. Financial assets at fair value through other comprehensive income | | | | | | |
| 2.1 Debt securities | | | | | | |
| 2.2 Loans | | | | | | |
| **Total assets (A)** | | **(71)** | **(71)** | **32,312** | **(973)** | **31,339** |
| **B. Financial liabilities valued at amortized cost** | | | | | | |
| 1. Deposits from banks | | | | | | |
| 2. Deposits frrom customers | | | | | | |
| 3. Debt securities in issue | | | | | | |
| **Total liabilities (B)** | | | | | | |

The item Loans to customers includes receivables sold without recourse during the year, net of related write-downs.

## Section 7 – Net result on other financial assets and liabilities measured at fair value through profit and loss – Item 110

The Bank does not hold any financial assets or liabilities designated at fair value.

## Section 8 – Net losses/recoveries for credit risk – Item 130

### 8.1 Net adjustments for credit risk associated with financial assets measured at amortised cost: breakdown

| Transactions / Income | Adjustments (1) | | | Riprese di valore (2) | | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|---|---|---|---|---|
| | Stage 1 and Stage 2 | Stage 3 | | Stage 1 and Stage 2 | Stage 3 | | |
| | | Write-off | Others | | | | |
| **A. Loans to banks** | | | | | | | |
| - Loans | | | | | | | |
| - Debt securities | | | | | | | |
| of which: acquired or originated impaired loans | | | | | | | |
| **B. Loans to customers** | **(38,933)** | **(651)** | **(43,221)** | **27,688** | **19,903** | **(35,216)** | **(48,245)** |
| - Loans | (38,933) | (651) | (43,221) | 27,688 | 19,903 | (35,216) | (48,245) |
| - Debt securities | | | | | | | |
| of which: acquired or originated impaired loans | (15) | | (382) | 47 | 442 | 91 | |
| **Total** | **(38,933)** | **(651)** | **(43,221)** | **27,688** | **19,903** | **(35,216)** | **(48,245)** |

### 8.2 Net adjustments for credit risk associated with financial assets measured at fair value through comprehensive income: breakdown

The Bank does not have any financial assets at fair value through comprehensive income.

## Section 9 – Gains/losses on contractual changes without cancellations – Item 140

The Bank has not made any profits/incurred any losses from contractual changes without cancellations.

## Section 10 – Administrative expenses – Item 160

### 10.1 Payroll: breakdown

Payroll amounts to Euro 44,686 thousand (Euro 42,562 thousand at 31 December 2017) and is split as follows:

| Type of expense/Amounts | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| **1) Employees** | **43,704** | **41,424** |
| a) wages and salaries | 31,085 | 29,588 |
| b) social security contributions | 8,386 | 7,899 |
| c) Severance pay | | 1 |
| d) Social security costs | | |
| e) allocation to employee severance pay provision | 40 | 41 |
| f) reserve to retirement fund and similar provisions: | | |
| - defined contribution | | |
| - defined benefit | | |
| g) deposit to external complementary welfare funds: | 2,292 | 2,115 |
| - defined contribution | 2,292 | 2,115 |
| - defined benefit | | |
| h) Expenses resulting from share based payments | | |
| i) other benefits in favour of dependents | 1,901 | 1,782 |
| **2) Other staffs in activity** | **790** | **841** |
| **3) Managers and statutory auditors** | **428** | **376** |
| **4) Early retirement costs** | | |
| **5) Recovery of expenses for employees seconded to other companies** | **(357)** | **(199)** |
| **6) Refunds of expenses for third party employees seconded to the company** | **120** | **120** |
| **Total** | **44,686** | **42,562** |

"Social security charges" include pension costs incurred by the Bank in 2018.

The "provision for employee termination indemnities" shows the amount calculated in accordance with actuarial estimates for the interest cost only. With the reform introduced by Law 296/2006 (Finance Law 2008) on supplementary pensions, termination indemnities do not include any service cost due to the fact that all new accruals are transferred to third-party pension funds, shown in the table in point g).

Fees payable to directors amount to Euro 300 thousand, while fees relating to members of the Board of Statutory Auditors amount to Euro 128 thousand.

## 10.2 Average number of employees, by category

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| **Employees:** | | |
| a) Senior managers | 11 | 12 |
| b) Managers | 180 | 167 |
| *of which 3rd and 4th level* | *70* | *68* |
| c) Remaining employees staff | 442 | 443 |
| **Total** | **633** | **622** |
| **Other staff** | **17** | **16** |

## 10.3 Post-retirement defined benefit plans: costs and revenues

The Bank has not allocated post-retirement defined benefit plans.

## 10.4 Other personnel benefits

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Ancillary staff expenses (contributions to rent and health insurance, luncheon vouchers and other minor benefits and training costs) | 1,897 | 1,777 |
| Incentive plan reserved for managers and middle managers | 5 | 5 |
| Cost of allocation of share by the parent company to employees | | |
| **Total** | **1,901** | **1,782** |

## 10.5 Other administrative expenses: breakdown

Other administrative expenses amount to Euro 66,367 thousand (Euro 67,421 thousand at 31 December 2017) and are made up as follows:

| Type of service/Amounts | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| Indirect taxes and duties | 8,284 | 6,746 |
| Telephone, broadcasting and postal | 3,601 | 4,696 |
| Maintenance, cleaning and waste disposal | 994 | 2,013 |
| Property lease, removals and condominium expenses | 3,608 | 3,341 |
| Professional fees and corporate expenses | 7,524 | 7,246 |
| Travel and accomodation | 3,867 | 4,002 |
| Stamp duty and flat-rate substitute tax | 4,788 | 4,477 |
| Insurance charges | 67 | 77 |
| Forms, stationery and consumables | 310 | 331 |
| Supplies, licences EDP consulting and maintenance | 10,692 | 10,648 |
| Debt recovery charges | 12,366 | 12,083 |
| Legal fees | 3,835 | 3,690 |
| Advertising, promotion and representation | 1,335 | 1,642 |
| Commercial information and searches | 3,507 | 4,520 |
| Other expenses | 1,047 | 1,910 |
| **Total** | **66,367** | **67,421** |

## Section 11 – Net provisions for risks and charges – Item 170

### 11.1 Net provisions for credit risk on commitments to disburse funds and financial guarantees given: breakdown

| | Additions | Uses | Net provision 12/31/2018 | Net provision 12/31/2017 |
|---|---|---|---|---|
| Net provision on commitment and financial guaranties | | 15 | 15 | |

### 11.2 Net provisions relating to other commitments and other guarantees given: breakdown

The Bank does not have other commitments and other guarantees given.

### 11.3 Net provisions for other risks and charges: breakdown

| | Additions | Uses | Net provision 12/31/2018 | Net provision 12/31/2017 |
|---|---|---|---|---|
| Net personnel expense provision | | | | |
| Net provision for legal disputes | (3,355) | 2,579 | (776) | (2,522) |
| Other provisions | (3,382) | 0 | (3,382) | (12,407) |
| **Total** | **(6,737)** | **2,579** | **(4,158)** | **(14,929)** |

"Provisions for legal disputes" mainly include provisions for risks and charges made during the year for litigation with customers and dealers, based on a reliable assessment of the expected financial outlay.

"Other provisions" relate to an amount provided for a dispute over the criteria applied for the early redemption of loans guaranteed by salary and pension assignment. For further information thereon, please see the section on "Other facts worth mentioning" in the Report on Operations.

## Section 12 – Net adjustments to/recoveries on property and equipment – Item 180

### 12.1 Net adjustments to/recoveries on property and equipment: breakdown

| Asset/Income | Depriciation (a) | Impairment losses (b) | Write-backs (c) | Net result (a + b - c) |
|---|---|---|---|---|
| A. Property, equipment and investment property | | | | |
| A.1 Owned | (1,082) | (1) | | (1,083) |
| - Used in the business | (1,082) | (1) | | (1,083) |
| - Held for investment | | | | |
| - Inventories | X | | | |
| A.2 Acquired through finance lease | | | | |
| - Used in the business | | | | |
| - Held for investment | | | | |
| **Total** | **(1,082)** | **(1)** | | **(1,083)** |

Net adjustments to property and equipment refer to the depreciation of the Bank's fixed assets, classified under item 110 of assets for Euro 1,082 thousand.

## Section 13 – Net adjustments to/recoveries on intangible assets – Item 190

### 13.1 Net adjustments to intangible assets: breakdown

Net adjustments to intangible assets amount to Euro 4,908 thousand and relate to the amortisation of the year.

| Asset/Income | Depreciation (a) | Impairment adjustments (b) | Write-backs (c) | Net risult (a + b - c) |
|---|---|---|---|---|
| A. Intangible assets | | | | |
| A.1 Owned | (4,908) | | | (4,908) |
| - Generated internally by the company | | | | |
| - Other | (4,908) | | | (4,908) |
| A.2 Held under finance leases | | | | |
| **Total** | **(4,908)** | | | **(4,908)** |

## Section 14 – Other operating expenses/income – Item 200

### 14.1 Other operating expenses: breakdown

Other operating expenses amount to Euro 4,457 thousand (Euro 11,467 thousand at 31 December 2017) and are divided as follows:

| | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| Rebates and discounts | 49 | 46 |
| Losses on disposal | 17 | |
| Miscellaneous expenses | 1,270 | 9,470 |
| Expenses related to leasing activities | 197 | 234 |
| Other expenses | 2,925 | 1,718 |
| **Total** | **4,457** | **11,467** |

### 14.2 Other operating income: breakdown

Other operating income amounts to Euro 21,025 thousand (Euro 20,336 thousand at 31 December 2017) and can be broken down as follows:

| | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| Recovery of taxes | 8,039 | 7,506 |
| Other income for services rendered to Group companies | 208 | 234 |
| Recovery of lease instalments | 12 | 66 |
| Recovery of other expenses | 642 | 661 |
| Recovery of preliminary expenses | 10,703 | 10,992 |
| Rebates and discounts received | 3 | 3 |
| Insurance reimbursements | 8 | 11 |
| Gains on disposal | 347 | 74 |
| Income related to leasing transactions | 309 | 253 |
| Other income | 755 | 536 |
| **Total** | **21,025** | **20,336** |

## Section 15 – Profit (loss) from equity investments – Item 220

### 15.1 Profit (loss) from equity investments: breakdown

| Income/Value | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| A. Income | | |
| 1. Revaluations | | |
| 2. Gains on disposal | | |
| 3. Writebacks | | |
| 4. Other gains | | |
| B. Expenses | (55) | |
| 1. Write-down | | |
| 2. Impairment losses | | |
| 3. Losses on disposal | | |
| 4. Other expenses | (55) | |
| **Net profit** | **(55)** | |

The balance represents the net amount arising from the closure of the process of liquidation of the subsidiary Santander Consumer Finance Media in liquidation, as a result of the derecognition of the investment with respect to the relevant equity which was settled partly in cash and, for the remaining part, with the receivables and payables still outstanding at 30 November 2018.

## Section 16 – Net gains (losses) arising on fair value measurement of property and equipment and intangible assets – Item 230

The Bank's property and equipment and intangible assets have not been measured at fair value.

## Section 17 – Adjustments to goodwill – Item 240

The Bank has not recognised any goodwill.

## Section 18 – Gains (losses) on disposals of investments – Item 250

The Bank has not recorded gains or losses on disposal of investments.

## Section 19 – Income taxes for the year on continuing operations: breakdown

### 19.1 Income taxes for the year on continuing operations: breakdown

The item "Income tax for the year" shows a balance of Euro -37,637 thousand (Euro -36,538 thousand at 31 December 2017) and represents the provision made during the year in accordance with current tax law. It is made up as follows:

| Income/Value | Total 12/31/2018 | Total 12/31/2017 |
|---|---|---|
| 1. Current taxes (-) | (36,322) | (26,038) |
| 2. Change of current taxes of previous years (+/-) | | |
| 3. Reduction of current tax for the period (+) | | |
| 3. bis Reduction of current taxes for the year due tax credit under Law 214/2011 | | |
| 4. Change of deferred tax assets (+/-) | (1,315) | (10,500) |
| 5. Change of deferred tax liabilities (+/-) | | |
| **6. Tax expenses for the year (-) (-1+/-2+3+3bis+/-4+/-5)** | **(37,637)** | **(36,538)** |

For further details, see Section 13 of Part B – Information on the balance sheet.

### 19.2 Reconciliation between the theoretical and effective tax charge

The following table shows the effects on current taxes recognised in the financial statements arising from the presence of permanent differences that increase taxable income with respect to the operating profit, thereby aggravating the tax burden.

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Profit (loss) from continuing operations before tax | 117,113 | 116,761 |
| Profit before tax on discontinuing operations | | |
| **Theoretical taxable income** | **117,113** | **116,761** |
| IRES - Theoretical tax charge | (32,206) | (32,109) |
| - effect of income and expenses that do not contribute to the tax base | 2,094 | 5,707 |
| - effect of expenses that are wholly or partially non-deductible | (529) | (1,938) |
| **IRES - Effective tax burden** | **(30,641)** | **(28,340)** |
| IRAP - Theoretical tax charge | (6,523) | (6,504) |
| - portion of non-deductible administrative expenses, depreciation and amortisation | (403) | (400) |
| - portion of non-deductible interest expense | | |
| - effect of income and expenses that do not contribute to the tax base | 2,489 | 2,446 |
| - effect of income and expenses that are wholly or partially non-deductible | (2,559) | (3,740) |
| **IRAP - Effective tax burden** | **(6,996)** | **(8,198)** |
| **Effective tax burden as shown in the financial statements** | **(37,637)** | **(36,538)** |

The effects of temporary changes that increase/decrease taxable income, recognised in the accounts as part of deferred tax assets/liabilities, are reflected in the reconciliation.

## Section 20 – Profit (loss) after tax on discontinued operations – Item 290

The Bank has not recognised any gains or losses on disposal groups classified as held for sale.

## Section 21 – Other information

No further information has to be given in addition to what has already been provided in the previous sections.

## Section 22 – Earnings per share

### 22.1 Average number of ordinary shares (fully diluted)

The Bank does not hold shares for which is IAS 33 applicable, therefore the disclosures required by this section do not apply.

### 22.2 Other information

There is no further information to be disclosed in this section.

# Part D – Comprehensive income

## Statement of comprehensive income

| | Items | 12/31/2018 | 12/31/2017 |
|---|---|---|---|
| **10.** | **Net Profit (Loss) for the year** | **79,476** | **80,223** |
| | **Other comprehensive income after tax not to be recycled to income statement** | | |
| **20.** | Equity instruments designated at fair value through other comprehensive income:: | | |
| | a) changes in fair value | | |
| | b) transfers to other components of equity | | |
| **30.** | Financial liabilities designated at fair value through profit or loss (own creditworthiness changes): | | |
| | a) changes in fair value | | |
| | b) transfers to other components of equity | | |
| **40.** | Hedge accounting of equity instruments measured at fair value through other comprehensive income: | | |
| | a) change in fair value (hedged instrument) | | |
| | b) change in fair value (hedging instrument) | | |
| **50.** | Property, plant and equipment | | |
| **60.** | Intangible assets | | |
| **70.** | Defined benefit plans | 53 | (1) |
| | Non current assets classified as held for sale | | |
| **90.** | Valuation reserves from investments accounted for using the equity | | |
| **100.** | Tax expenses (income) relating to items not reclassified to profit or loss | (18) | |
| | **Other comprehensive income after tax to be recycled to income statement** | | |
| **110.** | Hedge of foreign investments: | | |
| | a) changes in fair value | | |
| | b) reclassification through profit or loss | | |
| | c) other changes | | |
| **120.** | Exchange differences: | | |
| | a) value change | | |
| | b) reclassification through profit or loss | | |
| | c) other changes | | |
| **130.** | Cash flow hedges: | | |
| | a) changes in fair value | | |
| | b) reclassification through profit or loss | | |
| | c) other changes | | |
| | of which: result of net positions | | |
| **140.** | Hedging instruments: | | |
| | a) value change | | |
| | b) transfer to the income statement | | |
| | c) other changes | | |
| **150.** | Financial assets (no equity securities) measured at fair value with an impact on total profitability: | | 55 |
| | a) changes in fair value | | 124 |
| | b) transfer to the income statement | | (69) |
| | - adjustments to credit risk | | |
| | - gains / losses from realization | | (69) |
| | c) other changes | | |
| **160.** | Non-current assets held for sale and discontinued operations: | | |
| | a) changes in fair value | | |
| | b) transfer to the income statement | | |
| | c) other changes | | |
| **170.** | Part of valuation reserves from investments valued at equity method: | | |
| | a) changes in fair value | | |
| | b) transfer to the income statement | | |
| | - impairment adjustments | | |
| | - gains / losses from realization | | |
| | c) other changes | | |
| **180.** | Income taxes relating to other income components with reversal to the income statement | | (18) |
| **190.** | **Total of other comprehensive income** | **36** | **36** |
| **200.** | **Other comprehensive income (Items 10+190)** | **79,512** | **80,259** |

# Part E – Information on risks and related hedging policies

## Introduction

Santander Consumer Bank (the Bank) places great importance on the management and control of risks as a means of ensuring reliable and sustainable value creation in a context of controlled risk.

Risk management strategy focuses on a complete and consistent overview of risks. It takes account of the macro-economic scenario and risk profile, it stimulates a growing risk culture and encourages a transparent and accurate presentation of the risks associated with the portfolios held.

The policies that guide the assumption and management of risks are approved by the Board of Directors (BoD), which is supported in the carrying out of its functions by the specialist committees established, which include the board Risk Committee. In addition to these, managerial committees have been established. These include the Executive Risk Committee, of which the CEO is the Chairman and the permanent members are the Chief Risk Officer (CRO) and the Chief Financial Officer (CFO).

The CRO's area of governance is Risk Management Department, in which he/she has the role of Risk Director. Under the management of the CRO, the Department ensures effective risk management in all key areas, starting with the definition of tools for the analysis and measurement of risks (in collaboration with the Parent Company's methodology functions) and the definition of policies and strategies for the acceptance and control of existing risks, ensuring a correct balance between long term strategic objectives and short-term earnings objectives. To ensure the independence of the risk function, the head of the function hierarchically reports to the Chief Executive Officer and functionally reports to the Chief Risk Officer of the Consumer Finance Division to which Santander Consumer Bank belongs from an operational point of view.

As Chief Risk Officer (CRO), the Risk Director is also a member of the Board of Directors (BoD). In accordance with the risk appetite defined by the BoD of the Bank in the role assigned to it, the CRO measures and monitors the propensity to risk.

As part of management, and with the coordination of the CRO and his/her deputy, the Risk Control Unit has the task of measuring, controlling and monitoring all risks to which the Bank is subjected. These controls must take place efficiently and are essential for facilitating the maximisation of profit in a context of careful and dynamic management of risk situations.

The function therefore guarantees the comprehensive and organic treatment of risks related to the Bank's activities in order to facilitate their identification, measurement, analysis and definition of measures needed to address them.

The Unit quantifies the overall exposure of the Institution at risk to allow the delegated bodies to define a strategy for the management thereof and to define the desired risk profile through instruments such as the Risk Appetite Framework (RAF) and the ICAAP process

Among the main functions assigned to this Unit are:

- monitoring of the main risk indicators;
- assistance in deciding the provisions to cover current and future losses;
- calculation and monitoring of expected losses;
- ensure the reliability and automatic generation of reports;
- monitor financial risks periodically, with particular reference to interest rate risk and liquidity risk, using Asset & Liability Management (ALM) techniques;
- liaise with the internal and external control bodies to verify the level of implementation of company policies.

The Bank's risk appetite is shown in the Risk Appetite Framework (RAF), a strategically important tool, organised and structured to present to the Board of directors and senior management the main risks to which a company is exposed and the level of such risks that it is willing to assume under normal and stressed conditions. The document outlines and thus applies the Target Risk framework defined for the Bank. The RAF is also linked to other instruments or business processes that help with planning, assessing and monitoring risks, including:

- three-year strategic plans;
- Budgeting & Forecasting;
- Risk Assessment;
- Capital Planning and Monitoring;
- Liquidity Contingency Plan and ALCO limits (liquidity risk and interest rate);
- Internal Capital Adequacy Assessment Process (ICAAP);

- Credit Management Programme;
- the most significant transactions;
- Internal Control System.

The Risk Appetite Framework therefore defines the risk objectives and limits, the reference processes, the monitoring and control mechanisms and the relevant governance. It includes the definition of the maximum level of risk - including the possible undesirable effects (risk capacity) - that can technically be assumed by the Bank in carrying out its business plans, without compromising regulatory requirements, commercial viability or other constraints imposed (by the Supervisory Body, by the Supervisory Authority, etc.) and subsequently sets out:

- the level of overall risk, by type, that the Bank intends to assume, within the framework of its risk capacity, in order to pursue its strategic and commercial objectives (propensity to risk);
- the overall risk profile actually assumed by the Bank;
- the main specific risks.

The overall risk profile stems from the general principles defined by the risk policies and consists of a structure of limits suitable to ensure that, even under stressed conditions, minimum levels of solvency, liquidity and earnings are met.

The general principles that guide the risk assumption strategy are based on the maximisation and protection of financial results, by pursuing revenue generation without affecting the achievement of adequate levels of capitalisation and a conscious assumption of risks and measurement thereof.

In summary, the expectations are:

- keeping expected profitability within the parameters laid down;
- prudent management of risk through the continuous monitoring of the portfolios managed;
- management of funding aimed at increasing the diversification of funding sources;
- control/optimisation of operating costs, to be implemented by means of more stringent monitoring of the planning/assessment/authorisation process and by streamlining business processes;
- achievement of levels of capitalisation in line with current regulations and with constraints imposed by the Supervisory Authority, as well as with the objectives agreed with the Parent Company;
- development and updating of professional skills in the light of continuous changes in regulations, in the increasingly competitive market context and in the strategies of the Santander Group.

Credit risk is the main type of risk to which the Bank is exposed and is associated with the probability that a borrower may be unable to meet its contractual obligations thereby resulting in possible future losses.

The Bank's operations in Italy are mainly focused on retail customers, where the risk in question is highly differentiated and fragmented. In fact, overall, the Group's assets are characterised by a very high average number of customers, a low average exposure and a limited average residual duration. So in general, credit risk exists, but in a situation of high fragmentation.

