Financial Statements as at 31 December 2019

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

Head office

Corso Massimo D'Azeglio 33/E

Tel: 011/63.19.111 – Fax 011/63.19.119

Shareholder structure

Santander Consumer Finance S.A.

(Santander Group) 100%

Directors and officers

Board of Directors

Chairman	