The Board of Directors, in its capacity as a strategic oversight body, approves the risk objectives, the tolerance thresholds (where identified) and the risk management policies. It also ensures that the implementation of the RAF is consistent with the risk objectives and the approved tolerance thresholds.

The Bank's risk appetite is based on the following requisites and features:

- it reflects an aggregated view and applies to all functional areas of the Bank;
- it considers the main types of risk that impact the Bank's business development;
- it takes a prospective view of the Bank's risk profile in certain circumstances, with the use of stress tests and scenario analysis;
- it is not static and adapts to the changing business environment;
- it combines quantitative and qualitative standards;
- it is concise and easy to communicate to senior management and external stakeholders;
- it enables a structured comparison of risk profile against risk appetite;
- it is connected to the overall corporate strategy and to other instruments or business processes that help with planning, evaluating and monitoring risks, including those aimed at defining the budget, liquidity/financing and capital;
- it is integrated with risk management of the Bank's ordinary activities, given that it was designed to take account of existing policies and limits.

The definition of the Risk Appetite Framework and the consequent operational limits for major specific risks, the use of risk measurement tools as part of credit and liquidity management and operational risk control processes and the use of measuring parameters based on capital risk to report corporate performance and the assessment of the adequacy of internal capital, are fundamental steps for the operational application of long term risk strategy along the Bank's decision-making chain, down to each operating unit.

**Risk culture**

The Bank gives utmost attention to the transmission and sharing of a risk culture, by means of regular updates to relevant documents and by initiatives implemented to address specific issues as they arise. In this regard, a programme was begun in 2017, and continued in 2018, for the development of Advanced Risk Management (ARM), with the support of the Spanish parent company, aimed at spreading awareness of the risks to which the Bank is exposed, the conduct required to mitigate them and finally the instruments necessary to monitor them. The measures, which are spread over various areas and have impacts across the entire Bank, have seen the involvement of both top management and other areas of the business.

As a result of the programme being carried out, significant improvements have been made both in terms of processes and the checks performed. Following the programme has become an integral part of the objectives assigned to top management.

Particular attention has been given within the programme to spreading awareness of the concepts underlying the knowledge and conscious management of the risks to which the Bank is exposed, through the different tools available (video, intranet news etc.). In addition, production began of a quarterly internal publication (Notams) aimed at keeping employees regularly updated on the progress and management of risks within the Bank, and on initiatives undertaken both locally and company-wide.

Beyond that, the Bank ensures the dissemination of risk culture by means of extensive training, delivered both vie e-learning and in the classroom (limited to new hires), aimed at the correct application of internal and external models designed to prevent, mitigate and monitor risks in an effective manner.

A direct channel of communication was also opened, named 'Speak Up Channel', through which every employee can request information and clarifications on risk matters.

Finally, with the help of Human Resources and the other Control functions, a first report was drawn up on the monitoring of risk culture in the company, which compiles the main indicators agreed with the parent company for both local and global monitoring.

**Organisation and risk governance**

The organisational standards applied to ensure the Bank has an effective risk governance system are aimed at:

- ensuring the separation of operational functions from control functions;
- ensuring the identification, measurement and monitoring of risks inherent, or that may be assumed, in the various operational areas;
- guaranteeing that any anomalies, which result from checks performed by the monitoring functions, are rapidly brought to the attention of the appropriate level of management, dealt with promptly and recorded for subsequent checks.

To this end, the risk management and governance process is based on an organisational structure that ensures there is an internal control system that operates on three levels, in line with banking supervisory regulations, consisting of:

- line controls (first-level controls): these are performed by the operating units to verify that the processes and tasks within its competence have been carried out in accordance with internal procedures. Where possible, these types of controls are incorporated in automated IT procedures;
- risk management controls (second-level controls): these are performed by the Risk Control Unit to ensure the correct functioning of the risk management process by means of the measurement and assessment of the level of risks assumed as well as compliance with any limits assigned to operational areas;
- compliance controls (second-level controls): these are performed by Compliance and by Anti-Money Laundering and Customer Protection, tasked with verifying compliance with internal and external regulations applicable to the Bank;
- internal audit controls (third-level controls): these are carried out by the Internal Audit department, which has the task of verifying the ordered performance of processes (management/production, business/commercial, support/functional) and their compliance with corporate standards, the substantial correctness of the conduct of operations and the suitability, from the standpoint of its framework and rules governing how it should function, of the internal control system and the adequacy and effectiveness of the monitoring systems, in relation to the various types of risk.

In detail, the structures involved in the overall process of risk management are:

- Board of Directors;
- Chief Executive Officer and General Manager;
- Administration and Control Department;
- Institutional Relations, Legal and Compliance Department;
- Information Technology and Processes Department;
- Finance Department;
- Sales and Marketing Department;
- Risk Management Department;
- Collection Business Unit;
- Human Resources and Organisation;
- Internal Audit (reports to the Board of Directors through a direct functional relationship with the Chief Executive Officer).

Moreover, as set out in greater detail in the Corporate Governance section, the corporate bodies avail themselves of specific internal committees, which, as far as risk management is concerned, include the following:

- the Management Committee;
- the Operational Risk Committee;
- the Executive Risk Committee;
- the Executive Risk Control Committee;
- the Collection Committee;
- the Legal and Compliance Committee;
- the Financial Risk Management Committee (ALCO);
- the Operational and Technological Risk Committee;
- the Internal Control Coordination Committee.

**Main Risks**

The Bank's risk profile is defined through the risk assessment carried out in accordance with the methodologies shared with the parent company Risk Identification Assessment (RIA). The assessment sees the direct involvement of the first line of control and the supervision and support of the second line of control, and is carried out at the beginning of the year and updated in the second half. Specifically, the updating carried out in the second part of the year is aimed at verifying the improvements achieved as a result of the implementation of the remedial actions identified during the first assessment. Through the RIA methodology, the Bank's risk profile is identified and assessed and a specific score is given, taking into account:

- the current level of risk;
- the current environmental risk;
- exposure to potential specific risks.

The method also makes it possible to:

- identify possible "emerging risks" to enable the effective management and mitigation of risks;
- obtain a quantitative representation of the risks assumed at the date of the analysis, on the basis of the activities of the Bank and of the development strategies put in place.

The result of the exercise performed confirmed a "low-medium" overall risk profile for the Bank.

For areas where weaknesses or areas of improvement have been identified, specific action plans have been put in place and monitored.

## Section 1 – Credit risk

## Qualitative information

### 1. General aspects

In view of its operational activities, credit risk is the main type of risk to which the Bank is exposed. This is the risk associated with the probability that a borrower may be unable to meet its contractual obligations, thus exposing the company to possible future losses, or that it may experience a deterioration in creditworthiness that could compromise its future ability to fulfil its obligations.

The Bank's operations in Italy are mainly focused on retail customers, where the risk in question is highly differentiated and "pulverised". In fact, overall, the Group's assets are characterised by a very high average number of customers, a low average exposure and a limited average residual duration. So in general, credit risk exists, but in a situation of high fragmentation.

In view of this, the Bank's strategies, which are based on sound and prudent management, are aimed at:

- coordinating the actions necessary to achieve the objectives of sustainable growth in the bank's lending activities in line with the risk appetite objectives approved by the Board of Directors;
- portfolio diversification, with particular reference to wholesale products, limiting the concentration of exposures to individual counterparties and/or groups, sectors of economic activity, geographical area and risk classification;
- compliance with internally established rules for the assumption of risks;
- effective counterparty selection based on a thorough analysis of creditworthiness aimed at minimising the risk of insolvency;
- continuous monitoring of the managed portfolios in order to identify any sign of imbalance in a timely manner and initiate the necessary corrective actions aimed at preventing the possible deterioration of positions.

The products placed according to company strategy are illustrated below:

- Car loans: specific-purpose loans for the purchase of vehicles, including motorcycles, to persons who apply for loans offered by dealers affiliated with the Bank. The loan amount is granted directly by the affiliated dealer. The customer undertakes to repay the loan in accordance with a fixed rate repayment plan in equal instalments. The customer may take out insurance cover for the loan or the object financed;
- Special-purpose loans: loans granted solely by the agency channel to persons for the purchase of goods other than cars and/or for the provision of services. These have the same repayment / contractual features of car loans;
- Personal loans: loans granted directly to the customer that have the same repayment / contractual features of car loans. It is possible to take out insurance cover for the loan;
- Consumer car leasing: financing transactions offered by the Bank (in its capacity as lessor) for the use for an agreed period of time, upon payment of periodic lease charges, of motor vehicles, commercial vehicles and motorcycles, purchased or constructed by a third party supplier, as requested by the lessor and chosen and indicated by the customer (user with a VAT number); the latter assumes all the risks and retains the right, at the end of the contractual term, to purchase the goods for a predetermined price and to extend the use thereof under predetermined or predeterminable financial conditions. For leasing products, the typical risks of finance leases, apart from those arising from a contractual breach by the customer, are of a contractual and financial nature;
- Credit cards: a line of credit for an unlimited period made available to a customer, who may make use thereof in one or more lots. The user undertakes to repay the amounts utilised and interest payable thereon, complying with the payment of monthly minimum instalments, but with the right to make larger repayments if desired. The repayment of the capital element ensures the availability once again of the full credit facility, which may be reutilised by the customer. Interest rates are generally fixed, but Santander Consumer Bank has the right to modify the financial conditions during the relationship, in compliance with regulations in force. The loan may be guaranteed;
- Salary assignment: a particular type of personal loan that is settled through the assignment of a portion of salary or pension up to one fifth of the amount thereof net of withholdings. This product has a set maximum duration and a minimum duration that is not normally less than twenty-four months;
- Financing to wholesale clients: this includes the following types of products:
  - Financing the stock of new, used and demonstration vehicles;
  - Financing for general purchases and/or capital goods;
  - Financing of working capital and/or cash advances.

The distribution channels for the marketing of the products are the following:

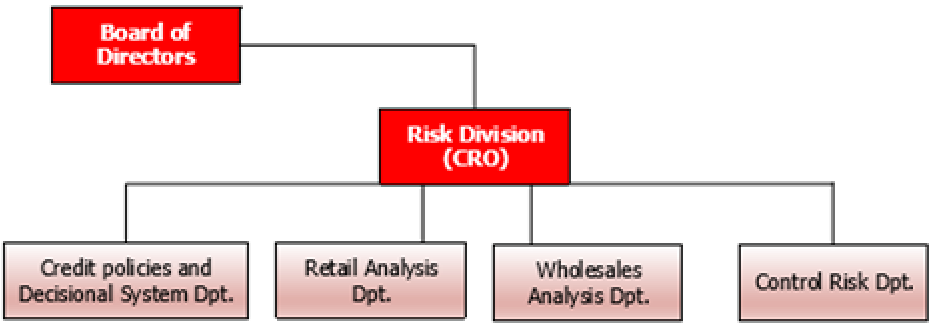
- Branches: the company provides on-the-spot personal loans to customers and provides indirect support for dealers (affiliates)
- Affiliates: through this channel, only special-purpose loans, car loans and leasing.
- Agents: through this channel, personal loans, special-purpose loans (cars, furniture, etc.) and car leasing are granted.
- Special Agreements: this category includes business from third-party companies towards SCB according to the terms of the agreements concluded at national level.
- Internet: through the Bank's website and some selected specialised sites.

## 2. Credit risk management policies

### 2.1. Organisational aspects

Santander Consumer Bank's Risk Management Department ensures effective risk management in all key areas, starting with the definition of tools for the analysis and measurement of risks (in collaboration with the Parent Company's methodology functions) and the definition of policies and strategies for the acceptance and control of existing risks, ensuring a correct balance between long term strategic objectives and short-term earnings objectives. To ensure the independence of the Risk function, the Director of the above function plays the role of CRO, is responsible for second level risk controls and is a member of the Board of Directors. In addition, the CRO functionally reports to the Chief Risk Officer of the Parent Company's Consumer Finance Division.

The department is structured along four services lines as detailed below.




The mission of the **Credit Policies and Credit Decision System** is to protect the company from credit risk pertaining to customers and affiliates by defining operating policies and strategies concerning affiliation criteria and lending, by staff training and by constant monitoring of lending activities. It verifies that the operability and behaviour of staff comply with internal data acquisition procedures and current regulations.

The functions carried out are the following:

- to define the risk policies, the strategies and internal procedures for the management of products/channels, the monitoring of compliance therewith, ensuring the constant updating thereof and the communication thereof to all relevant areas of the Bank;
- to create (internally or with the help of external suppliers), to monitor, to implement and to update automatic applications for decision-making and support in setting up dossiers;
- to monitor the riskiness of products and channels, highlighting abnormal situations for timely corrective action;
- to prepare an overview of the qualitative trend of corporate loans and any balances showing significant changes in riskiness that need to be analysed;
- to handle relations with official data bases relating to its sphere of operations, especially with regard to changes in the information provided, reporting anomalies and cancellations, and monitoring their bills;
- to assign approval levels according to the degree of experience of staff members and in accordance with the guidelines authorised by the Board of Directors and to organise training sessions needed to ensure that updates

are provided on new policies and/or processes, as well as the maintenance of a high level of skills of operating personnel;

- to provide support to the operating units and other corporate functions of other Group companies;
- to prepare a management budget.

The mission of the **Risk Control Unit** is to measure, control and monitor risk. This control must take place efficiently and is essential to facilitate the maximisation of profit in a context of careful and dynamic management of risk situations.

The Unit has to guarantee the comprehensive and organic treatment of risks related to the Bank's activities in order to facilitate their identification, measurement, analysis and definition of measures needed to address them.

The Unit must quantify the overall exposure of the Institution at risk to allow the delegated bodies to define a strategy for the management thereof and to define the desired risk profile (risk appetite).

The main functions are:

- monitoring of the main risk indicators;
- assistance in deciding the provisions to cover current and future losses;
- calculation and monitoring of expected losses;
- ensure the reliability and automatic generation of reports;
- monitor financial risks periodically, with particular reference to interest rate risk and liquidity risk, using Asset & Liability Management (ALM) techniques;
- to liaise with the internal and external control bodies to verify the level of implementation of company policies.

The functions assigned to the unit are performed by four Offices:

- Risk Control and Monitoring: handles the management of second-level controls relating to: control of market risk (liquidity risk and interest rate risk), of operational risk, of credit risk, of technological risk, of concentration risk, of reputational risk, of mitigation risk (collateral) and any other marginal risks of the Bank;
- Risk models and scenario analysis: ensures the control and verification of the use of decision-making tools within the Bank, including stress tests on future loss coverage and budgeting models. It monitors the containment of risks within the limits indicated by the Risk Appetite Framework (RAF);
- Risk reporting: supervises the preparation of the documentation required by the Bank of Italy as a tool for the management and control of risks, such as the Risk Appetite Framework (RAF), the ICAAP report, the activity report and the planning of and reporting on the function's activities;
- Internal Controls: identifies, together with the heads of other units, the risks associated with the major business processes and maps the related mitigating controls; develops and maintains the Internal Control Model, based on changes in relevant legislation and the organisational structure of the Company; supervises the implementation of internal control indicators and performs the monitoring thereof. It identifies weaknesses (weaknesses in the internal control model and recommendations made by internal audit, the Independent Auditors or the Supervisory Authority) in collaboration with Internal Audit, it provides support to business functions for the definition of action plans for the resolution thereof and regularly monitors their status. It coordinates the certification process for the local internal control model as required by the Sarbanes-Oxley Act (SOX).

**Wholesale Analysis** prepares motions concerning positions of corporate customers that are subsequently submitted for the attention of the decision-making Committees (Risk Management Committee or Board of directors depending on their signatory powers). The foregoing positions consist entirely of credit lines granted to dealers to finance their showroom cars, given that the Bank has no other corporate customer business.

The main functions assigned to this unit are:

- to prepare positions for submission to the Committees with powers of approval;
- to carry out an annual review of dealers' positions in "non-standardised" products;
- to develop together with the Collection Business Unit debt recovery strategies to be implemented with affiliates (only with respect to "non-standardised" products);
- to manage collaborations with leading automobile brands with regard to wholesale;
- to perform periodic analysis of positions subjected to special monitoring (F.E.V.E - *Firmas en Situaciòn de Vigilancia Especial* - signature powers in special monitoring situations).

**Retail Analysis'** mission is the assessment and approval of retail transactions that fall within its sphere of competence.

The main functions assigned thereto are the correct application of risk assumption policies and procedures laid down by the Credit Policies and Credit Decision System with regard to particular credit proposals.

## 2.2 Systems for managing, measuring and monitoring risk

The Risk Management Department looks after the credit risk management process, from the approval of policies, to the identification, measurement, control and management, where applicable, of risks. The Risk Control Unit collaborates with the definition and implementation of the Risk Appetite Framework and measures and monitors the various business risks. The areas that assume risks and senior management are involved in the risk management process. In addition, in close collaboration with the units that assume the risks, it relates these activities to business development by identifying new opportunities and business plans, budgets and the optimisation of risk-adjusted profitability, by performing analyses and management of the loan portfolios in a way that makes it possible to align business development to the desired risk profile and, where applicable, to mitigate the risk and handle debt collection case by case.

Within Santander Consumer Bank, the credit risk assumed by the Company's activity can essentially be split into two categories: standardised and non-standardised. Both have an associated risk that the borrower will default on its obligations under the terms of the agreement, but it is necessary to distinguish between contracts that are treated in a standardised way and others that require specific treatment (by an analyst or portfolio manager).

As regards standardised management of risks, the following phases are involved:

- acceptance of a loan application;
- monitoring and reporting;
- credit collection.

1. The acceptance of a loan application is in turn split into input to the system, credit analysis, assessment and approval:

- the input phase requires those responsible to key in the following information: socio-demographic variables relating to counterparties, and information relating to the financial plan (amount to be lent, the asset to be financed etc.). The information that needs to be appraised varies depending on the type of counterparty (retail, sole proprietorship, company) and the asset to be financed;
- the credit analysis phase aims to ascertain the accuracy, the validity and the completeness of the data provided by the counterparty along with the loan application; this enables an accurate assessment of the customer's credit standing and an early identification of possible cases of fraud;
- the information entered into the system during the credit analysis phase is processed and assessed through a credit scoring system managed by the Credit Policies and Credit Decision System. Through the use of rating models and policy rules, Credit Scoring provides a summary of the counterparty's credit risk, reflecting the probability of default within a time period of one year. By means of a decision engine, one of the following outcomes will be assigned: Automatic Refusal/Automatic Approval/Manual Review; the assessment is based both on data provided by the customer at the dossier input phase and certified during the credit analysis phase and on external data provided by Credit Information Systems. For dossiers subjected to manual review, as well as the usual assessment done with a scoring system, a detailed review is performed by an operator;
- the approval phase is the third phase of the loan application process and is delegated, by the competent corporate bodies, to various persons in the structure based on grids that show the signatory powers, the type of customer, the amount to be lent, the type of product/service and, in certain cases, the asset to be financed;
- once concluded, the origination of a dossier phase may provide for a process of mitigation and collateral management, where the analyst has to analyse in detail all of the items acquired by the applicant and, where necessary, foresee the inclusion of appropriate collateral (in order to minimise the credit risk inherent in lending activities), such as a second signature and/or guarantees, insurance assignment and bills of exchange.

2. The monitoring phase is handled by Credit Policies and Credit Decision System. Its purpose is to identify, analyse, forecast and model the behaviour of all the variables that could potentially result in changes to the asset quality assumed by the Bank. It also makes it possible to recalibrate the acceptance process, given that the information obtained is used to optimise the rules for acceptance and the cut-off levels of the score grids. Further monitoring is performed by the Risk Control Unit as part of its second level control function and is aimed at forming an overall opinion on risk-taking, through checks of compliance with the risk limits or trend analysis or specific analysis. It produces detailed reports of the phenomena analysed that are distributed to the risk-taking functions, both Senior Management and the Board of Directors, in line with the agreed reporting schedule;
3. The credit collection phase is handled by the Collection Business Unit (CBU). The Unit aims for maximum efficiency in the management of the portfolio to be recovered through the application of strategies that make it possible to assign different priorities depending on the customer's risk profile and the ageing of their balances. The objective is to collect unpaid loans with a simultaneous assessment of the customer's current position via a qualitative and quantitative analysis; the tools adopted include the renegotiation of the amount of the instalment, repayment via bills of exchange and a settlement. It also carries out debt collection subsequent to the issue of a document known as "Loss of Benefit of Term" (LBT) that is intended to recover the full amount of the residual debt. At the same time and to support this activity, external law firms send borrowers payment orders and, later, where there are grounds for doing so, they initiate the most appropriate legal proceedings (injunction decree, writ of summons, bankruptcy petition or lawsuits).

Salary or pension assignment requires a specific management process for the duration of the loan. The credit analysis phase provides for a commercial agreement for distribution of the product through the specifically dedicated sales network. Credit analysis, assessment and approval are carried out by structures specifically designed for that purpose within Santander Consumer Bank. Post-delivery monitoring is primarily based on earnings related data and is also performed by the Collection Business Unit, which also performs credit collection services.

On the other hand, as regards non-standardised risk management, the process is split into the following phases:

- customer analysis;
- customer's credit rating
- analysis of credit transactions;
- preparation of resolutions regarding transactions/customer;
- customer and portfolio tracking, control and checks on production volume;
- collection.

A preliminary customer assessment phase, based on a validated scoring system, is also provided for this type of customer.

### 2.3 Methods for the measurement of expected losses

As from January 2018, the Bank has adopted the new model for the classification of financial instruments and new rules for the calculation of impairment.

Financial assets can therefore be classified into three categories, two main and one residual:

- assets measured at amortised cost (HTC);
- assets measured at fair value through other comprehensive income (FVTOCI);
- assets measured at fair value through profit and loss (FVTPL).

Classification to the first and second category is performed by assessing the Bank's business model and the characteristics of the cash flows connected to it.

The first category will therefore include assets that possess the characteristics of a loan, with cash flows relating to the repayment of the nominal amount and of interest at fixed dates connected to a business model whose purpose is to hold the instrument for the entire duration of the loan in order to collect all the cash flows.

The second category on the other hand includes the instruments whose contractual flows are characterised exclusively by the payment of capital and interest. The business model that guides the holding of these instruments is referred to as "Hold to Collect and Sell", the objective being both to collect the contractual flows and to sell the asset.

The final category includes assets that cannot be classified in the first two. All assets, therefore, with a business model other than those above, in which the cash flows are secondary while the sale of the asset is the priority.

The Bank, taking account of the products marketed and of its business model, places its portfolio in the first category, therefore classifying it as HTC.

For portfolios classified as HTC for which the SPPI test is passed, loans are initially recognised on the payout date, with reference to the fair value of the financial instrument concerned. This is represented by the amount paid out plus or minus the costs/revenues that are both directly attributable to the individual loans and identifiable at the start of the transaction, even if they are settled at a later time.

The new impairment model also requires the classification of loans into three different stages depending on the deterioration in the credit quality observed with respect to the initial recognition and which correspond to the different methods of calculation of the expected loss and interest.

- Stage 1: classified in this stage are loans defined as performing, i.e. loans that have not deteriorated since initial recognition. In this case, the expected loss for the calculation of corrections is measured over a 12-month time period (12-month PD), while interest is calculated on the gross exposure.
- Stage 2: comprises loans that have undergone a significant qualitative worsening compared to initial recognition (more than 30 days past due). For these loans, expected loss is calculated over the lifetime of the loan (lifetime PD), and interest is calculated on the basis of the gross exposure.
- Stage 3: includes impaired assets, i.e. that have objective evidence of deterioration (over 90 days past due). Included in this category are past due non-performing, unlikely to pay and doubtful. In this case a lifetime PD is calculated, while interest is calculated on the basis of the receivable net of impairment.

The tool developed for the application of the principles described was developed directly by the Spanish Parent Company for the group units. The local application of the parameters was subsequently adapted to local situations so as to correctly take into consideration the specifications of the products distributed. These adaptations were validated by the independent Validation function within the Spanish Parent Company. The forward looking components adopted are instead provided directly by the Parent Company and adopted locally.

The model applied for the calculation of the Probability of Default (PD) can be outlined with the following steps:

- Segmentation of the portfolio:
  - Retail portfolios: grouped on the basis of qualitative criteria (e.g. forbearance measures applied, cure period, etc.).
  - Wholesale portfolio: in which positions are grouped by rating.
- Definition of the Remaining Times On Book (RTOB) variable: this information/variable is used for the calculation of the Lifetime PD and for the segmentation of the portfolio. The materiality threshold is defined as 95% of the total.
- Methods applied:
  - 12-Month Probability of Default: Calculation of the probability of a loan defaulting in the next 12 months. 12-month PD is applied at Stage 1.
  - Lifetime Probability of Default: Calculation of the probability of a loan defaulting in the remaining lifetime. Lifetime PD is applied at Stage 2.
  - Non-performing: The PD applied (Stage 3) is 100%.

The PD calculation applied is based on the probability of transition between LLR classes using the Markov transition matrices method.

As regards the calculation of the Loss Given Default (LGD), the following elements are taken into consideration:

- Maximum time in default (TID): the bank assesses the maximum time horizon within which a loan is managed by collection processes and defines the maximum time in default (TID) to be considered in the calculation of the LGD on the basis of collection progress for the entire duration of the default and its asset sale policy.
- Default Type: types of default (+90DPD, write-off) and their nature (reversible/irreversible).
- The tool used by the bank also estimates three components in order to reach the final calculation:
  - Cure Rate (CR): the percentage of loans that, after a default event, return to normal;
  - Recovery Rate (RR): based on recovery from “irreversible default” but starting from the date of the first relevant default (this may be a reversible default);
  - Expected Loss Best Estimate (ELBE): estimate of a Loss for a loan classified as in default.

Based on the elements calculated, the value of the specific LGD for each portfolio category is determined:

- LGD Non-Defaulted portfolio;
- LGD Reversible Defaulted portfolio;
- LGD Irreversible Defaulted portfolio.

## 2.4 Credit risk mitigation techniques

All tools that help to reduce the loss that the bank would record as a result of the default of the counterparty in question fall within the scope of risk mitigation techniques. These include all guarantees, operational techniques and control processes developed by the bank.

In line with the credit risk management model which has, for some time, placed an emphasis on strategies, the risk mitigation techniques used in portfolio management are also closely linked to the characteristics of the products themselves and can be classified as follows on the basis of the products:

- <u>consumer credit</u>: co-obligation, guarantee, bill of exchange, mortgage, mandate to register a mortgage, insurance assignment. Note, however, that the provision covering the portfolio is extremely limited;
- <u>stock finance</u>: Diversion & Repossession Agreement, signed by the parent companies (captive agreements) and the Bank at the signing of the framework agreement;
- <u>salary assignment</u>: as collateral for the loan, specific life and unemployment insurance cover is provided, as well as, for private and parapublic companies, a restriction on the borrower’s termination indemnity.

In general, therefore, within the credit granting process the presence of mitigating factors is favoured in the presence of counterparties with a rating not in line with the policies of the bank, the choice of which varies depending on the product, the counterparty and the commitment assumed.

The internal processes, which govern the acquisition of individual guarantees, are documented and show the rules, processes and structures for their internal management.

## 3. Non-performing exposures

The positions falling under this category are those that, as a result of the occurrence of events after their disbursement, exhibit a clear loss of value.

Based on the existing regulatory framework, impaired loans are classified, according to their criticality, into three main categories:

- "doubtful loans" (i.e. exposures to borrowers in a state of insolvency or in substantially comparable situations);
- "unlikely to pay" (i.e. positions in respect of which the Bank considers it unlikely that, without recourse to measures such as the enforcement of guarantees, the debtor will comply in full - in terms of capital and/or interest - with their contractual obligations);
- "overdrawn and/or impaired past-due exposures" (i.e. exposures that are overdrawn and/or past-due by more than 90 days).

Forborne exposures on the other hand, regulated in Bank of Italy Circular No. 272, can be defined as loans for which the original contractual terms and conditions have been modified and/or partial or total refinancing of a debt in the event that the debtor faces financial difficulties that result in it being unable to meet its original contractual commitments. Such financial difficulties must be measured and evaluated by the individual bank on the basis of internal rules.

Forborne exposures may be:

- **Forborne non performing**: this category covers forborne exposures that are classified as doubtful loans, unlikely to pay or impaired past-due exposures;
- **Forborne performing**: this category covers forborne exposures that are performing.

In order to comply with regulatory requirements, the Bank has a system to support the assessment of positions which carries out an initial segmentation of the non-performing portfolio, which will then be analysed by operators at the NPL Analysis Office (within the Regulatory Reporting Unit).

The aim is that a subjective assessment will be performed on homogeneous portfolios in order to ensure reliability and consistency with regard to the assessments provided. In order to obtain an overall assessment on customers' ability to meet contractual obligations, information has been integrated on performance data from Credit Bureaux CRIF and the Bank of Italy Central Credit Bureau which includes, in addition to the information provided by the Bank, also the anomalies identified on the subject by other banks, as well as negative information (complaint files, detrimental action records). The customer, who is assigned a risk group by the decision tree, is subject to verification by the NPL Analysis Office using a process that consists of several different steps, with the aim of making it comprehensive and reliable.

The approach applied in the valuation of positions is to take into consideration all available elements, internal and external to the Bank, in order to obtain and document a summary opinion.

In parallel, and independently, the Risk Control Unit is tasked with the second-level checks aimed at regularly ascertaining compliance with, and the effectiveness of, the procedures provided internally.

In short, they mainly concern:

- the consistency of loan classification;
- the adequacy of the provisions made in this regard;
- the effectiveness of collection and of the procedures for monitoring loans.

### 3.1 Management strategies and policies

Impaired loans are monitored monthly within the framework of the Risk Target defined for the bank and approved by the Board of Directors. The main metrics used are:

- **Entity cost of credit**: Measures the creditworthiness of the portfolio and allows traceability with the strategic plan and budget, the risk policies and the contingency plan indicators. Expresses the net provisions incurred by the Sub-group in the course of the year (last 12 months) as a percentage of the average loan portfolio. The figure recorded at the end of the year was in line with to the target set by the Board of Directors;
- **Arrears 1-60 DPD (%) (Auto New – Auto Used – Direct):** Measures the creditworthiness of the portfolio and allows traceability with the strategic plan and budget, the risk policies and the contingency plan indicators. The year-end figure for the main portfolios was in line with the objectives at around the target without exceeding the alert thresholds;
- **NPL Coverage Ratio:** Measures the level of coverage of doubtful loans in terms of reserves. The target set by the Board of Directors has been widely complied with.

Upon completion of the monthly monitoring, the Bank monitors, via the second-level control functions, the progress of the strategic plan approved by the Board of Directors and of the budget (verification of balances in delinquency, NPLs, classifications to write-offs, etc.)

Strategic planning is a dynamic process, consisting of a series of procedures and activities aimed at continuously guiding the Bank's management activities towards the achievement of its objectives, through ongoing analysis of the results achieved, in view of the changing reference conditions.

The main elements related to strategic planning are:

- Estimation processes: budgeting, forecasting and three-year plan;
- Interaction with other processes.

With particular reference to estimation processes, the strategic planning process is divided into two parts:

- Of the annual budget and infra-annual plans, during which the short/medium-term objectives and expectations are developed and defined;
- Preparation of three-year plan, during which the long-term objectives are set and analysed.

The main objective of budgeting is to produce the year-end estimate for the financial year following the current one.

Budgeting is an in-depth estimation process that allows a full overview of amounts, such as the profitability of the new volumes for the year and the assets total.

It requires the involvement and coordination of managers and product business lines, the supervision of the function heads and final validation by the Chief Executive Officer and General Manager and the Management Committee. A special function is assumed by Risk Control which, by virtue of its role, produces the Bank's projection of impaired loans. This estimate is therefore the starting point for determining the provisions required and the level of coverage.

The forecasting process involves updating the budget assumptions, and aims to align the assumptions with the latest developments and consider the corrective measures against possible misalignments recognised with respect to the objectives set. These activities are usually carried out twice a year, in May/June and September/October, but can be carried out more frequently if requested by the Spanish parent company.

The three-year plan is a process of analysis and estimation of the expected results for the three years following the year in progress. These activities make it possible to:

- Have a strategic vision for assessing corporate guidelines;
- Analyse the prevailing trends and take corrective and/or improvement actions.

The process is broken down into steps similar to those carried out for the budget and the forecasts, although it may provide less certainty for years further from the observation period.

Regardless of the deadlines previously defined, a review is carried out each time that the external and/or internal conditions, which are at the basis of the strategies, change considerably, or when the differences between forecasts and actual figures are significant and may lead to alternative strategies to those in the plan.

The Write-Off policy on the other hand defines the maximum period at the end of which a loan must be reported as a loss, depending on the type of product and Group company.

The months spent in the SCB portfolio are counted from the oldest outstanding instalment open at the time of the calculation. The loan becomes a Write-off in the month following that in which the age of the unpaid amount reported in the table above is exceeded. In addition to the rule of classification by days, the Write-off policy provides specific criteria for certain cases, summarised in the following points:

I. In the case of loans subject to fraud: entry as a loss will occur in the month following identification of the fraud in the system.

II. In the case of the death of the customer: the position will be entered as a loss six months after classification of such status in the system.

III. In the case of loans subject to legal action: entry as a loss will occur in the month following receipt of unfavourable information by the competent court.

IV. In the case of loans to companies subject to bankruptcy, entry as a loss will take place nine months after classification of such status in the system.

V. In the event of disposal to third parties/ tax loss.

Controls are carried out throughout the entire process by analysts from the Risk Control Unit (in collaboration with Administration and Budget, Planning and Controls and CBU). The working group plays a fundamental role in this regard, performing monthly data reconciliation between the areas concerned. The Risk Control Unit also performs the following control procedures:

- Any coding/syntax required for manual application of any filters or calculations is saved, after being validated, in a specific document;
- For each Write-off component, there is a line item at the level of each position. The individual components are therefore reported in a standard monthly report showing the composition, clustered by category, of the income statement line in question.
- Controls (according to the number of duplicate contracts, verifies that the total sum is equal to the sum of components, etc.) of the complete list of contracts present;
- Checking of fraud list in relation to relative accounting flows.

### 3.2 Write-off

After initial recognition, loans are measured at their amortised cost, corresponding to the initial cost less/plus principal repayments, net adjustments/recoveries and amortisation - calculated using the effective interest method - of the difference between the amount paid out and the amount repayable on maturity, which is generally attributable to the costs/income directly allocated to the individual loans.

The effective interest rate is the rate that equates the present value of future cash flows of loans, for principal and interest, to the amount granted, including costs/income attributable to the loan. This accounting method, using a financial logic, allows distribution of the economic effect of costs/income over the estimated residual life of the loan.

Loans are assessed by the bank at the end of each accounting period to identify any objective evidence, arising from events subsequent to initial recognition, that their value may be impaired. Recognition and classification is performed in accordance with the new IFRS 9 impairment model.

The correction rate applied to loans depends on the classification within the various stages listed above and is estimated for homogeneous loan categories in terms of credit risk taking into account past experience, based on observable elements at the measurement date.

The financial instruments belonging to the HTC business model are entered in the financial statements net of the correction identified through the write-downs line item of the income statement. The original value is reinstated in subsequent periods, to the extent that the reasons for the adjustments made cease to apply, on condition that this assessment is objectively linked with events that took place subsequent to such adjustments. The write-back is recorded in the income statement.

In the case of financial instruments belonging to the HTC&S business model on the other hand, the reserve to cover losses is shown under other comprehensive income rather than as a reduction of the carrying amount of the financial asset in the statement of the financial position. For further details, reference is made to the reports produced by the individual Group units.

### 3.3 Purchased or originated impaired financial assets

Apart from those situations where the impairment of the loans reduces their fair value to zero, loans are only eliminated from the balance sheet if their disposal leads to the transfer of substantially all of the risks and benefits associated with them.

This situation takes place in the case of a transfer without recourse with respect to non-performing loans, the economic effects of which are recorded in item 100 (gains/losses on disposal or repurchase of loans) in the income statement.

Conversely, if the risks and benefits relating to loans that have been sold are retained, these continue to be reported as assets in the balance sheet, even if legal ownership of the loans has been effectively transferred.

Cancellation also takes place following the expiry of the contractual rights or when the loan is considered permanently unrecoverable.

The model for the calculation of risk provisions provides a measurement of the impairment for homogeneous classes of risk on the basis of predictive parameters, the quantification of which is based on observations from past experience. Calculation of the provision for loan losses is performed monthly in accordance with rules that comply with corporate policies and the regulations in force at the time.

## 4. Financial assets subject to commercial renegotiation and forborne exposures

On the basis of the regulatory framework as supplemented by the implementing provisions, in order to comply with regulatory requirements in relation to the classification of Doubtful and Unlikely to Pay loans, the Bank has set itself the objective of establishing a support system for the assessment of positions that, after an initial segmentation, allows a subjective assessment to be performed on homogeneous portfolios in order to ensure that the assessments provided over time are reliable and consistent.

As regards forborne positions, relating to exposures subject to renegotiation and/or refinancing due to manifest difficulties (actual or potential), these are not handled separately but constitute a subset that is duly identified, classified and managed in the internal processes through the information systems with which the Bank is equipped.

For these positions, the management guidelines are based on the following principles:

- comprehensive customer management;
- assessment of the actual difficulties facing the customer (temporary or structural) to ensure proper management;
- continuation of existing guarantees;
- containment of customer debt exposure.

The classification of positions according to the IFRS 9 model provides for the following classification:

- Stage 1: all positions that do not come under stage 2 or 3.
- Stage 2: all positions that meet the following requirements:
  - Transactions arising from concession agreements with loans classified as refinancing or restructuring but not classified as non-performing.
  - Transactions arising from concession agreements with loans classified as refinancing or restructuring, reclassified from non-performing stage 3 to stage 2 as “under monitoring” (or Probation Period).
- Stage 3: all positions that meet the following requirements:
  - Transactions with a loan more than 90 days past due.
  - Transactions classified as non-performing, not because of days late but classified as being in the “Cure Period”.

For reporting purposes, in addition to that indicated previously, the Bank integrates the information at its disposal with the performance data from Credit Bureaux CRIF and the Bank of Italy Central Credit Bureau which includes, in addition to the information provided by the Bank, also the anomalies identified on the subject by other banks, as well as negative information (complaint files, detrimental action records). Such integration makes it possible to obtain a reliable overall assessment of customers’ ability to meet contractual obligations.

To meet these needs the Bank has developed a segmentation model based on a decision tree, which divides the portfolio into homogeneous groups depending on whether or not they meet certain conditions defined within the tree itself.

The internal processes that govern the operation of the decision tree are documented through internal policies that describe the rules, processes and structures for their internal management.

The positions, which are assigned a risk group by the decision tree, are subject to verification by dedicated internal analysts using a process that consists of several different steps, with the aim of making it comprehensive and reliable.

The approach applied in the valuation of positions is to take into consideration all available elements, internal and external to the Bank, in order to obtain and document a summary opinion. For this purpose, in the analysis notes entered in the system, a record is provided of the references used, the valuations made, and the opinion issued, such as to enable the reconstruction, including retrospectively, of the activity performed.

This valuation is carried out both on the occasion of their classification, and on the occurrence of significant events, and is in any case subject to periodical review. Considering then that the assessment activities carried out by analysts do not vary with the change in the overall exposure pertaining to each individual subject subjected to analysis, the Bank has identified specific corporate bodies responsible for approving the relative decisions.

The restoration of impaired exposures to performing status follows the guidelines of the Supervisory Board and takes place after verification that the circumstances that resulted in the impairment no longer exist. Through the Risk Control Unit, the CRO's (Chief Risk Officer) area of governance carries out second-level control activities aimed at verifying the correct classification of positions and the possible creation/adjustment of provisioning.

## Quantitative information

## A. Credit quality

### A.1 Impaired and unimpaired loans: amounts, adjustments, trends and economic distribution

#### A.1.1 Distribution of financial assets by portfolio and credit quality (book values)

| Portfolios/quality | | Non-performing loans | Unlikely to pay | Non-performing past due exposures | Performing past due exposures | Performing exposures | Total |
|---|---|---|---|---|---|---|---|
| 1. Financial assets at amortised cost | | 8,583 | 19,310 | 28,648 | 76,020 | 5,982,519 | 6,115,079 |
| 2. Financial assets at fair value through other comprehensive income | | | | | | | |
| 3. Financial assets designated to fair value | | | | | | | |
| 4. Other financial assets mandatorily at fair value | | | | | | | |
| 5. Financial assets as held for sale | | | | | | | |
| **Total** | **12/31/2018** | **8,583** | **19,310** | **28,648** | **76,020** | **5,982,519** | **6,115,079** |

The only portfolio that has impaired assets consists of loans to customers. The amount of doubtful, unlikely-to-pay and past due loans corresponds to what was communicated to the Bank of Italy in the ordinary supervisory reports.

For details on the credit quality relating to the exposures subject to forbearance included in the portfolio of financial assets measured at amortised cost, see table A.1.7. below.

#### A.1.2 Distribution of financial assets by portfolio and credit quality (gross and net values)

| Portfolio/quality | | Impaired | | | | Not impaired | | | Total (net exposition) |
|---|---|---|---|---|---|---|---|---|---|
| | | Gross exposure | Overall writedowns of value | Net exposure | Overall partial write-off* | Gross exposure | Overall writedowns of value | Net exposure | |
| 1.Financial assets at amortised cost | | 260,996 | (204,455) | 56,541 | | 6,125,859 | (67,321) | 6,058,539 | 6,115,079 |
| 2. Financial assets at fair value through other comprehensive income | | | | | | | | | |
| 3. Financial assets designated to fair value | | | | | | X | X | | |
| 4. Other financial assets mandatorily at fair value | | | | | | X | X | | |
| 5. Financial assets as held for sale | | | | | | | | | |
| **Total** | **12/31/2018** | **260,996** | **(204,455)** | **56,541** | | **6,125,859** | **(67,321)** | **6,058,539** | **6,115,079** |

| Portfolio/quality | | Low credit quality assets | | Other assets |
|---|---|---|---|---|
| | | Cumulated losses | Net exposure | Net exposure |
| 1. Financial assets held for trading | | | | 1,828 |
| 2. Hedging Derivatives | | | | |
| **Total** | **12/31/2018** | | | **1,828** |

## A.1.3 Distribution of financial assets by past due time bands (book values)

| Portfolios/Stage | | First step | | | Second step | | | Third step | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | From 1 day to 30 days | Over 30 days until 90 days | Over 90 days | From 1 day to 30 days | Over 30 days until 90 days | Over 90 days | From 1 day to 30 days | Over 30 days until 90 days | Over 90 days |
| 1. Financial assets valued at amortised cost | | 5,297 | 46,437 | 2,346 | 788 | 20,130 | 1,023 | 302 | 26,156 | 23,142 |
| 2. Financial assets valued at fair value with impact on overall profitability | | | | | | | | | | |
| **Total** | **12/31/2018** | **5,297** | **46,437** | **2,346** | **788** | **20,130** | **1,023** | **302** | **26,156** | **23,142** |

## A.1.4 Financial assets, commitments to disburse funds and guarantees given: dynamics of total writedowns and total provisions

| Causal / risk stages | OVERALL WRITE-DOWNS | | | | | | | | | | | | | Total provisions on commitments and financial guarantees given | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | First stage activities | | | | Second stage activities | | | | Activities included in the third stage | | | | | | | | |
| | Financial assets measured at amortised cost | Financial assets measured at fair value with an impact on total profitability | of which: of which: individual impairment | of which: collective writedowns | Financial assets measured at amortised cost | Financial assets measured at fair value with an impact on total profitability | of which: of which: individual impairment | of which: collective writedowns | Financial assets measured at amortised cost | Financial assets measured at fair value with an impact on total profitability | of which: of which: individual impairment | of which: collective writedowns | Of which: acquired or originated impaired financial assets | First stage | Second stage | Third stage | Totale |
| **Opening balance** | **38,084** | | | **38,084** | **29,702** | | | **29,702** | **176,009** | | | **176,009** | **2,813** | **39** | | | **243,834** |
| Increases in acquired or originated financial assets | 24,062 | | | 24,062 | 2,232 | | | 2,232 | 5,008 | | | 5,008 | 127 | | 5 | | **31,307** |
| Reversals different from writeoffs | (7,590) | | | (7,590) | (2,196) | | | (2,196) | (6,530) | | | (6,530) | | | | | **(16,317)** |
| Net losses/recoveries on credit impairment | (142) | | | (142) | (16,642) | | | (16,642) | 36,362 | | | 36,362 | (218) | (20) | | | **19,558** |
| Contractual changes without cancellation | | | | | | | | | | | | | | | | | |
| Changes in estimation methodology | | | | | | | | | | | | | | | | | |
| Write-off | (15) | | | (15) | (163) | | | (163) | (6,279) | | | (6,279) | | | | | **(6,457)** |
| Other adjustments | (1) | | | (1) | (11) | | | (11) | (114) | | | (114) | | | | | **(126)** |
| **Closing balance** | **54,399** | | | **54,399** | **12,922** | | | **12,922** | **204,455** | | | **204,455** | **2,722** | **19** | **5** | | **271,800** |
| Recoveries from financial assets subject to write-off | | | | | | | | | | | | | | | | | |
| Write-off are not recognised directly in profit or loss | (174) | | | (174) | (35) | | | (35) | (322) | | | (322) | | | | | **(532)** |

Value adjustments on loans relating to receivables arising from finance leases amounted, at year end, to Euro 5,410 thousand and showed a net increase of Euro 203 thousand (the main changes of which are due to *Increases from purchased or originated financial assets* for Euro 545 thousand and *Reversals different from write-offs* for Euro -377 thousand).

In 2018, the provisions for the impairment of receivables increased by the amount of the adjustments as set forth in the table above. It should be noted that the adjustment trend, in addition to providing provisions on the basis of the performance of the portfolios observed in the period, was positively influenced by the update of parameters (PD and LGD) that took place in the course of the year.

For more information on the composition of the portfolio subject to impairment and on the determination of value adjustments, reference is made to the information provided in the descriptive part of Part E of the Financial Statements.

## A.1.5 Financial assets, commitments to disburse funds and financial guarantees given: transfers between the various stages of credit risk (gross and nominal values)

| Portfolios/Stage | Gross exposure / Par value | | | | | |
|---|---|---|---|---|---|---|
| | Transfers between first stage and second stage | | Transfers between second stage to thirth stage | | Transfer between first stage and thirth stage | |
| | To Stage 2 from Stage 1 | To Stage 1 from Stage 2 | To Stage 3 from Stage 2 | To Stage 2 from Stage 3 | To Stage 3 from Stage 1 | To Stage 1 from Stage 3 |
| 1. Financial assets at amortised cost | 67,733 | 48,672 | 29,501 | 10,888 | 42,515 | 6,011 |
| 2. Financial assets at fair value through other comprehensive income | | | | | | |
| 3. Commitments and financial guarantees given | | | | | | |
| **Total 12/31/2018** | **67,733** | **48,672** | **29,501** | **10,888** | **42,515** | **6,011** |

## A.1.6 On- and off-balance sheet exposures to banks: gross and net values

| Type of exposure/amounts | Gross exposures | | Overall Write-Downs and provisions | Net Exposure | Total Write-off* |
|---|---|---|---|---|---|
| | Non-performing | Performing | | | |
| **A. Cash credit exposures** | | | | | |
| a) Non performing loans | | X | | | |
| - of wich: forborne exposures | | X | | | |
| b) Unlikely to pay | | X | | | |
| - of wich: forborne exposures | | X | | | |
| c) Non-performing past due | | X | | | |
| - of wich: forborne exposures | | X | | | |
| d) Performing past due | X | 43 | | 43 | |
| - of wich: forborne exposures | X | | | | |
| e) Other performing exposures | X | 45,649 | | 45,649 | |
| - of wich: forborne exposures | X | | | | |
| **Total (A)** | | **45,692** | | **45,692** | |
| **B. Non-balance sheet credit exposures** | | | | | |
| a) Non-performing | | X | | | |
| b) Performing | X | 319 | | 319 | |
| **Total (B)** | | **319** | | **319** | |
| **Total (A+B)** | | **46,011** | | **46,011** | |

## A.1.7 On- and off-balance sheet exposures to customers: gross and net values

| Type of exposure/Amounts | Gross exposures | | Total value adjustments and total provisions | Net exposure | Total Write-off |
|---|---|---|---|---|---|
| | Non-performing | Performing | | | |
| **A. Credit exposures for cash** | | | | | |
| a) Non performing loans | 128,873 | X | (120,291) | 8,583 | |
| - of which: forborne exposures | 24,314 | X | (23,542) | 772 | |
| b) Unlikely to pay | 79,312 | X | (60,002) | 19,310 | |
| - of which: forborne exposures | 35,700 | X | (27,246) | 8,453 | |
| c) Non-performing past due | 52,810 | X | (24,163) | 28,648 | |
| - of which: forborne exposures | | X | | | |
| d) Performing past due | X | 91,100 | (15,124) | 75,976 | |
| - of which: forborne exposures | X | 5,706 | (1,108) | 4,598 | |
| e) Other performing exposures | X | 5,989,067 | (52,197) | 5,936,870 | |
| - of which: forborne exposures | X | 20,827 | (3,759) | 17,067 | |
| **Total (A)** | **260,996** | **6,080,167** | **(271,776)** | **6,069,387** | |
| **B. Non-balance sheet credits exposures** | | | | | |
| a) Non-performing | 1,133 | X | | 1,133 | |
| b) Performing | X | 399,066 | (24) | 399,043 | |
| **Total (B)** | **1,133** | **399,066** | **(24)** | **400,175** | |
| **TOTAL A+B** | **262,129** | **6,479,234** | **(271,800)** | **6,469,562** | |

This table gives details of impaired and performing loans to customers, gross and net of specific and portfolio adjustments.

Impaired financial assets were originated internally and do not derive from acquisitions through business combinations or other acquisitions.

The item “Off-balance sheet credit exposures” includes the amount of the irrevocable commitments relating to factoring transactions and the margins available on credit lines granted to customers.

## A.1.8 Cash credit exposures to banks: dynamics of gross non-performing loans

The Bank does not have any exposures to banks that are subject to impairment.

## A.1.8bis Cash credit exposures to banks: dynamics of gross forborne exposures by credit quality

The Bank does not have any forborne exposures to banks.

## A.1.9 Cash credit exposures to customers: dynamics of gross non-performing loans

| Description/Category | Non-performing loans | Unlikely to pay | Non-Performing Past due |
|---|---|---|---|
| **A. Opening balance (gross amount)** | **80,980** | **83,422** | **69,505** |
| - of which sold non-cancelled exposures | | | |
| **B. Increases** | **53,497** | **47,189** | **56,869** |
| B.1 transfers from performing loans | 9,826 | 30,416 | 49,981 |
| B.2 transfer from acquired or originated impaired financial assets | 377 | 345 | 9 |
| B.3 transfer from other non-performing exposures | 42,603 | 13,627 | 3,994 |
| B.4 contractual changes with no cancellations | | | |
| B.5 other increases | 691 | 2,800 | 2,885 |
| **C. Decreases** | **5,603** | **51,299** | **73,564** |
| C.1 transfers to perfomorming loans | 85 | 9,357 | 7,452 |
| C.2 write-offs | 1,426 | 4,168 | 1,005 |
| C.3 collections | 2,822 | 12,989 | 11,558 |
| C.4 sales proceeds | | 2 | 9 |
| C.5 losses on disposals | 1 | 22 | 134 |
| C.6 transfers to other non-performing exposures | 391 | 19,853 | 40,037 |
| C.7 contractual changes without cancellations | | | |
| C.8 other decreases | 878 | 4,907 | 13,369 |
| **D. Closing balance (gross amounts)** | **128,873** | **79,312** | **52,810** |
| - of which sold non-cancelled exposures | 18,243 | 10,853 | 21,102 |

## A.1.9bis Cash credit exposures to customers: dynamics of gross forborne exposures by credit quality

| Description/Category | Forborne exposures impaired | Forborne exposures not impaired |
|---|---|---|
| **A. Opening balance (gross amount)** | **49,492** | **33,159** |
| - of which sold non-cancelled exposures | | |
| **B. Increases** | **28,485** | **19,980** |
| B.1 Transfers from performing non-forborne exposures | 5,318 | 9,690 |
| B.2. Transfers from performing forborne exposures | 5,581 | X |
| B.3. transfers from non-performing forborne exposures | X | 7,303 |
| B.4 other increases | 17,586 | 2,987 |
| **C. Decreases** | **17,964** | **26,606** |
| C.1 Transfers to performing non-forborne exposures | X | 10,033 |
| C.2 Transfers to performing forborne exposures | 8,396 | X |
| C.3 transfers to non-performing forborne exposures | X | 5,861 |
| C.4 write-offs | 642 | 30 |
| C.5 recoveries | 8,686 | 10,371 |
| C.6 sales proceeds | | |
| C.7 losses on disposals | | |
| C.8 other decreases | 240 | 311 |
| **D. Closing balance (gross amounts)** | **60,013** | **26,533** |
| - of which sold non-cancelled exposures | 4,949 | 1,242 |

## A.1.10 Cash non-performing credit exposures to banks: dynamics of total writedowns

Exposures to banks are not subject to writedowns.

## A.1.11 Cash non-performing credit exposures to customers: dynamics of total writedowns

| Description/Category | Non-performing loans | | Unlikely to pay | | Non-Performing Past due | |
|---|---|---|---|---|---|---|
| | Total | Of wich: forborne exposures | Total | Of wich: forborne exposures | Total | Of wich: forborne exposures |
| **A. Opening balance** | **78,004** | **14,932** | **61,059** | **24,813** | **36,946** | **1,453** |
| - of which sold non-cancelled exposures | | | | | | |
| **B. Increases** | **45,918** | **10,889** | **33,500** | **14,078** | **22,162** | |
| B.1 write-downs of acquired or originated impaired | | X | | X | | X |
| B. 2 other write-downs | 14,140 | 7,148 | 24,809 | 13,156 | 18,828 | |
| B.3 losses on disposal | | | 6 | | 37 | |
| B.4 transfer from other impaired exposure | 31,778 | 3,741 | 8,685 | 923 | 3,297 | |
| B. 5 contractual changes with nop cancellations | | X | | X | | X |
| B.6 other increases | | | | | | |
| **C. Reductions** | **3,631** | **2,279** | **34,556** | **11,645** | **34,945** | **1,454** |
| C.1 write-backs from assessments | 775 | 1,430 | 10,739 | 7,278 | 2,626 | 189 |
| C.2 write-backs from recoveries | 602 | 278 | 996 | 475 | 345 | 31 |
| C.3 gains from disposal | | | | | | |
| C.4 write-offs | 1,428 | 223 | 4,164 | 331 | 1,011 | 88 |
| C.5 transfers to other impaired exposures | 222 | 198 | 16,382 | 3,337 | 27,155 | 1,129 |
| C. 6 contractual changes with no cancellations | | X | | X | | X |
| C.7 other decreases | 604 | 151 | 2,276 | 224 | 3,808 | 17 |
| **D. Closing overall amount of writedowns** | **120,291** | **23,542** | **60,002** | **27,246** | **24,163** | |
| - of which sold non-cancelled | 16,971 | 2,183 | 7,034 | 2,431 | 6,114 | |

The total initial adjustments are inclusive of the effect of the first time adoption of IFRS 9, in line with the information provided in the other tables of the Notes that show the dynamics of the value adjustments, as requested by regulatory instructions.

## A.2 Classification of exposures based on external and internal ratings

### A.2.1 Distribution of financial assets, commitments to disburse funds and financial guarantees given by external rating class (gross values)

| Exposures | External rating classes | | | | | | Without rating | Total |
|---|---|---|---|---|---|---|---|---|
| | class 1 | class 2 | class 3 | class 4 | class 5 | class 6 | | |
| **A. Financial assets valued at amortised cost** | | | | | | | **6,386,855** | **6,386,855** |
| - Stage 1 | | | | | | | 6,011,708 | 6,011,708 |
| - Stage 2 | | | | | | | 114,151 | 114,151 |
| - Stage 3 | | | | | | | 260,996 | 260,996 |
| **B. Financial assets at fair value through other comprehensive income** | | | | | | | | |
| - Stage 1 | | | | | | | | |
| - Stage 2 | | | | | | | | |
| - Stage 3 | | | | | | | | |
| **Total (A+B)** | | | | | | | **6,386,855** | **6,386,855** |
| of which: acquired or originated impaired financial assets | | | | | | | | |
| **C. Commitments and financial guarantees given** | | | | | | | | |
| - Stage 1 | | | | | | | 347,607 | 347,607 |
| - Stage 2 | | | | | | | 51,778 | 51,778 |
| - Stage 3 | | | | | | | 1,133 | 1,133 |
| **Total (C)** | | | | | | | **400,518** | **400,518** |
| **Total (A+B+C)** | | | | | | | **6,787,374** | **6,787,374** |

### A.2.2 Distribution of financial assets, commitments to disburse funds and financial guarantees given by internal rating class (gross values)

This table has not been prepared because the internal ratings are not currently used in the calculation of capital requirements for the management of credit risk.

## A.3 Distribution of guaranteed credit exposures by type of guarantee

### A.3.1 On- and off-balance sheet guaranteed exposures to banks

The Bank has no guaranteed credit exposures to banks.

## A.3.2 On- and off-balance sheet guaranteed exposures to customers

| | Gross exposure | Net exposures | Collaterals (1): Property, Mortgages | Collaterals (1): Financial leasing property | Collaterals (1): Securities | Collaterals (1): Other secured guarantees | Guarantees (2): Credit derivates: CLN | Guarantees (2): Credit derivates: Other derivates: Central counterparties | Guarantees (2): Credit derivates: Other derivates: Banks | Guarantees (2): Credit derivates: Other derivates: Other financial companies | Guarantees (2): Credit derivates: Other derivates: Other entities | Guarantees (2): Signature loans: Governments and other public sector entities | Guarantees (2): Signature loans: Banks | Guarantees (2): Signature loans: Other financial corporations | Guarantees (2): Signature loans: Other parties | Total (1)+(2) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **1. Guaranteed cash loans:** | **102,071** | **95,970** | | | | **1,886** | | | | | | | **7,146** | | **53,583** | **62,615** |
| 1.1 totally secured | 56,827 | 50,876 | | | | | | | | | | | 1,953 | | 48,923 | 50,876 |
| - of which: non-performing | 5,363 | 618 | | | | | | | | | | | | | 618 | 618 |
| 1.2 partially secured | 45,244 | 45,094 | | | | 1,886 | | | | | | | 5,194 | | 4,660 | 11,739 |
| - of which: non-performing | 130 | 75 | | | | | | | | | | | | | 68 | 68 |
| **2. Off-balance-sheet credit exposures guaranteed:** | | | | | | | | | | | | | | | | |
| 2.1 totally secured | | | | | | | | | | | | | | | | |
| - of which: non-performing | | | | | | | | | | | | | | | | |
| 2.2. partially guaranteed | | | | | | | | | | | | | | | | |
| - of which: non-performing | | | | | | | | | | | | | | | | |

## A.4 Financial and non-financial assets obtained through the realisation of guarantees received

The Bank does not have any financial assets obtained through the realisation of guarantees.

## B. Distribution and concentration of credit exposures

### B.1 Distribution by sector of on- and off-balance sheet exposures to customers

| Exposures/Counterparts | Governments and other public sector entities | | Financial companies | | Financial companies(of which: insurance companies) | | Non-financial companies | | Households | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Net exposure | Total write-downs | Net exposure | Total write-downs | Net exposure | Total write-downs | Net exposure | Total write-downs | Net exposure | Total write-downs |
| **A. Balance sheet credit exposures** | | | | | | | | | | |
| A.1 Non-performing loans | | | 3 | 73 | | | 854 | 22,295 | 7,726 | 97,923 |
| - of wich: forborne exposures | | | 3 | 14 | | | 15 | 572 | 754 | 22,955 |
| A.2 Unlikely to pay | 445 | 2,522 | 9 | 35 | | | 926 | 4,945 | 17,930 | 52,501 |
| - of wich: forborne exposures | | | | | | | 97 | 263 | 8,356 | 26,983 |
| A.3 Non-performing past-due | | | | | | | 957 | 1,544 | 27,691 | 22,619 |
| - of wich: forborne exposures | | | | | | | | | | |
| A.4 Performing exposures | 364,187 | 17 | 241,024 | 10 | 30 | | 703,798 | 3,182 | 4,703,838 | 64,112 |
| - of wich: forborne exposures | | | 6 | | | | 218 | 38 | 21,442 | 4,829 |
| **Total (A)** | **364,633** | **2,538** | **241,035** | **118** | **31** | | **706,535** | **31,965** | **4,757,185** | **237,155** |
| **B. Off-balance sheet credit exposures** | | | | | | | | | | |
| B.1 Non-performing exposures | | | | | | | 1,133 | | | |
| B.2 Performing exposures | | | | | | | 394,360 | 24 | 4,683 | |
| **Total (B)** | | | | | | | **395,492** | **24** | **4,683** | |
| **Total (A+B) 12/31/2018** | **364,633** | **2,538** | **241,035** | **118** | **31** | | **1,102,027** | **31,989** | **4,761,867** | **237,155** |

The above table shows the cash positions with customers by sector. It shows the distinct prevalence of exposures to retail customers.

## B.2 Territorial distribution of on- and off-balance sheet exposures to customers

| Exposures / Geographic area | | North West Italy | | North East Italy | | Italian Centre | | South Italy and Islands | |
|---|---|---|---|---|---|---|---|---|---|
| | | Net exposure | Total write-downs | Net exposure | Total write-downs | Net exposure | Total write-downs | Net exposure | Total write-downs |
| **A. Balance sheet credit exposures** | | | | | | | | | |
| A.1 Non-performing loans | | 1,104 | 18,566 | 606 | 8,033 | 1,387 | 22,529 | 5,486 | 71,161 |
| A.2 Unlikely to pay | | 3,437 | 9,931 | 1,239 | 4,518 | 4,142 | 11,851 | 10,493 | 33,701 |
| A.3 Non-performing past-due | | 4,980 | 4,951 | 2,363 | 2,286 | 5,594 | 4,556 | 15,710 | 12,370 |
| A.4 Performing exposures | | 1,829,735 | 15,306 | 817,844 | 9,731 | 1,468,329 | 12,765 | 1,896,919 | 29,518 |
| **Total A** | | **1,839,256** | **48,755** | **822,052** | **24,568** | **1,479,452** | **51,702** | **1,928,607** | **146,750** |
| **B. Off-balance sheet credit exposures** | | | | | | | | | |
| B.1 Non-performing exposures | | | | | | | | 1,133 | |
| B.2 Performing exposures | | 279,575 | 6 | 40,504 | 5 | 47,987 | 7 | 30,976 | 5 |
| **Total B** | | **279,575** | **6** | **40,504** | **5** | **47,987** | **7** | **32,109** | **5** |
| **TOTAL (A+B)** | **12/31/2018** | **2,118,831** | **48,762** | **862,557** | **24,574** | **1,527,439** | **51,708** | **1,960,716** | **146,755** |

The Bank has exposures almost exclusively to Italian customers; the geographical breakdown used in the table is taken from the instructions issued by the Bank of Italy and is consistent with the allocation used for regulatory reporting.

## B.3 Territorial distribution of on- and off-balance sheet exposures to banks

| Exposures / Geographical Area | | Italy | | Other European countries | | America | | Asia | | Rest of the world | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Net exposures | Total write-downs | Net exposures | Total write-downs | Net exposures | Total write-downs | Net exposures | Total write-downs | Net exposures | Total write-downs |
| **A. Balance sheet credit exposures** | | | | | | | | | | | |
| A.1 Non-performing loans | | | | | | | | | | | |
| A.2 Unlikely to pay | | | | | | | | | | | |
| A.3 Non-performing past-due | | | | | | | | | | | |
| A.4 Performing exposures | | 43,142 | | 2,550 | | | | | | | |
| **Totale (A)** | | **43,142** | | **2,550** | | | | | | | |
| **B. Off-balance sheet credit exposures** | | | | | | | | | | | |
| B.1 Non-performing exposures | | | | | | | | | | | |
| B.2 Performing exposures | | | | 319 | | | | | | | |
| **Totale (B)** | | | | **319** | | | | | | | |
| **TOTAL A+B** | **12/31/2018** | **43,142** | | **2,869** | | | | | | | |

This table contains, for cash exposures to residents, the positive balance of current accounts with banks, while for exposures to foreigners, the balance is made up of balances due from the Spanish Parent Company Banco Santander.

## B.4 Large exposures

| | 31/12/2018 |
|---|---|
| Number | 5 |
| Weighted value | 405,100 |
| Book value | 1,489,595 |

At the balance sheet date there were five counterparties that could be classified as large exposures, relating to the exposures to the Ministry of Economy and Finance (MEF), Banco Santander S.A., Hyundai Motor Company Italy S.r.l, Mazda Motor Italia S.r.l. and Unicredit.

## C. Securitisations

## Qualitative information

### Strategy and characteristics of securitisation transactions

Santander Consumer Bank uses securitisation transactions in order to broaden the diversification of funds collected by optimising its cost.

Securitisation is a financial structure with which a special purpose entity (SPE) purchases portfolios of loans financed through the issue of different classes of Asset Backed Securities (ABS), the repayment of which is guaranteed by the collection flows of the securitised loans. Class A securities are the first to be repaid. They are the least risky, have a higher rating and pay a lower rate of interest (Coupon).

Santander Consumer Bank (SCB) uses securitisations as a regular financing instrument via the vehicle **Golden Bar (Securitisation) S.r.l**.

SCB assumes the role of Originator, Seller and Servicer

These transactions may have a revolving structure, if the possibility of transferring additional portfolios is provided for, or an amortising structure, if this option has not been contractually provided for.

The collections deriving from the securitised loans are used to finance the purchase of additional loans during the revolving period or to repay the securities in the amortising period.

The senior classes usually have a dual rating in order to be eligible for refinancing transactions at the Central Bank, such as for example targeted long-term refinancing operations (TLTROs).

### Securitisations

In addition to the targeted self-securitisations in previous years, in 2018 the Company finalised a new securitisation transaction, GB 2018-1.

The transaction in question, with a value of Euro 478.5 million and legal maturity in 2037, was concluded through the sale at par value of a portfolio of performing loans, made up of car loans and personal loans, to the special purpose entity Golden Bar (Securitisation) S.r.l.

The purchase of loans by the special purpose entity was financed through the issuance of two classes of securities, Senior Class A securities in the amount of Euro 395.7 million, listed on the Luxembourg Stock Exchange and subscribed for Euro 330 million by Banco Santander (for the remainder by SCB), and Junior securities in the amount of Euro 82.8 million, without rating and wholly subscribed by the originator.

The interest rate of the Senior securities was fixed at a level equal to the Euribor 3 month plus a spread of 22 bps (with a zero-coupon floor), while that of the Junior securities was fixed at a level equal to 1.5% plus excess spread.

Within the scope of the same transaction, the special purpose entity also concluded an Interest Rate Swap to hedge the interest rate risk of the Senior class.

The GB 2018-1 securitisation, which has a revolving structure up to 2 years, has received the PCS label and the Class A has obtained eligibility with the ECB.

| | Class A | Class B |
|---|---|---|
| Issuer | Golden Bar (Securitisation) S.r.l | |
| ISIN | IT0005330748 | IT0005330755 |
| Amount (K€) | 395.700 | 82.750 |
| Tranching | 82,7% | 17,3% |
| Rating | AA | NR |
| WAL | 3Yrs | N/A |
| Coupon (floor 0%) | EUR3M + 22 bps | 1,5% |
| Price | 100 | |
| Listing | Luxembourg Stock Exchange | |
| Law | Italian and English | |

The table below shows the main information relating to GB 2018-1.

| | Assets held by the SPE | Senior and Mezzanine Securities subscribed | Junior Securities subscribed | Cash Reserve | Assets held by the Group | Type of collateral | Distribution of collateral by geographical area | Average maturity of the collateral | Rating of the collateral |
|---|---|---|---|---|---|---|---|---|---|
| Golden Bar VFN 2018-1 | 464,847 | 395,700 | 82,750 | 3,957 | 5,714,813 | n.a. | n.a. | n.a. | n.a. |

| Breakdown of the excess spread accrued during the year | 31/12/2018<br>Golden Bar VFN 2018-1 |
|---|---|
| Interest expense on securities issued | (10.934) |
| Commissions and fees for the operation | (461) |
| - for servicing | (445) |
| - for other services | (16) |
| Other charges | (1.145) |
| Interest generated by the securitised assets | 19.275 |
| Other revenues | 1.509 |
| **TOTAL** | **8.244** |

## Quantitative information

### C.1 Exposures arising from the main “own” securitisation transactions broken down by type of securitised asset and by type of exposure

| Type of securitized assets / Exposures | Cash exposure | | | | | | Guarantees given | | | | | | Credit lines | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Senior | | Mezzanine | | Junior | | Senior | | Mezzanine | | Junior | | Senior | | Mezzanine | | Junior | |
| | Book value | Adjustments/Recoveries | Book value | Adjustments/Recoveries | Book value | Adjustments/Recoveries | Book value | Adjustments/Recoveries | Book value | Adjustments/Recoveries | Book value | Adjustments/Recoveries | Book value | Adjustments/Recoveries | Book value | Adjustments/Recoveries | Book value | Adjustments/Recoveries |
| **A. Derecognised in full** | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **B. Derecognised in part** | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **C. Not derecognised** | **57,687** | **233** | - | - | **72,658** | **293** | - | - | - | - | - | - | - | - | - | - | - | - |
| *Golden Bar VFN 2018-1* | *57,687* | *233* | | | *72,658* | *293* | | | | | | | | | | | | |

### C.2 Exposures arising from the main “third-party” securitisation transactions broken down by type of securitised asset and by type of exposure

The Bank does not have any “third-party” securitisation transactions.

### C.3 Special purpose entities (SPE) created for securitisation

| Securitization name - Company name | Registered Office | Consolidation | Assets | | | Liabilities | | |
|---|---|---|---|---|---|---|---|---|
| | | | Credits | Debt securities | Others | Senior | Mezzanine | Junior |
| Golden Bar VNF 2018-1 | Torino (TO) | NO | 464,847 | | 22,515 | 395,700 | | 82,750 |

### C.4 Non-consolidated special purpose entities (SPE) created for securitisation

The Bank has no non-consolidated special purpose entities.

### C.5. Servicer activities – own securitisations: collections of securitised loans and repayments of securities issued by the special purpose entity for securitisation

The Bank does not carry out Servicer activities on securitisation transactions relating to the divested business removed from the financial statements.

## D. Information on unconsolidated structured entities (other than special purpose entities created for securitisations)

The Bank does not have any positions with unconsolidated structured entities.

## E. Disposal transactions

## A. Financial assets sold but not derecognised

### Qualitative information

In addition to what has already been shown in Point C "Securitisation Transactions", to which reference is made, SCB finalised a repurchase transaction with an institutional investor, with quarterly duration, for an amount that at year-end was estimated at Euro 109 million.

The purpose of the transaction is to optimise the management of collateral.

### Quantitative information

E.1 Financial assets sold and fully recognised and associated financial liabilities: book values

| | Financial assets sold | | | | Associated financial liabilities | | |
|---|---|---|---|---|---|---|---|
| | Book value | of which: subject to securitization transactions | of which: subject to sale contracts with repurchase agreement | of which Non-performing | Book value | of which: subject to securitization transactions | of which: subject to sale contracts with repurchase agreement |
| **A. Financial assets held for trading** | | | | **X** | | | |
| 1. Debt securities | | | | X | | | |
| 2. Equities instruments | | | | X | | | |
| 3. Loans | | | | X | | | |
| 4. Derivatives | | | | X | | | |
| **B. Other financial assets mandatorily at fair value** | | | | | | | |
| 1. Debt securities | | | | | | | |
| 2. Equities instruments | | | | X | | | |
| 3. Loans | | | | | | | |
| **C. Financial assets designated at fair value** | | | | | | | |
| 1. Debt securities | | | | | | | |
| 2. Loans | | | | | | | |
| **D. Financial assets at fair value through other comprehensive income** | | | | | | | |
| 1. Debt securities | | | | | | | |
| 2. Equities instruments | | | | X | | | |
| 3. Loans | | | | | | | |
| **E. Financial assets at amortised cost** | **575,077** | **460,346** | **114,731** | **1,329** | **439,060** | **330,000** | **109,060** |
| 1. Debt securities | | | | | | | |
| 2. Loans | 575,077 | 460,346 | 114,731 | 1,329 | 439,060 | 330,000 | 109,060 |
| **Total 12/31/2018** | **575,077** | **460,346** | **114,731** | **1,329** | **439,060** | **330,000** | **109,060** |

## E.2 Financial assets sold partially recognised and associated financial liabilities: book values

The Bank does not hold any financial assets sold partially recognised.

## E.3 Transfers with liabilities that have recourse only against the assets sold and not fully derecognised: fair value

| | Fully booked | Partially booked | Total | |
|---|---|---|---|---|
| | | | 12/31/2018 | 12/31/2017 |
| **A. Financial assets held for trading** | | | | |
| 1. Debt securities | | | | |
| 2. Equities | | | | |
| 3. Loans | | | | |
| 4. Derivatives | | | | |
| **B. Other financial assets that are duly measured at fair value** | | | | |
| 1. Debt securities | | | | |
| 2. Equities | | | | |
| 3. Loans | | | | |
| **C. Financial assets designated at fair value** | | | | |
| 1. Debt securities | | | | |
| 2. Loans | | | | |
| **D. Financial assets measured at fair value with an impact on overall profitability** | | | | |
| 1. Debt securities | | | | |
| 2. Equities | | | | |
| 3. Loans | | | | |
| **E. Financial assets measured at amortized cost (fair value)** | **568,932** | | **568,932** | |
| 1. Debt securities | | | | |
| 2. Loans | 568,932 | | 568,932 | |
| **Total financial assets** | **568,932** | | **568,932** | |
| **Total associated financial liabilities** | **439,060** | | **X** | **X** |
| **Net 12/31/2018** | **129,872** | | **129,872** | **X** |
| **Net 12/31/2017** | | | **X** | |

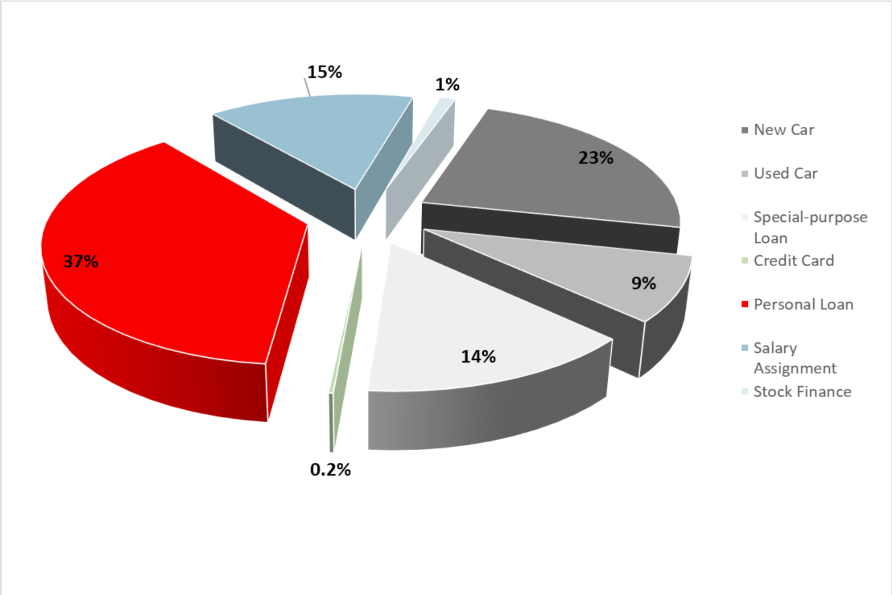
## B. Financial assets sold and fully derecognised with recognition of continued involvement

This section is not applicable to sales made by the Bank in the course of the year.

## F. Models for the measurement of credit risk

The balance at risk by product of the “dossiers in delinquency” (i.e. that have amounts past due by more than ninety days) is monitored on a monthly basis. The following chart summarises the breakdown of the variable just described at December 2018.

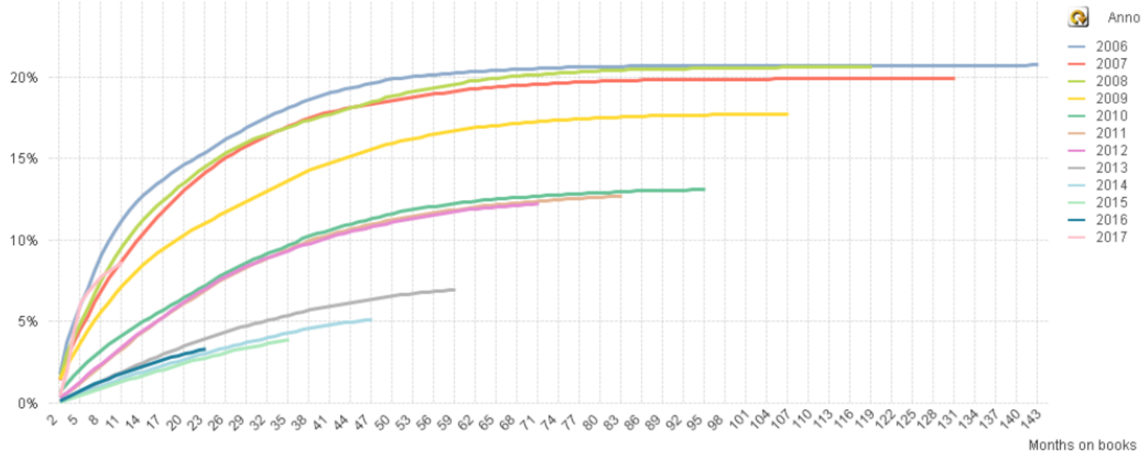
### NPL (SCB)



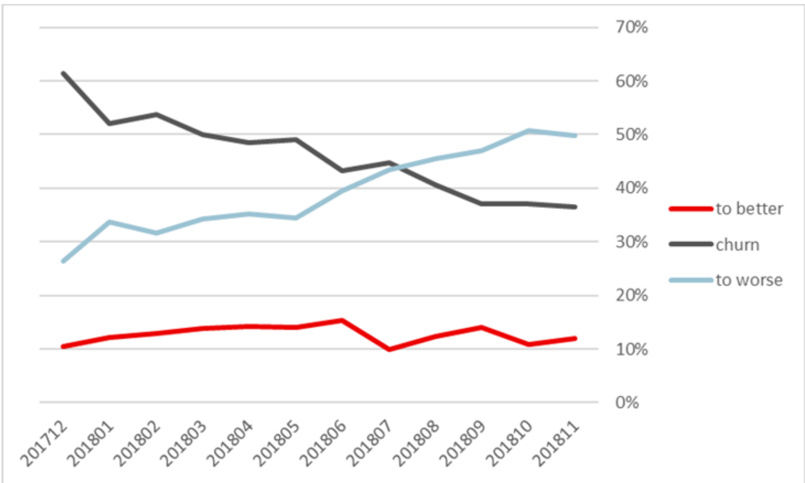

The stress tests carried out for ICAAP purposes, calculated on the basis of the PD and LGD parameters, both in the baseline and stress scenario, confirmed the soundness of the strategies adopted, showing that even in the event of stress scenarios for the next three years, with a reduction of net profit of respectively 35%, 50% and 66% positive profitability would be maintained.

Credit risk is assessed, among other things, by:

- Vintage analysis. This indicator is the ratio of a generation of loans that in any month have been classified as bad to the total of the same loan generation. This is a tool that allows you to make comparisons between different production performances (over the life of the product), according to their segmentation. The comparison is between products with a similar production date, so you can identify any deviations from past performances. Usually, graphic representations are used to keep track of the trend, such as the one that shows the relationship between age and the loss rate;




- Trend analysis (roll rate). Represents the trend of loans observed over a period of time between T0 and T1, with the determination of any status change at T1 of the loans, which at the start of the observation were included in a certain past due band. This indicator is used to identify the roll rate of the loan portfolio.




Polynomial models are used (confidence/R2 ~ 95%) for stress test purposes, also to take account of the trend in default rates with a non-linear trend at the same date of the first instalment.

Please read Section F - *Models for the measurement of credit risk* in the Consolidated Financial Statements for further information on the method used.

## Section 2 – Market risks

### 2.1 Interest rate risk and price risk –trading portfolio reported for supervisory purposes

The Bank does not hold any trading portfolios reported for supervisory purposes.

### 2.2 Interest rate risk and price risk – banking book

### Qualitative information

### A. General aspects, management and measurement of interest rate risk and price risk

The Bank is exposed to fair value interest rate risk (risk that the value of assets and liabilities issued at fixed rates changes as a consequence of a fluctuation in the interest rate curve) and cash flow risk (risk that interest-related cash flow changes as a consequence of a fluctuation in the interest rate curve).

The sources of interest rate risk are mainly related to loans to customers, which are generated by the placement of consumer credit products and services (asset items) and their means of funding (liability items). In fact, the sector in which the Bank operates is characterised by the asset mix, which is typically composed of loans granted mainly at fixed rates; whereas the funding sources are both fixed rate and floating rate. Accordingly, the main interest rate categories to which the Bank is exposed lead to repricing risk.

Interest rate risk is managed by macro-strategies shared at Group level within well defined, formalised exposure limits. The Finance Department manages interest rate risk in accordance with the current documentation approved by the Board of Directors. Through the Market Risk function, the Risk Control unit has the task of monitoring market risks through the application of appropriate analysis and assessment methods.

Internal processes for the management and monitoring of interest rate risk prescribe the processing of information each month at operating level by the responsible organisational units and a critical assessment by the ALCO Committee.

Monitoring involves comparing the results of stress tests performed on sensitive assets and liabilities with the limits established by the Bank of Italy and by the related documentation.

Specific ratios are managed by the Finance Department and measured and monitored by the Risk Management Department. Specific quantitative limits are set for the following risk metrics:

- Market Value of Equity Sensitivity (MVE Sens.);
- Net interest margin Sensitivity (NIM Sens.).

To mitigate the risk of fluctuations in interest rates, the Bank implements two main forms of mitigation:

- use of financial instruments;
  - derivatives: used to hedge interest rate risk (usually Interest Rate Swaps);
  - medium-term fixed rate financing: used as an alternative to derivatives, to mitigate the exposure to interest rate risk;
- operating limits consistent with the risk objectives established by the Bank.

Of the various types of risk hedges that are acceptable, the Bank has chosen to use derivatives according to the following methods.

### Quantitative information

### 1. Banking book: distribution by residual duration (repricing date) of financial assets and liabilities

This table is not prepared as the next section gives an analysis of the sensitivity to interest rate risk based on internal models and this analysis covers the whole of the banking book.

## 2. Banking book: internal models and other methodologies for analysing sensitivity

The measurement/quantification of financial risks, especially the interest rate risk, is carried out by analysing the specific synthetic indicators described below. These indicators are calculated on a monthly basis, which involves calculating a final figure at the end of each month, as well as a forecast figure for the next reporting period. The Finance Department of Santander Consumer Bank is responsible for preparing and maintaining adequate, uniform and timely reporting for the monitoring of interest rate risk. When reporting, specific ratios are formalised by that Department and monitored by the Risk Management Department.

*Sensitivity indicator "Market Value of Equity" (MVE)*

This indicator is aimed at quantifying and monitoring the sensitivity of the interest rate risk; in particular, it quantifies the effect of a change in the interest rate curve under various scenarios on shareholders' equity. With the implementation of the new evolved corporate tool introduced in 2017, in addition to the standard scenarios of parallel and immediate shock to the curve, more progressive scenarios were implemented. The following paragraph shows the results obtained by applying the scenario +100 basis points (parallel and intermediate shock) on which the monthly analysis and the decisions on interest rate risk are based. The measurement of interest rate risk is then carried out by assessing the impact of changes in interest rates on the value of interest-bearing assets/liabilities inclusive of derivatives (Interest Rate Swap); the sensitivity of the market value of equity is computed as the difference between the present value of all future cash flows discounted using market interest rate curves and the present value of future cash flows discounted using stressed interest rate curves.

At 31 December 2018, the MVE calculated with a parallel and immediate shift of +100 basis points was Euro -21.42 million. The indicator remained within the thresholds approved by the Board of Directors.

*Sensitivity indicator "Net Interest Margin" (NIM)*

This indicator is aimed at quantifying and monitoring the sensitivity of the interest rate risk; in particular, it quantifies the effect of a parallel and symmetric change in the interest rate curve under various scenarios on net interest income (analysis period: 12 months). As regards interest rate shift scenarios, please see the information provided in the paragraph above.

At 31 December 2018, the NIM was Euro 2.86 million (with a parallel and immediate shift of +100 basis points).

| +100 bps MM | MVE | NIM |
|---|---|---|
| December 18 | -21.42 | 2.86 |
| Limit | ± 49 | ± 14 |

| -100 bps MM | MVE | NIM |
|---|---|---|
| December 18 | 19.79 | -1.08 |
| Limit | ± 49 | ± 14 |

## 2.3 Exchange risk

The Bank is not exposed to exchange risk.

# Section 3 – Derivative instruments and hedging policies

## 3.1 Derivatives held for trading

## A. Financial derivatives

### A.1 Financial derivatives held for trading: period-end notional amounts

| Underlying assets / Type of derivatives | Totale 31/12/2018 | | | | Totale 31/12/2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Over the counter | | | | Over the counter | | | |
| | Central Counterparts | without central counterparties | | Organized markets | Central Counterparts | without central counterparties | | Organized markets |
| | | with netting arrangements | without netting arrangements | | | with netting arrangements | without netting arrangements | |
| **1. Debt securities and interest rate indexes** | | | 417,154 | | | | 165,439 | |
| a) Options | | | | | | | | |
| b) Swap | | | 417,154 | | | | 165,439 | |
| c) Forward | | | | | | | | |
| d) Futures | | | | | | | | |
| e) Others | | | | | | | | |
| **2. Equities and stock indexes indexes** | | | | | | | | |
| a) Options | | | | | | | | |
| b) Swap | | | | | | | | |
| c) Forward | | | | | | | | |
| d) Futures | | | | | | | | |
| e) Others | | | | | | | | |
| **3. Currencies and gold** | | | | | | | | |
| a) Options | | | | | | | | |
| b) Swap | | | | | | | | |
| c) Forward | | | | | | | | |
| d) Futures | | | | | | | | |
| e) Others | | | | | | | | |
| **4. Commodities** | | | | | | | | |
| **5. Other** | | | | | | | | |
| **Total** | | | **417,154** | | | | **165,439** | |

## A.2 Financial derivatives held for trading: positive and negative gross fair value – breakdown by product

| Types of derivatives | Totale 31/12/2018 | | | | Totale 31/12/2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Over the counter | | | | Over the counter | | | |
| | | Without central counterparties | | | | Without central counterparties | | |
| | Central Counterparts | With netting arrangements | Without netting arrangements | Organized markets | Central Counterparts | With netting arrangements | Without netting arrangements | Organized markets |
| **1. Positive fair value** | | | | | | | | |
| a) Options | | | | | | | | |
| b) Interest rate swap | | | 1,828 | | | | 1,033 | |
| c) Cross currency swap | | | | | | | | |
| d) Equity swap | | | | | | | | |
| e) Forward | | | | | | | | |
| f) Futures | | | | | | | | |
| g) Others | | | | | | | | |
| **Total** | | | **1,828** | | | | **1,033** | |
| **2. Negative fair value** | | | | | | | | |
| a) Options | | | | | | | | |
| b) Interest rate swap | | | | | | | | |
| c) Cross currency swap | | | | | | | | |
| d) Equity swap | | | | | | | | |
| e) Forward | | | | | | | | |
| f) Futures | | | | | | | | |
| g) Others | | | | | | | | |
| **Total** | | | | | | | | |

## A.3 OTC financial derivatives held for trading: notional amounts, positive and negative gross fair value by counterparty

| Underlyings | Central Counterparts | Banks | Other financial companies | Other entities |
|---|---|---|---|---|
| **Contracts not included in clearing agreement** | | | | |
| **1) Debt securities and interest rate** | | | | |
| - notional value | X | 417,154 | | |
| - positive fair value | X | 1,828 | | |
| - negative fair value | X | | | |
| **2) Equities and stock indexes** | | | | |
| - notional value | X | | | |
| - positive fair value | X | | | |
| - negative fair value | X | | | |
| **3) Currencies and gold** | | | | |
| - notional value | X | | | |
| - positive fair value | X | | | |
| - negative fair value | X | | | |
| **4) Commodities** | | | | |
| - notional value | X | | | |
| - positive fair value | X | | | |
| - negative fair value | X | | | |
| **5) Altri** | | | | |
| - notional value | X | | | |
| - positive fair value | X | | | |
| - negative fair value | X | | | |
| **Contracts included in clearing arrangements** | | | | |
| **1) Debt securities and interest indexes** | | | | |
| - notional value | | | | |
| - positive fair value | | | | |
| - negative fair value | | | | |
| **2) Equities instruments and stock indexes** | | | | |
| - notional value | | | | |
| - positive fair value | | | | |
| - negative fair value | | | | |
| **3) Currencies and gold** | | | | |
| - notional value | | | | |
| - positive fair value | | | | |
| - negative fair value | | | | |
| **4) Commodities** | | | | |
| - notional value | | | | |
| - positive fair value | | | | |
| - negative fair value | | | | |
| **5) Altri** | | | | |
| - notional value | | | | |
| - positive fair value | | | | |
| - negative fair value | | | | |

### A.4 Residual life of OTC derivatives held for trading: notional amounts

| Underlying / residual | | Up to 1 year | Over 1 year up to 5 year | Over 5 year | Total |
|---|---|---|---|---|---|
| A.1 Financial derivative contracts on debt securities and interest rates | | | 395,700 | 21,454 | 417,154 |
| A.2 Financial derivative contracts on equity securities and stock indexes | | | | | |
| A.3 Financial derivatives on currencies and gold | | | | | |
| A.4 Financial derivatives on commodities | | | | | |
| A.5 Other financial derivatives | | | | | |
| **Total** | **12/31/2018** | | **395,700** | **21,454** | **417,154** |
| **Total** | **12/31/2017** | **109,947** | **55,492** | | **165,439** |

## B. Credit derivatives

The Bank does not have any credit derivatives at the date of the financial statements.

## 3.2 Accounting hedges

## Qualitative information

### A. Fair value hedges

As regards fair value hedging, the Bank enters into amortising derivatives to neutralise the exposure to changes in fair value of a portfolio of financial assets, attributable to unexpected fluctuations in interest rates.

The effectiveness of the hedges is periodically measured and formalised, based on monthly predefined tests (both retrospective and prospective):

- retrospective test. This test is designed to assess the difference between changes in the fair value of the hedged item and those of the hedging instrument, quantifying it by means of a specific percentage (efficiency percentage);
- prospective test. This assessment is based on expectations of the future trend of the hedging relationship by identifying different scenarios for the trend in interest rate curves. In order to assess the effectiveness of the hedge, the difference between changes in the fair value of the hedged item and those of the hedging instrument have to be considered jointly for each scenario (quantifying them by means of a percentage).

The observation/effectiveness range is as foreseen by IAS-IFRS for this purpose. The metrics are defined and maintained in accordance with the Spanish Parent Company's instructions.

### B. Cash flow hedges

As regards cash flow hedges, the Bank may enter into derivatives to neutralise the exposure of its liabilities to changes in future cash flows arising from unexpected fluctuations in interest rates. No transactions of this type were concluded in 2018.

The effectiveness of the hedges is periodically measured and formalised, based on monthly predefined tests (both retrospective and prospective):

- prospective test. The prospective test also involves preparing a report that identifies the correlation between the cash flows (interest) arising from the item being hedged by the hedging instrument;
- retrospective test. The aim of the test is to verify the correlation/relationship between interest expense generated by loans granted and interest income earned from traded derivatives (floating flow).

The observation interval and effectiveness meet the requirements of IAS-IFRS. The metrics are defined/maintained in accordance with the Spanish Parent Company's instructions.

As at 31 December 2018, all cash flow hedges are settled.

### C. Foreign investment hedging

Not applicable, the Bank did not carry out any foreign investment hedging during the year.

### D. Hedging instruments

The Bank is exposed to interest rate risk, defined as "Fair Value" risk, i.e. the possibility that financial assets/liabilities may increase/decrease in value due to changes in the interest rates expressed by the market. The interest rate risk determinants for the SCB Group are mainly related to loans to customers, which are generated by the disbursement of consumer credit products/services (asset items) and their means of funding (liability items). To mitigate this risk the Bank uses Interest Rate Swaps.

The relationship for measuring hedge effectiveness is determined by the ratio between the change in fair value of the hedged item between the time "t" and the time "t-1" and the change in the fair value of the hedging instruments between the time "t" and the time "t-1"; the result of this operation must be within a specific range provided for by IAS.

The reasons for possible ineffectiveness are therefore due to significant changes in the mark to market valuations of the swaps, as a result of, for example, sudden and significant changes in the interest rates that determine the valuations.

## E. Hedged items

In relation to the hedged item used by the Bank in the hedging strategy, the following is taken into consideration:

a) the hedging relationship is defined as Macro Fair Value Hedging, i.e. valuation of the hedge taking into consideration the entire hedged item in the face of all the risks to which it is exposed and not part of it;

b) The hedging instruments used are the performing loans present in the portfolio, divided into time buckets depending on the agreement maturities;

c) For the purposes of evaluating the effectiveness, the economic relationship is that described in section D "hedging instruments";

d) The interest rate risk determinants for the Bank, and consequent possible sources of ineffectiveness, with reference to the hedged items, are linked to changes in the fair value of loans to customers, generated by the disbursement of consumer credit products/services.

## Quantitative information

# A. Hedging financial derivatives

### A.1 Hedging financial derivatives: period-end notional amounts

| Underlying assets / Type of derivatives | Totale 31/12/2018 | | | | Totale 31/12/2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Over the counter | | | | Over the counter | | | |
| | Central Counterparts | without central counterparties | | Organized markets | Central Counterparts | without central counterparties | | Organized markets |
| | | with netting arrangements | without netting arrangements | | | with netting arrangements | without netting arrangements | |
| 1. Debt securities and interest rate index | | | 1,418,130 | | | | 1,398,730 | |
| a) Options | | | | | | | | |
| b) Swap | | | 1,418,130 | | | | 1,398,730 | |
| c) Forward | | | | | | | | |
| d) Futures | | | | | | | | |
| e) Others | | | | | | | | |
| 2. Equities and stock indexes | | | | | | | | |
| a) Options | | | | | | | | |
| b) Swap | | | | | | | | |
| c) Forward | | | | | | | | |
| d) Futures | | | | | | | | |
| e) Others | | | | | | | | |
| 3. Currencies and gold | | | | | | | | |
| a) Options | | | | | | | | |
| b) Swap | | | | | | | | |
| c) Forward | | | | | | | | |
| d) Futures | | | | | | | | |
| e) Others | | | | | | | | |
| 4. Commodities | | | | | | | | |
| 5. Other | | | | | | | | |
| **Total** | | | **1,418,130** | | | | **1,398,730** | |

## A.2 Hedging derivatives: positive and negative gross fair value – breakdown by product

| Types of derivatives | Fair value positivo e negativo | | | | | | | | Change in the value used to calculate hedge effectiveness | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total 12/31/2018 | | | | Total 12/31/2017 | | | | Total | Total |
| | Over the counter | | | | Over the counter | | | | 12/31/2018 | 12/31/2017 |
| | Central Counterparts | Without central counterparties: With netting arrangements | Without central counterparties: Without netting arrangements | Organized markets | Central Counterparts | Without central counterparties: With netting arrangements | Without central counterparties: Without netting arrangements | Organized markets | | |
| **Positive fair value** | | | | | | | | | | |
| a) Options | | | | | | | | | | |
| b) Interest rate swap | | | | | | 644 | | | | |
| c) Cross currency swap | | | | | | | | | | |
| d) Equity swap | | | | | | | | | | |
| e) Forward | | | | | | | | | | |
| f) Futures | | | | | | | | | | |
| g) Others | | | | | | | | | | |
| **Total** | | | | | | **644** | | | | |
| **Negative fair value** | | | | | | | | | | |
| a) Options | | | | | | | | | | |
| b) Interest rate swap | | | 4,633 | | | 2,824 | | | | |
| c) Cross currency swap | | | | | | | | | | |
| d) Equity swap | | | | | | | | | | |
| e) Forward | | | | | | | | | | |
| f) Futures | | | | | | | | | | |
| g) Others | | | | | | | | | | |
| **Total** | | | **4,633** | | | **2,824** | | | | |

## A.3 OTC hedging derivatives: notional amounts, positive and negative fair value by counterparty

| Underlyings | Central Counterparts | Banks | Other financial companies | Other entities |
|---|---|---|---|---|
| **Contracts not included in clearing agreement** | | | | |
| **1) Debt securities and interest rate** | | | | |
| - notional value | X | 1,418,130 | | |
| - positive fair value | X | | | |
| - negative fair value | X | 4,633 | | |
| **2) Equities and stock indexes** | | | | |
| - notional value | X | | | |
| - positive fair value | X | | | |
| - negative fair value | X | | | |
| **3) Currencies and gold** | | | | |
| - notional value | X | | | |
| - positive fair value | X | | | |
| - negative fair value | X | | | |
| **4) Commodities** | | | | |
| - notional value | X | | | |
| - positive fair value | X | | | |
| - negative fair value | X | | | |
| **5) Other** | | | | |
| - notional value | X | | | |
| - positive fair value | X | | | |
| - negative fair value | X | | | |
| **Contracts included in clearing arrangements** | | | | |
| **1) Debt securities and interest indexes** | | | | |
| - notional value | | | | |
| - positive fair value | | | | |
| - negative fair value | | | | |
| **2) Equities and stock indexes** | | | | |
| - notional value | | | | |
| - positive fair value | | | | |
| - negative fair value | | | | |
| **3) Currencies and gold** | | | | |
| - notional value | | | | |
| - positive fair value | | | | |
| - negative fair value | | | | |
| **4) Commodities** | | | | |
| - notional value | | | | |
| - positive fair value | | | | |
| - negative fair value | | | | |
| **5) Other** | | | | |
| - notional value | | | | |
| - positive fair value | | | | |
| - negative fair value | | | | |

### A.4 Residual life of OTC hedging derivatives: notional amounts

| Underlying / residual | | Up to 1 year | Over 1 year up to 5 year | Over 5 year | Total |
|---|---|---|---|---|---|
| A.1 Financial derivative contracts on debt securities and interest rates | | 288,054 | 1,024,274 | 105,802 | 1,418,130 |
| A.2 Financial derivative contracts on equity securities and stock indexes | | | | | |
| A.3 Financial derivative contracts on currency and gold | | | | | |
| A.4 Financial derivatives on commodities | | | | | |
| A.5 Other financial derivatives | | | | | |
| **Total** | **12/31/2018** | **288,054** | **1,024,274** | **105,802** | **1,418,130** |
| **Total** | **12/31/2017** | **349,627** | **915,086** | **134,018** | **1,398,730** |

## B. Hedging credit derivatives

The Bank does not have any credit derivatives at the date of the financial statements.

## C. Non-derivative hedging instruments

The Bank does not have any non-derivative hedging instruments at the date of the financial statements.

## D. Hedged instruments

### D.1 Fair value hedges

The Bank has not applied the new accounting rules provided for hedge accounting in accordance with IFRS 9.

### D.2 Cash flow and foreign investment hedges

The Bank does not have any cash flow and foreign investment hedges.

## E. Effects of hedging transactions recognised in equity

The Bank does not use hedging transactions recognised in equity.

## 3.3 Other information on derivatives held for trading and hedging derivatives

# A. Financial and credit derivatives

### A.1 OTC financial and credit derivatives: net fair value by counterparty

| | Central counterparties | Banks | Other financial companies | Other entities |
|---|---|---|---|---|
| **A. Financial derivatives** | | | | |
| **1) Debt securities and interest rates** | | | | |
| - notional amount | | 1,835,284 | | |
| - positive fair value | | 1,828 | | |
| - negative fair value | | 4,633 | | |
| **2) Equity instrument and stock index** | | | | |
| - notional amount | | | | |
| - positive fair value | | | | |
| - negative fair value | | | | |
| **3) Currency and gold** | | | | |
| - notional amount | | | | |
| - positive fair value | | | | |
| - negative fair value | | | | |
| **4) Commodities** | | | | |
| - notional amount | | | | |
| - positive fair value | | | | |
| - negative fair value | | | | |
| **5) Other** | | | | |
| - notional amount | | | | |
| - positive fair value | | | | |
| - negative fair value | | | | |
| **B. Credit derivatives** | | | | |
| **1) Hedge purchase** | | | | |
| - notional amount | | | | |
| - positive fair value | | | | |
| - negative fair value | | | | |
| **2) Hedge sale** | | | | |
| - notional amount | | | | |
| - positive fair value | | | | |
| - negative fair value | | | | |

## Section 4 – Liquidity risk

## Qualitative information

### A. General aspects, management and measurement of liquidity risk

The Bank is exposed to liquidity risk, defined as the probability that it may, at any time, not have sufficient cash reserves to meet payments arising from its obligations, or it may not be able to source sufficient liquidity in the markets to renew maturing deposits. In accordance with the guidelines of the Spanish parent company, Santander Consumer Bank has implemented extensive documentation in this regard.

The Finance Department manages liquidity risk in accordance with the current documentation approved by the Board of Directors.

Based on the governance model adopted by the Bank, liquidity risk is monitored by the Risk Management Department (as part of second-level controls), whereas Internal Audit performs third-level controls.

The Bank manages its liquidity using the maturity ladder method agreed at Santander Consumer Finance Group level. This analysis is designed to identify and quantify the imbalances between cash inflows and outflows that occur in different timeframes.

The Bank also uses liquidity stress testing to analyse the potential impacts arising from liquidity crises (outflows from customer deposits, downgrading of securities, non-renewal of loans), in line with corporate models and regulatory requirements. The results of the stress tests remained above the management limits over the course of the year and were shared periodically within relevant committees.

As well as the above-mentioned indicators, the Parent Company also monitors its Liquidity Coverage Ratio defined as:

$$\text{LCR} = \frac{\text{Stock of high quality liquid assets}}{\text{Total net cash flow in the subsequent 30 calendar days}}$$

The LCR officially came into force on 1 October 2015 and has to constantly remain above 60% throughout the year, as required by European Commission Regulation 575/2013 and by Directive 2013/36/EU and subsequent amendments to the Delegated Regulation. The limit as from 2018 was set at 100%. Santander Consumer Bank's liquidity ratio meets with the above requirement and during the year the Bank also implemented daily management of the ratio. At 31 December 2018, the LCR was 183.73%.

Finally, the Bank also manages liquidity through medium-to-long-term indicators, such as the Net Stable Funding Ratio and Group indicators.

Each month an ALCO (Asset Liability Committee) meeting is held, attended by representatives from the Bank's Risk Management, Finance and Administration and Control Departments, as well as colleagues from the corresponding Spanish Parent Company Departments. The objective of this committee is to agree on the Company's strategies for interest rate and liquidity risk, funding policies and the cost of funding.

The Bank diversifies its sources of funding by recourse to financing provided by the Spanish Parent Company, bond issues, customer deposits and repurchase agreements (repos).

The Bank has also obtained credit lines from the Spanish Parent Company to mitigate its liquidity risk.

As regards transactions which require the payment of a margin call, the Company is a party to agreements for interest margin hedging instruments entered into with Banco Santander.

## Quantitative information

### 1. Distribution of financial assets and liabilities by residual maturity

| Items/Time | On demand | 1 to 7 days | 7 to 15 days | 15 days to 1 month | 1 to 3 months | 3 to 6 months | 6 months to 1 year | 1 to 5 years | Over 5 years | Unspecified maturity |
|---|---|---|---|---|---|---|---|---|---|---|
| **A. On-balance sheet assets** | **308,252** | **1,396** | **61,990** | **47,649** | **408,563** | **607,643** | **988,286** | **2,852,979** | **639,993** | **13,121** |
| A.1 Government securities | | | | | | | | | | |
| A.2 Other debt securities | | | | | | | | | | |
| A.3 Units in investment funds | | | | | | | | | | |
| A.4 Loans | 308,252 | 1,396 | 61,990 | 47,649 | 408,563 | 607,643 | 988,286 | 2,852,979 | 639,993 | 13,121 |
| - Banks | 9,946 | | | | 180 | 109 | 216 | | 22,500 | 13,121 |
| - Customers | 298,305 | 1,396 | 61,990 | 47,649 | 408,383 | 607,534 | 988,070 | 2,852,979 | 617,493 | |
| **B. On-balance sheet liabilities** | **709,566** | **12,122** | **16,452** | **239,383** | **343,770** | **436,378** | **1,008,779** | **2,551,668** | **115,000** | |
| B.1 Deposits and current accounts | 707,582 | 12,122 | 16,452 | 27,125 | 182,929 | 352,869 | 301,848 | 419,308 | | |
| - Banks | | | | | 100,000 | 305,000 | 190,000 | | | |
| - Customers | 707,582 | 12,122 | 16,452 | 27,125 | 82,929 | 47,869 | 111,848 | 419,308 | | |
| B.2 Debt securities | | | | 151,070 | | | | | | |
| B.3 Other liabilities | 1,984 | | | 61,188 | 160,841 | 83,509 | 706,932 | 2,132,360 | 115,000 | |
| **C. Off-balance sheet transactions** | | | | | | | | | | |
| C.1 Physically settled financial derivatives | | | | | | | | | | |
| - Long positions | | | | | | | | | | |
| - Short positions | | | | | | | | | | |
| C.2 Cash settled financial derivatives | | | | | | | | | | |
| - Long positions | | | | | 372 | 401 | 798 | | | |
| - Short positions | | | 12 | 476 | 844 | 1,195 | 2,236 | | | |
| C.3 Deposit to be received | | | | | | | | | | |
| - Long positions | | | | | | | | | | |
| - Short positions | | | | | | | | | | |
| C.4 Commitments to disburse funds | | | | | | | | | | |
| - Long positions | | | | | | | | | | 22,284 |
| - Short positions | 22,284 | | | | | | | | | |
| C.5 Written guarantees | | | | | | | | | | |
| C.6 Financial guarantees received | | | | | | | | | | |
| C.7 Physically settled credit derivatives | | | | | | | | | | |
| - Long positions | | | | | | | | | | |
| - Short positions | | | | | | | | | | |
| C.8 Cash settled credit derivatives | | | | | | | | | | |
| - Long positions | | | | | | | | | | |
| - Short positions | | | | | | | | | | |

With respect to financial assets subject to self-securitisations, at the end of 2018, the Bank was involved in three securitisations of performing loans for which it had subscribed all of the securities issued. Golden Bar 2014-1, Golden Bar 2015-1 and Golden Bar 2016-1.

The securitisations are stand-alone.

Golden Bar 2018-1 was still outstanding as at 31 December 2018, consisting of two classes of securities issued on 27 April 2018: the Senior Class A securities have been partially subscribed by SCB while the Junior securities are without rating and wholly subscribed.

On 25 January 2018, the unwinding of the Golden Bar Whole Loan Notes VFN 2013-1 transaction was completed, with the subsequent repayment of the securities.

Below is a summary of the main features of the transactions originated by Santander Consumer Bank in 2018:

With reference to GB 2018-1, it is noted that the Bank retained Euro 65.7 million class A and all the Junior class.

The table below shows the details of the changes in securities during financial year 2018:

| Transaction | 12/31/2018 | | | | |
|---|---|---|---|---|---|
| | Class | ISIN Code | Rating Moody's / DBRS | Activities | Outstanding al 31/12 |
| Golden Bar Whole Loan Note VFN 2013-1 | WLN | IT0004975527 | n.a. | Car loan and Personnel loan | - |
| Golden Bar 2014-1 | A | IT0005026163 | A1/AA | Car loan | 21,454,356 |
| | B | IT0005026189 | A1/AA | | 30,100,000 |
| | C | IT0005026197 | NR / NR | | 75,100,000 |
| Golden Bar 2015-1 | A | IT0005137580 | Aa3/ AL | Car loan and Personnel loan | 622,961,196 |
| | B | IT0005137598 | Baa2 / BBB | | 65,000,000 |
| | C | IT0005137606 | NR / NR | | 110,000,000 |
| Golden Bar 2016-1 | A | IT0005210031 | A1 / AL | Salary assignment, retirement assignment and delegation of payment. | 902,000,000 |
| | B | IT0005210080 | Baa3 / BBBH | | 27,500,000 |
| | C | IT0005210098 | Ba3 / BBB | | 38,500,000 |
| | D | IT0005210106 | B2 / BB | | 55,000,000 |
| | E | IT0005210114 | NR / NR | | 76,890,000 |
| | F | IT0005210122 | NR / NR | | 110,000 |

The tables below show the changes in the reserves and subordinated loans:

| Transaction | Cash Reserve | | | | |
|---|---|---|---|---|---|
| | Composed | Opening balance | Increases | Expenses | Closing balance |
| Golden Bar Whole Loan Note VFN 2013-1 | - | - | - | - | - |
| Golden Bar 2014-1 | 18,800,000 | 13,531,925 | - | 7,199,207 | 6,332,718 |
| Golden Bar 2015-1 | 25,000,000 | 25,000,000 | - | - | 25,000,000 |
| Golden Bar 2016-1 | 27,500,000 | 27,500,000 | - | - | 27,500,000 |

| Transaction | Liquidity Reserve | | | | |
|---|---|---|---|---|---|
| | Composed | Opening balance | Increases | Expenses | Closing balance |
| Golden Bar Whole Loan Note VFN 2013-1 | - | - | - | - | - |
| Golden Bar 2014-1 | - | - | - | - | - |
| Golden Bar 2015-1 | - | - | - | - | - |
| Golden Bar 2016-1 | 22,000,000 | 22,000,000 | - | - | 22,000,000 |

| Transaction | Subordinate loans | | | | |
|---|---|---|---|---|---|
| | Distribute | Opening balance | Increases | Expenses | Closing balance |
| Golden Bar Whole Loan Note VFN 2013-1 | - | - | - | - | - |
| Golden Bar 2014-1 | 18,830,000 | - | - | - | - |
| Golden Bar 2015-1 | 25,030,000 | - | - | - | - |
| Golden Bar 2016-1 | 49,500,000 | 23,162,930 | - | 23,162,930 | - |

| | **Assets held by the SPE** | **Senior and Mezzanine Securities subscribed** | **Junior Securities subscribed** | **Cash Reserve** | **Assets held by the Group** | **Type of collateral** | **Distribution of collateral by geographical area** | **Average maturity of the collateral** | **Rating of the collateral** |
|---|---|---|---|---|---|---|---|---|---|
| Golden Bar Whole Loan Note VFN 2013-1 | - | - | - | - | 5,714,813 | n.a. | n.a. | n.a. | n.a. |
| Golden Bar Stand Alone 2014-1 | 129,570 | 51,554 | 75,100 | 6,333 | | n.a. | n.a. | n.a. | n.a. |
| Golden Bar Stand Alone 2015-1 | 789,779 | 687,961 | 110,000 | 25,000 | | n.a. | n.a. | n.a. | n.a. |
| Golden Bar VFN 2016-1 | 1,062,804 | 1,099,890 | 110 | 27,500 | | n.a. | n.a. | n.a. | n.a. |

In accordance with international accounting standards, no securitised portfolios have been derecognised as there were not the requisites for derecognition of the loans by the Parent Company, given that it was the subscriber of the Junior Securities issued by the SPE.

**Financial year 2018**

| | 12/31/2018 | | | |
|---|---|---|---|---|
| **Breakdown of the excess spread accrued during the year** | **Golden Bar Whole Loan Note VFN 2013-1** | **Golden Bar Stand Alone 2014-1** | **Golden Bar Stand Alone 2015-1** | **Golden Bar VFN 2016-1** |
| Interest expense on securities issued | | (1,173) | (13,313) | (25,854) |
| Commisions and fees for the operation | (224) | (1,063) | (1,434) | (2,477) |
| - for servicing | (220) | (1,045) | (1,414) | (2,462) |
| - for other services | (4) | (18) | (20) | (15) |
| Other charges | (40) | (991) | (826) | (655) |
| Interest generated by the securitised assets | 3,023 | 12,605 | 65,933 | 70,292 |
| Other revenues | 194 | 1,325 | 4,424 | |
| **Total** | **2,953** | **10,703** | **54,784** | **41,306** |

**Financial year 2017**

| | 12/31/2017 | | | |
|---|---|---|---|---|
| **Breakdown of the excess spread accrued during the year** | **Golden Bar Whole Loan Note VFN 2013-1** | **Golden Bar Stand Alone 2014-1** | **Golden Bar Stand Alone 2015-1** | **Golden Bar VFN 2016-1** |
| Interest expense on securities issued | | (2,731) | (13,582) | (21,161) |
| Commisions and fees for the operation | (2,904) | (2,256) | (1,497) | (1,948) |
| - for servicing | (2,771) | (2,149) | (1,290) | (1,936) |
| - for other services | (133) | (107) | (207) | (12) |
| Other charges | (19,447) | (5,556) | (1,527) | (1,180) |
| Interest generated by the securitised assets | 40,284 | 25,619 | 68,033 | 66,356 |
| Other revenues | 1,860 | 2,114 | 3,968 | 2 |
| **Total** | **19,793** | **17,190** | **55,395** | **42,069** |

## Section 5 – Operational risks

## Qualitative information

### A. General aspects, management and measurement of operational risk

Operational risk is defined as the risk of incurring losses due to inadequate or dysfunctional procedures, human resources or internal systems, or to exogenous events. This last type includes losses deriving from fraud, human error, business interruption, non-availability of systems, contractual non-performance and natural catastrophes. Operational risk includes legal, information and technological risk, but not strategic or reputation risks.

Operational risk is therefore closely linked to the operations of the Bank, which, in accordance with the requirements of the parent company, has therefore established a framework for the management of operational risks, establishing rules and organisational processes for their measurement, management and control.

In accordance with the definition proposed by Basel II, Operational Risks can be caused by several factors

| | ORIGIN | CONSECUENCES |
|---|---|---|
| Operational Risk | Processes | Losses due to faults in processes |
| | People | Losses due to human error, negligence or malicious acts |
| | Systems | Losses due to faults in systems, communications, supplies, etc.. |
| | External Events | Losses due to natural disasters, accidents, robberies, etc.. |
| | Legal | Losses due to legal / regulatory failures, errors in the formalisation of contracts, etc.. |

Exposure to this type of risk can come from various sources, particularly during the following phases of the business:

- customer acceptance;
- completion of the contract;
- supply and management of suppliers;
- after-sale processes;
- back office processes;
- back-end activities;
- marketing activities;
- debt collection activities;
- employee management;
- management of the safety and security of the Bank's premises.

Moreover, exposure to operational risk can also arise at the same time as potential errors connected to support processes, such as:

- administrative processes;
- information systems.

The local Operational Risk structure, operating within the Risk Management Department's Risk Control Unit, is responsible for second-level control. The functions and activities assigned to it are:

- to ensure the effective implementation of the risk culture;
- to encourage the first-level function to correctly manage operational risk;
- to ensure that individual risks are identified and properly managed by the individual areas;
- to ensure that the limits defined are consistent and in line with the bank's Operational Risk appetite;
- to aggregate, measure and analyse the losses related to the risks monitored;
- to inform the Board of Directors of Operational Risk developments;
- it is responsible for formulating, developing and updating the framework.

A specific Operational Risk Committee is formed to monitor exposures, mitigation actions, and measurement and control methods.

The supporting computer application is central to the methods for the collection, classification and completeness check of data, scenario analyses, risk indicators, and the reporting and measurement of risk capital.

In the area of operational risk, the exposure is measured according to the criteria laid down in the rules of internal governance. The main tools of supervision include: segregation of duties, identification of possible risk indicators (alert signals that can be quantified, totalised and compared with the Group benchmark), self-assessment questionnaires (local, based on the Parent Company's guidelines) and risk scenario analysis.

An Events Database (EDB) is also used. The main purpose of the EDB is to collate the total losses recorded due to operational risks. In addition to recording losses, it supports the incorporation of other events that have not turned into losses (near misses).

Finally, legal risk includes various types of regulatory violations, illegal behaviour and non-compliant business methods that could result in financial losses for the intermediary. These include, for example, losses resulting from:

- violations of laws or regulations;
- fines and penalties resulting from measures taken by the Supervisory Authority;
- transactions carried out as part of non-traditional activities with non-residents, which the counterparty is banned from entering into by law or regulations;
- use of unacceptable business methods.

Also falling within the definition of legal risk are losses from retroactive changes in the regulatory framework, as well as those resulting from settlements.

The risk of litigation has been the subject of specific and careful analysis by the Bank. In the presence of legal obligations, for which it is probable that there will be an outflow of economic resources for their fulfilment, and for which it is possible to make a reliable estimate of the amount involved, the Bank decided to set up provisions for risks and charges, distinguishing between situations according to the most appropriate Basel II category (i.e. Provision for Legal Risks, categories IV/VII).

These two Basel categories of legal-type risk include the following:

Category IV: practices connected with customers, products and activities such as breach of the fiduciary relationship, abuse of confidential information.

Category VII: executive and procedural compliance such as incorrect data entry, incomplete legal documentation, breach of contract by non-customer counterparties, legal disputes with suppliers.

The provisions for legal risks in place at 31 December 2018 amount to Euro 16,499 thousand, approximately 75% of which is set aside for claims and appeals.

## Quantitative information

The risk exposure of each unit is identified by the corporate risk matrix. The model used for the self-assessment questionnaires consists of three phases:

- Identification of risks by business areas, with the creation of a specific library containing objectives, activities and root cause that trigger risk events;
- measurement of inherent risk: risk associated with an activity/process regardless of the level of control present. The level of risk is given by the combination of probability/frequency of realisation of the asset/process and the potential impact generated by the event. The size of the impact is assessed using different criteria depending on the type of risk being considered;
- verification of the presence of appropriate control tools: control systems must be evaluated according to effectiveness (0%-100%), adequacy and possible future developments for the year;
- measurement of residual risk determined by the combination of inherent risk and evaluation of control systems and measured in terms of probability/frequency of realisation of the asset/process and the potential impact generated by the event;
- definition of controls for risks deemed acceptable or mitigation plans for risks deemed not acceptable.

Details are provided below of gross losses suffered and net provisions made in 2018 by risk category:

| | 2018 | | | |
|---|---|---|---|---|
| **Risk Type** | **Net Losses** | **Net provisions** | **Addition and Uses** | **Net Op Risk Impact** |
| Internal Fraud | - | - | - | - |
| External Fraud | 262 | - | 1,048 | 1,310 |
| Employment. Practices & Workplace Safety | - | - | - | - |
| Clients, Products & Business Practices | 13,119 | 5,464 | 14,040 | 4,543 |
| Damage to Physical Assets | - | - | - | - |
| Business Disruption & System Failures | - | - | - | - |
| Execution, Delivery & Process Management | 112 | 911 | 984 | 39 |
| **TOTAL** | 13,493 | 6,376 | 13,977 | 5,892 |

For more information on pending court proceedings or events related to class actions/consumer associations in respect of the Bank, considered relevant for the purposes of operational risk management and this report, reference is made to the same section of the Consolidated Financial Statements.

# Part F – Information on shareholders’ equity

## Section 1 – Shareholders’ equity

### A. Qualitative information

Equity management concerns all strategies designed to identify and maintain shareholders' equity at the proper size, as well as an optimal combination of the various different methods of capitalisation, in order to ensure, from time to time for Santander Consumer Bank, full compliance with the regulatory requirements and consistency with the risk profiles assumed.

More details regarding equity management policies have been referenced in Information on consolidated shareholders’ equity.

### B. Quantitative information

#### B.1 Shareholders’ equity: breakdown

| Amounts | Amount 12/31/2018 | Amount 12/31/2017 |
|---|---|---|
| 1. Share capital | 573,000 | 573,000 |
| 2. Share premium reserve | 633 | 633 |
| 3. Reserves | 163,894 | 90,107 |
| - useful | 123,981 | 50,194 |
| a) legal | 9,515 | 5,504 |
| b) statutory | | |
| c) treasury shares | | |
| d) other | 114,467 | 44,690 |
| - other | 39,913 | 39,913 |
| 4. Equity Instruments | | |
| 5. (Treasury shares) | | |
| 6. Revaluation reserves: | (599) | (553) |
| - Equity securities measured at fair value with an impact on total profitability | | |
| - Equity securities hedges measured at fair value with an impact on total profitability | | |
| - Financial assets (no equity securities) measured at fair value with an impact on total profitability | | 82 |
| - Tangible assets | | |
| - Intangible assets | | |
| - Foreign investment hedges | | |
| - Cash flow hedges | | |
| - Hedging instruments [Unspecified Elements] | | |
| - Exchange differences | | |
| - Non-current assets and groups of assets held for sale | | |
| - Financial liabilities designated at fair value with impact on the income statement (changes in their creditworthiness) | | |
| - Actuarial gains (losses) on defined benefit plans | (599) | (635) |
| - Provisions for valuation reserves related to equity investments valued at shareholders' equity | | |
| - Special revaluation laws | | |
| 7. Profit (loss) for the year | 79,476 | 80,223 |
| **Total** | **816,404** | **743,409** |

### B.2 Valuation reserves for financial assets measured at fair value through comprehensive income: breakdown

As at 31 December 2017, the item “Valuation reserves for available-for-sale financial assets” showed a net balance of Euro 82 thousand. Due to the first time adoption of IFRS 9, the methods of accounting for government securities held in the portfolio have changed, and the balance has therefore been adjusted. For further details, please refer to Annex 2 of the Financial Statements.

### B.3 Valuation reserves for financial assets measured at fair value through comprehensive income: change in the year

As at 31 December 2017, the item “Valuation reserves for available-for-sale financial assets” showed a net balance of Euro 82 thousand. Due to the first time adoption of IFRS 9, the methods of accounting for government securities held in the portfolio have changed, and the balance has therefore been adjusted. For further details, please refer to Annex 2 of the Financial Statements.

### B.4 Valuation reserves related to defined-benefit pension plans: change in the year

During the year there was an increase in valuation reserves related to defined-benefit pension plans for an amount equal to Euro 36 thousand net of the corresponding tax effect.

## Section 2 – Own funds and capital adequacy ratios

The information on own funds and capital adequacy contained in the public disclosure (Pillar 3) is not applicable at individual level since such information is required from the Spanish Parent Company.

Since Santander Consumer Bank is subject to the capital adequacy requirements established by the Basel Committee, as incorporated into the current regulations of the Bank of Italy, quantitative information concerning the composition of own funds and capital adequacy is provided below.

| Santander Consumer Bank Own Funds<br>In €MM | Total | |
|---|---|---|
| | 31/12/2018 | 31/12/2017 |
| **A. Capital primary Class 1 (Common Equity Tier 1 - CET1) before application of prudential filters** | **816,404** | **743,409** |
| of which CET1 instruments subject to transitional provisions | - | 82 |
| **B. Prudential filters CET1 (+/-)** | **(2)** | **(326)** |
| **C. CET1 before items to be deducted and the effects of the transitional arrangements (A +/- B)** | **816,402** | **743,083** |
| **D. Deductions from CET1** | **11,095** | **10,264** |
| **E. Transitional regime - Impact on CET1 (+/-)** | | (16) |
| **F. Total Capital primary Class 1 (Common Equity Tier 1 - CET1) (C - D +/- E)** | **805,307** | **732,803** |
| **G. Additional Tier 1 Capital (Additional Tier 1 - AT1) before items to be deducted and the effects of the transitional arrangements** | | |
| of which AT1 instruments subject to transitional provisions | | |
| **H. Deductions from AT1** | | |
| **I. Transitional regime - Impact on AT1 (+/-),** | | |
| **L. Total Capital Additional Tier 1 (Additional Tier 1 - AT1) (G - H +/- I)** | | |
| **M. Capital Class 2 (Tier 2 -T2) before items to be deducted and the effects of the transitional arrangements** | **115,000** | **86,493** |
| of which T2 instruments subject to transitional provisions | | |
| **N. Deductions from T2** | | |
| **O. Transitional regime - Impact on T2 (+/-)** | **-** | **8** |
| **P. Total Share of Class 2 (Tier 2 -T2) (M - N +/- O)** | **115,000** | **86,501** |
| **Q. Total own funds (F + L + P)** | **920,307** | **819,304** |

The table shows the amount of capital for supervisory purposes and its fundamental components which correspond to those indicated in supervisory reports.

| Value | Non weighted assets | | Weighted assets | |
|---|---|---|---|---|
| | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 |
| **A. RISK ASSETS** | | | | |
| A.1 Credit and counterparty risk | 7,047,813 | 6,508,229 | 4,662,291 | 4,483,427 |
| 1. Standardized approach | 7,047,813 | 6,508,229 | 4,662,291 | 4,483,427 |
| 2. IRB approach | | | | |
| 2.1 Foundation | | | | |
| 2.2 Advanced | | | | |
| 3. Securitizations | | | | |
| **B. CAPITAL REQUIREMENTS** | | | | |
| B.1 Credit and counterparty risk | | | 372,983 | 358,674 |
| B.2 Risk valuation adjustment credit | | | | |
| B.3 Regulation Risk | | | | |
| B.4 Market Risk | | | | |
| 1. Standardized approach | | | | |
| 2. Internal models | | | | |
| 3. Concentration risk | | | | |
| B.5 Operational risk | | | 28,971 | 29,296 |
| 1. Basic indicator approach (BIA) | | | | |
| 2. Traditional standardized approach (TSA) | | | 28,971 | 29,296 |
| 3. Advanced measurement approach (AMA) | | | | |
| B.6 Other calculation elements | | | | |
| B.7 Total capital requirements | | | 401,955 | 387,970 |
| **C. RISK ASSETS AND CAPITAL RATIOS** | | | | |
| C.1 Weighted risk assets | | | 5,024,432 | 4,849,626 |
| C.2 Capital primary class1 / Risk | | | 16.03% | 15.11% |
| C.3 Capital Class 1 / Risk-weighted assets (Total capital ratio) | | | 16.03% | 15.11% |
| C.4 Total own funds / Risk-weighted assets (Total capital ratio) | | | 18.32% | 16.89% |

The table shows the amount of risk assets and capital requirements, according to information reported in supervisory reports.

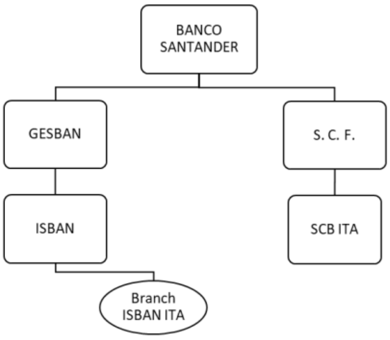
# Part G – Business combinations

## Section 1 – Transactions carried out during the year

As part of a reorganisation project, initiated by the company Ingenierìa de Software Bancario S.L., forming part of the Santander Group and supplier of IT services to the Bank, which provides for the sale of its own local units to the various companies of the Santander Group in respect of which it provides its services, the Parent Company acquired the Italian subsidiary of the aforementioned company, in the form of the acquisition of the business unit represented by service supply contracts and by the personnel of the company.

Since it can be classified as a common-control transaction, because all participating companies are controlled by the same Parent Company both before and after the business combination and such control is not transitory, it is excluded from the scope of IFRS 3.

The following table shows the structure of the Group companies concerned by the transaction:




For information purposes, it should be noted that transfer value of the business unit, subject to assessment by a consultancy firm, was higher than the book values. The surplus was therefore reversed, downwardly adjusting shareholders' equity, by means of specific debiting of a reserve.

## Section 2 – Transactions subsequent to the year end

The Bank has not carried out any business combination after the balance sheet date.

## Section 3 – Retrospective adjustments

The Bank has not carried out any business combination after the balance sheet date.

# Part H – Related-party transactions

## 1. Information on the remuneration of directors, auditors and managers

The following table shows the amounts of compensation paid in 2018 to members of the management and control bodies and to managers with strategic responsibilities that fall within the definition of "related party".

| | 12/31/2018 |
|---|---|
| Short-term benefits | 468 |
| Post-employment benefits | |
| Other long-term benefits | |
| Termination indemnities | 515 |
| Share-based payments | 210 |
| **Total** | **1,193** |

## 2. Related party disclosures

All transactions with related parties were concluded at arm's-length conditions. Details are shown below (amounts in thousands of euros):

| | Receivables | Payables | Derivatives | Expenses | Income |
|---|---|---|---|---|---|
| Banco Santander | 4,378 | | 1,835,284 | 11,232 | 4,740 |
| Santander Consumer Finance | | 2,823,609 | | 12,332 | |
| Banca PSA Italia SpA | 22,683 | | | | 993 |
| Other Santander Group companies | 229 | 66,937 | | 4,528 | 234 |

In respect of the Spanish Parent Company Banco Santander:

- the receivables relate to amounts paid by way of guarantee deposit payments in connection with derivative contracts entered into with the Spanish counterparty, and to the measurement of derivatives and related accruals with positive FV;
- the payables mainly relate to the measurement of derivatives and related interest with FV;
- the derivatives refer to interest risk hedging transactions and to derivatives traded in connection with securitisations as mentioned in Part E, Section 2. The amount shown in the table is the algebraic sum of the notional amounts;
- the charges relate to hedging activities;
- the income relates to hedging and trading activities within the framework of the derivatives entered into as part of securitisation transactions.

In respect of the direct parent company Santander Consumer Finance:

- the payables relate entirely to loans and related interest accruals received from the Parent Company as part of normal funding activities and subordinated loans;
- the charges relate to interest expenses on loans received.

In respect of the investee company Banca PSA SpA:

- the receivables relate to outsourcing fees not yet paid by the subsidiary (Euro 161 thousand) and by the subordinated loan (Euro 22,522);
- the income relates to interest income on the subordinated loan (Euro 428 thousand), to services arising from the internal audit contract (Euro 208 thousand), and the recovery of expenses in relation to seconded staff (Euro 357 thousand).

Relationships are also maintained with other companies of the Santander Group.

Receivables relate mainly to servicing activities provided (Euro 227 thousand).

The most significant payables relate to subordinated loans and hybrid capital instruments and the related accruals of interest (Euro 39,149 thousand), and current accounts opened by Group companies (Euro 27,788 thousand), whereas the expenses mainly consist of interest expense accrued on loans requested (Euro 2,010 thousand) and consulting and services received (Euro 2,449 thousand). Income mainly relates to hedging activities (Euro 227 thousand).

Finally, it should be noted that there are credits in the amount of Euro 238 thousand and debits in the amount of Euro 347 thousand in respect of related parties.

## Other information

For the information required by art. 2427, paragraph 16 bis of the Italian Civil Code concerning the total amount of fees due to the independent auditors, please refer to *Part H – Related-party transactions – Other information* of the consolidated financial statements of Santander Consumer Bank Group.

# Part I – Share-based payments

The Bank has not entered into any payment agreements based on its own equity instruments.

# Part L – Segment reporting

Not applicable.

# Balance sheet and income statement of Santander Consumer Finance, S.A.

On the basis of the provisions of Legislative Decree no. 6/2003 on the disclosures to be made with regard to direction and coordination activities to which Santander Consumer Bank S.p.A. is subject (Article 2497-bis, Article 2497-ter), a summary of the key data from the latest approved Financial Statements of Santander Consumer Finance S.A., which exercises direction and coordination, is given below.

For an adequate and full understanding of economic and financial position of Santander Consumer Finance SA at 31 December 2017, as well as of the economic results achieved by the company in the financial year ending on that date, reference is made to the financial statements themselves which, accompanied by the independent auditors' report, are available in the forms and in the manner prescribed by law.

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

**CONDENSED BALANCE SHEETS AS AT 31 DECEMBER 2017 AND 2016**

(Thousand Euros)

| ASSETS | 2017 | 2016 | LIABILITIES AND EQUITY | 2017 | 2016 |
|---|---|---|---|---|---|
| Cash, cash balances at central banks and other deposits on demand | 77,673 | 16,326 | **LIABILITIES** | | |
| Financial assets held for trading | 1,625 | 30 | | | |
| Financial assets designated at fair value through profit or loss | - | - | Financial liabilities held for trading | 317 | 1,747 |
| Financial assets available for sale | 1,763,126 | 1,202,855 | Financial liabilities at amortised cost | 25,566,534 | 25,884,208 |
| Loans and receivables | 21,987,201 | 22,096,090 | Hedging derivatives | 71,276 | 43,733 |
| Investments held to maturity | - | - | Provisions | 48,449 | 51,833 |
| Hedging derivatives | 101,156 | 69,953 | Tax liabilities | 239,278 | 176,113 |
| Changes in the fair value of hedged items in portfolio hedges of interest rate risk | - | - | Other liabilities | 38,157 | 38,098 |
| Investments | 11,910,467 | 11,996,631 | | | |
| Tangible assets | 206 | 263 | **TOTAL LIABILITIES** | **25,964,011** | **26,195,732** |
| Intangible assets | 6,857 | 8,889 | | | |
| Tax assets | 120,424 | 120,081 | | | |
| Other assets | 29,435 | 2,665 | Shareholders equity | 10,038,953 | 9,327,530 |
| Non current assets held for sale | 2,423 | 5,196 | Other comprehensive income | (2,371) | (4,283) |
| **TOTAL ASSETS** | **36,000,593** | **35,518,979** | **TOTAL EQUITY** | **10,036,582** | **9,323,247** |
| | | | **TOTAL LIABILITIES AND EQUITY** | **36,000,593** | **35,518,979** |
| MEMORANDUM ITEMS: | | | | | |
| CONTINGENT LIABILITIES | 1,609,348 | 1,536,494 | | | |
| CONTINGENT COMMITMENTS | 3,900,695 | 4,588,651 | | | |

## SANTANDER CONSUMER FINANCE, S.A.

### CONDENSED INCOME STATEMENTS

### FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

(Thousand Euros)

| | Income/(Expenses) | |
|---|---|---|
| | 2017 | 2016 |
| Interest Income | 263,529 | 291,562 |
| Interest Expense | (143,373) | (126,387) |
| **Net interest income** | **120,156** | **165,175** |
| Dividend Income | 582,119 | 703,457 |
| Commission income | 28,977 | 29,741 |
| Commission expense | (49,110) | (46,949) |
| Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net | 4,466 | (12,634) |
| Gains or losses on financial assets and liabilities held for trading, net | 474 | (474) |
| Gains or losses on financial assets and liabilities measured at fair value through profit or loss, net | - | - |
| Gains or losses from hedge accounting, net | 25 | (13) |
| Exchange differences, net | (3,632) | (2,891) |
| Other operating income | 372 | 130 |
| Other operating expenses | (9,896) | (7,077) |
| Income from assets under insurance and reinsurance contracts | - | - |
| Expenses from liabilities under insurance and reinsurance contracts | - | - |
| **Total income** | **673,951** | **828,465** |
| Administrative expenses | (68,120) | (53,733) |
| Depreciation and amortisation cost | (2,157) | (1,811) |
| Provisions or reversal of provisions | (1,194) | 4,470 |
| Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss, net | (49,646) | 12,968 |
| **Profit from operations** | **552,834** | **790,359** |
| Impairment of investments in subsidiaries, joint ventures and associates, net | (41,009) | - |
| Impairment on non-financial assets, net | (6,806) | - |
| Negative goodwill recognised in results | - | - |
| Gains or losses on non-current assets held for sale classified as discontinued operations | 1,706 | (6,889) |
| **Profit or loss before tax from continuing operations** | **506,725** | **783,470** |
| Tax expense or income from continuing operations | (43,848) | (156,972) |
| Profit for the period from continuing operations | 462,877 | 626,498 |
| **PROFIT FOR THE YEAR** | **462,877** | **626,498** |

Annexes

# Annex 1 – Reconciliation statements of the Consolidated Financial Statements

Shown below are the Statements of Financial Position of the Consolidated Financial Statements of Santander Consumer Bank at 31 December 2017 and restated according to the new formats.

| | Assets according to 262 4° update | 12/31/2017 | Reclassification | | Assets according to 262 5° update | Amounts as at 12/31/2017 |
|---|---|---|---|---|---|---|
| 10. | Cash and cash balances | 3,401 | | 10. | Cash and cash balances | 3,401 |
| 20. | 'Held for trading financial assets | 1,032,653 | | 20. | Financial assets designated at fair value through profit or loss | 1,032,653 |
| 30. | Financial assets designated at fair value | - | | | a) Financial assets held for trading | 1,032,653 |
| 40. | Available-for-sale financial assets | 467,054,910 | (467,054,910) | | b) Financial assets designated at fair value | - |
| 50. | Financial assets held to maturity | - | | | c) other financial assets mandatorily at fair value | - |
| | | | | 30. | Financial assets at fair value through other comprehensive income | - |
| | | | | 40. | Financial assets measured at amortised cost | 8,570,139,326 |
| 60. | Loans and advances to banks | 465,553,941 | | | a) Loans and advances to banks | 465,553,941 |
| 70. | Loans and advances to customers | 7,637,530,475 | 467,054,910 | | b) Loans and advances to customers | 8,104,585,385 |
| 80. | Hedging derivatives | 961,286 | | 50. | Hedging derivatives | 961,286 |
| 90. | Changes in fair value of portfolio hedged items (+/-) | (409,761) | | 60. | Changes in fair value of portfolio hedged items (+/-) | (409,761) |
| 100. | Equity investments | - | | 70. | Equity investments | - |
| 110. | paid by the reinsurers | - | | | | |
| 120. | Property, plant and equipment | 1,602,652 | | 80. | Property, plant and equipment | 1,602,652 |
| *130.* | *Intangible assets* | *10,264,072* | | 90. | Intangible assets | 10,264,072 |
| | *of which:* | - | | | of which: | |
| | - goodwill | - | | | - goodwill | - |
| *140.* | *Tax assets* | *240,581,687* | | 100. | Tax assets | 240,581,687 |
| | *a) current* | *38,492,029* | | | a) current | 38,492,029 |
| | b) deferred | 202,089,658 | | | b) deferred | 202,089,658 |
| 150. | Non current assets and disposal groups classified as held for sale | 3,000 | | 110. | Non current assets and disposal groups classified as held for sale | 3,000 |
| 160. | Other assets | 225,842,338 | | 120. | Other assets | 225,842,338 |
| | **Total assets** | **9,050,020,654** | **-** | | **Total assets** | **9,050,020,654** |

| | Liabilities and Shareholders' eq+B35:I66uity according to 262 4° update | 12/31/2017 | Reclassification | | Liabilities and Shareholders' equity according to 262 5° update | Amounts as at 12/31/2017 |
|---|---|---|---|---|---|---|
| | | | | 10. | Financial liabilities at amortised cost: | 7,580,917,335 |
| 10. | Deposits from banks | 5,670,768,884 | | | a) Deposits from banks | 5,670,768,884 |
| 20. | Deposits from customers | 1,646,083,192 | | | b) Deposits from customers | 1,646,083,192 |
| 30. | Debt securities in issue | 264,065,259 | | | c) Debt securities in issue | 264,065,259 |
| 40. | Financial liabilities held for trading | 1,117,411 | | 20. | Financial liabilities held for trading | 1,117,411 |
| 50. | Financial liabilities designated at fair value | - | | 30. | Financial liabilities designated at fair value | - |
| 60. | Hedging derivatives | 3,122,227 | | 40. | Hedging derivatives | 3,122,227 |
| 70. | Value adjustment of hedged financial liabilities (+/-) | - | | 50. | Value adjustment of hedged financial liabilities (+/-) | - |
| 80. | Tax liabilities: | 49,584,240 | | 60. | Tax liabilities: | 49,584,240 |
| | *a) current* | *49,440,956* | | | *a) current* | *49,440,956* |
| | *b) deferred* | *143,284* | | | *b) deferred* | *143,284* |
| 90. | Liabilities associated with assets classified as held for sale | - | | 70. | Liabilities associated with assets classified as held for sale | - |
| 100. | Other liabilities | 462,491,176 | | 80. | Other liabilities | 462,491,176 |
| 110. | Provision for employee severance pay | 4,298,817 | | 90. | Provision for employee severance pay | 4,298,817 |
| 120. | Provisions for risks and charges: | 29,144,104 | | 100. | Provisions for risks and charges: | 29,144,104 |
| | *a) post-retirement benefit obligations* | - | | | *a) committments and guarantees given* | - |
| | *b) other provisions for risks and charges* | *29,144,104* | | | *b) post-retirement benefit obligations* | - |
| 130. | Technical reserves | - | | | *c) other provisions for risks and charges* | *29,144,104* |
| 140. | Valuation reserves | (418,506) | | 110. | Valuation reserves | (418,506) |
| | | | | 111 | of which discontinued operation | - |
| 150. | Redeemable shares | - | | 120. | Redeemable shares | - |
| 160. | Equity instruments | - | | 130. | Equity instruments | - |
| 170. | Reserves | 104,056,562 | | 140. | Reserves | 104,056,562 |
| | | | | 145 | of which dividend deposit | - |
| 180. | Share premium | 632,586 | | 150. | Share premium | 632,586 |
| 190. | Share capital | 573,000,000 | | 160. | Share capital | 573,000,000 |
| 200. | Treasury shares (-) | - | | 170. | Treasury shares (-) | - |
| 210. | Minority shareholders' equity (+/-) | 150,648,262 | | 190. | Minority shareholders' equity (+/-) | 150,648,262 |
| *220.* | *Profit (Loss) of the year (+/-)* | *91,426,440* | | 180. | *Profit (Loss) of the year (+/-)* | *91,426,440* |
| | **Total liabilities and shareholders' equity** | **9,050,020,654** | **-** | | **Total liabilities and shareholders' equity** | **9,050,020,654** |

Shown below are the Statements of Financial Position of the Consolidated Financial Statements of Santander Consumer Bank at 31 December 2017 and restated according to the new formats and the effect of the First Time Adoption of IFRS 9 by the Group companies by individual item that determines the new opening balance.

| | Assets according to 262 5° update | Amounts as at 12/31/2017 | FTA SCB | FTA SCFM | FTA PSA | post-FTA 01/01/2018 |
|---|---|---|---|---|---|---|
| 10. | Cash and cash balances | 3,401 | | | | 3,401 |
| 20. | Financial assets designated at fair value through profit or loss | 1,032,653 | | | | 1,032,653 |
| | a) Financial assets held for trading | 1.032.653 | | | | 1,032,653 |
| 40. | Financial assets measured at amortised cost | 8,570,139,326 | (9,168,492) | 1,083 | 1,430,347 | 8,562,402,265 |
| | a) Loans and advances to banks | 465,553,941 | | | | 465,553,941 |
| | b) Loans and advances to customers | 8,104,585,385 | (9,168,492) | 1,083 | 1,430,347 | 8,096,848,323 |
| 50. | Hedging derivatives | 961,286 | | | | 961,286 |
| 60. | Changes in fair value of portfolio hedged items (+/-) | (409,761) | | | | (409,761) |
| 80. | Property, plant and equipment | 1,602,652 | | | | 1,602,652 |
| 90. | Intangible assets | 10,264,072 | | | | 10,264,072 |
| 100. | Tax assets | 240,581,687 | 3,004,447 | (358) | (446,041) | 243,139,734 |
| | a) current | 38,492,029 | | | | 38,492,029 |
| | b) deferred | 202,089,658 | 3,004,447 | (358) | (446,041) | 204,647,705 |
| 110. | Non current assets and disposal groups classified as held for sale | 3,000 | | | | 3,000 |
| 120. | Other assets | 225,842,338 | | | | 225,842,338 |
| | **Total assets** | **9,050,020,654** | **(6,164,045)** | **725** | **984,305** | **9,044,841,639** |

| | Liabilities and Shareholders' equity according to 262 5° update | Amounts as at 12/31/2017 | FTA SCB | FTA SCFM | FTA PSA | post-FTA 01/01/2018 |
|---|---|---|---|---|---|---|
| 10. | Financial liabilities at amortised cost: | 7,580,917,335 | | | | 7,580,917,335 |
| | a) Deposits from banks | 5,670,768,884 | | | | 5,670,768,884 |
| | b) Deposits from customers | 1,646,083,192 | | | | 1,646,083,192 |
| | c) Debt securities in issue | 264,065,259 | | | | 264,065,259 |
| 20. | Financial liabilities held for trading | 1,117,411 | | | | 1,117,411 |
| 40. | Hedging derivatives | 3,122,227 | | | | 3,122,227 |
| 60. | Tax liabilities: | 49,584,240 | (40,539) | | | 49,543,701 |
| | *a) current* | *49,440,956* | | | | *49,440,956* |
| | *b) deferred* | *143,284* | *(40,539)* | | | *102,745* |
| 80. | Other liabilities | 462,491,176 | | | | 462,491,176 |
| 90. | Provision for employee severance pay | 4,298,817 | | | | 4,298,817 |
| 100. | Provisions for risks and charges: | 29,144,104 | 39,205 | | | 29,183,309 |
| | *a) committments and guarantees given* | - | *39,205* | | | *39,205* |
| | *c) other provisions for risks and charges* | *29,144,104* | | | | *29,144,104* |
| 110. | Valuation reserves | (418,506) | (82,046) | | (4,089) | (504,641) |
| 140. | Reserves | 104,056,562 | (6,080,666) | 471 | 496,242 | 98,472,609 |
| 150. | Share premium | 632,586 | | | | 632,586 |
| 160. | Share capital | 573,000,000 | | | | 573,000,000 |
| 190. | Minority shareholders' equity (+/-) | 150,648,262 | | 254 | 492,153 | 151,140,668 |
| 180. | *Profit (Loss) of the year (+/-)* | *91,426,440* | | | | *91,426,440* |
| | **Total liabilities and shareholders' equity** | **9,050,020,654** | **(6,164,045)** | **725** | **984,305** | **9,044,841,639** |

# Annex 2 – Reconciliation statements of the Separate Financial Statements

Shown below are the Statements of Financial Position of the Separate Financial Statements of Santander Consumer Bank S.p.A. at 31 December 2017 and restated according to the new formats.

| | Assets according to 262 4° update | 12/31/2017 | Reclassification | | Assets | 12/31/2017 |
|---|---|---|---|---|---|---|
| 10. | Cash and cash balances | 2,414 | | 10. | Cash and cash balances | 2,414 |
| 20. | Held for trading financial assets | 1,032,653 | | 20. | Financial assets designated at fair value through profit or loss | 1,032,653 |
| 30. | Financial assets designated at fair value | - | | | a) Financial assets held for trading | 1,032,653 |
| 40. | Available-for-sale financial assets | 406,363,510 | (406,363,510) | | b) Financial assets designated at fair value | - |
| 50. | Financial assets held to maturity | - | | | c) other financial assets mandatorily at fair value | - |
| | | | | 30. | Financial assets at fair value through other comprehensive income | - |
| | | | | 40. | Financial assets measured at amortised cost | 6,072,311,497 |
| 60. | Loans and advances to banks | 59,768,720 | | | a) Loans and advances to banks | 59,768,720 |
| 70. | Loans and advances to customers | 5,606,179,267 | 406,363,510 | | b) Loans and advances to customers | 6,012,542,777 |
| 80. | Hedging derivatives | 644,075 | | 50. | Hedging derivatives | 644,075 |
| 90. | Changes in fair value of portfolio hedged items (+/-) | 713,828 | | 60. | Changes in fair value of portfolio hedged items (+/-) | 713,828 |
| 100. | Equity investments | 127,489,712 | | 70. | Equity investments | 127,489,712 |
| 110. | Property, plant and equipment | 1,524,036 | | 80. | Property, plant and equipment | 1,524,036 |
| 120. | Intangible assets | 10,263,931 | | 90. | Intangible assets | 10,263,931 |
| | *of which:* | | | | of which: | - |
| | *- goodwill* | - | | | - goodwill | |
| 130. | Tax assets | 222,923,721 | | 100. | Tax assets | 222,923,721 |
| | *a) current* | *23,207,536* | | | a) current | 23,207,536 |
| | *b) deferred* | *199,716,185* | | | b) deferred | 199,716,185 |
| 140. | Non current assets and disposal groups classified as held for sale | 3,000 | | 110. | Non current assets and disposal groups classified as held for sale | 3,000 |
| 150. | Other assets | 47,168,803 | | 120. | Other assets | 47,168,803 |
| | **Total assets** | **6,484,077,669** | **-** | | **Total assets** | **6,484,077,669** |

| | Liabilities and Shareholders' equity according to 262 4° update | 12/31/2017 | Reclassification | | Liabilities and Shareholders' equity | 12/31/2017 |
|---|---|---|---|---|---|---|
| | | | | 10. | Financial liabilities at amortised cost: | 5,379,968,489 |
| 10. | Deposits from banks | 4,059,020,064 | | | a) Deposits from banks | 4,059,020,064 |
| 20. | Deposits from customers | 1,056,883,167 | | | b) Deposits from customers | 1,056,883,167 |
| 30. | Debt securities in issue | 264,065,259 | | | c) Debt securities in issue | 264,065,259 |
| 40. | Financial liabilities held for trading | - | | 20. | Financial liabilities held for trading | - |
| 50. | Financial liabilities designated at fair value | - | | 30. | Financial liabilities designated at fair value | - |
| 60. | Hedging derivatives | 2,823,535 | | 40. | Hedging derivatives | 2,823,535 |
| 70. | Value adjustment of hedged financial liabilities (+/-) | - | | 50. | Value adjustment of hedged financial liabilities (+/-) | - |
| 80. | Tax liabilities: | 30,033,846 | | 60. | Tax liabilities: | 30,033,846 |
| | *a) current* | *29,993,307* | | | *a) current* | *29,993,307* |
| | *b) deferred* | *40,539* | | | *b) deferred* | *40,539* |
| 90. | Liabilities associated with assets classified as held for sale | - | | 70. | Liabilities associated with assets classified as held for sale | - |
| 100. | Other liabilities | 298,838,610 | | 80. | Other liabilities | 298,838,610 |
| 110. | Provision for employee severance pay | 3,198,707 | | 90. | Provision for employee severance pay | 3,198,707 |
| 120. | Provisions for risks and charges: | 25,805,029 | | 100. | Provisions for risks and charges: | 25,805,029 |
| | *a) post-retirement benefit obligations* | - | | | *a) committments and guarantees given* | - |
| | *b) other provisions for risks and charges* | *25,805,029* | | | *b) post-retirement benefit obligations* | - |
| | | | | | *c) other provisions for risks and charges* | *25,805,029* |
| 130. | Valuation reserves | (552,705) | | 110. | Valuation reserves | (552,705) |
| | | | | 111 | of which discontinued operation | |
| 140. | Redeemable shares | | | 120. | Redeemable shares | - |
| 150. | Equity instruments | | | 130. | Equity instruments | - |
| 160. | Reserves | 90,106,741 | | 140. | Reserves | 90,106,741 |
| | | | | 145 | of which dividend deposit | - |
| 170. | Share premium | 632,586 | | 150. | Share premium | 632,586 |
| 180. | Share capital | 573,000,000 | | 160. | Share capital | 573,000,000 |
| 190. | Treasury shares (-) | | | 170. | Treasury shares (-) | - |
| 200. | Profit (Loss) of the year (+/-) | 80,222,830 | | 180. | Profit (Loss) of the year (+/-) | 80,222,830 |
| | **Total liabilities and shareholders' equity** | **6,484,077,669** | - | | **Total liabilities and shareholders' equity** | **6,484,077,669** |

Shown below are the Statements of Financial Position of the Separate Financial Statements of Santander Consumer Bank S.p.A. at 31 December 2017 and restated according to the new formats and the effect of the First Time Adoption of IFRS 9 by individual item that determines the new opening balance.

| | Assets | 12/31/2017 | FTA | post-FTA 01/01/2018 |
|---|---|---|---|---|
| 10. | Cash and cash balances | 2,414 | | 2,414 |
| 20. | Financial assets designated at fair value through profit or loss | 1,032,653 | | 1,032,653 |
| | a) Financial assets held for trading | 1,032,653 | | 1,032,653 |
| 40. | Financial assets measured at amortised cost | 6,072,311,497 | (9,168,492) | 6,063,143,005 |
| | a) Loans and advances to banks | 59,768,720 | | 59,768,720 |
| | b) Loans and advances to customers | 5,606,179,267 | (9,168,492) | 5,597,010,775 |
| 50. | Hedging derivatives | 644,075 | | 644,075 |
| 60. | Changes in fair value of portfolio hedged items (+/-) | 713,828 | | 713,828 |
| 70. | Equity investments | 127,489,712 | | 127,489,712 |
| 80. | Property, plant and equipment | 1,524,036 | | 1,524,036 |
| 90. | Intangible assets | 10,263,931 | | 10,263,931 |
| 100. | Tax assets | 222,923,721 | 3,004,447 | 225,928,168 |
| | a) current | 23,207,536 | | 23,207,536 |
| | b) deferred | 199,716,185 | 3,004,447 | 202,720,632 |
| 110. | Non current assets and disposal groups classified as held for sale | 3,000 | | 3,000 |
| 120. | Other assets | 47,168,803 | | 47,168,803 |
| | **Total assets** | **6,484,077,669** | **(6,164,045)** | **6,477,913,623** |

| | Liabilities and Shareholders' equity | 12/31/2017 | FTA | post-FTA 01/01/2018 |
|---|---|---|---|---|
| 10. | Financial liabilities at amortised cost: | 5,379,968,489 | | 5,379,968,489 |
| | a) Deposits from banks | 4,059,020,064 | | 4,059,020,064 |
| | b) Deposits from customers | 1,056,883,167 | | 1,056,883,167 |
| | c) Debt securities in issue | 264,065,259 | | 264,065,259 |
| 40. | Hedging derivatives | 2,823,535 | | 2,823,535 |
| 60. | Tax liabilities: | 30,033,846 | (40,539) | 29,993,307 |
| | *a) current* | *29,993,307* | | *29,993,307* |
| | *b) deferred* | *40,539* | *(40,539)* | - |
| 80. | Other liabilities | 298,838,610 | | 298,838,610 |
| 90. | Provision for employee severance pay | 3,198,707 | | 3,198,707 |
| 100. | Provisions for risks and charges: | 25,805,029 | 39,205 | 25,844,234 |
| | *a) committments and guarantees given* | - | *39,205* | *39,205* |
| | *c) other provisions for risks and charges* | *25,805,029* | | *25,805,029* |
| 110. | Valuation reserves | (552.705) | (82,046) | (634,751) |
| 140. | Reserves | 90,106,741 | (6,080,666) | 84,026,075 |
| 150. | Share premium | 632,586 | | 632,586 |
| 160. | Share capital | 573,000,000 | | 573,000,000 |
| 180. | Profit (Loss) of the year (+/-) | 80,222,830 | | 80,222,830 |
| | **Total liabilities and shareholders' equity** | **6,484,077,669** | **(6,164,045)** | **6,477,913,623** |

## CONTACTS

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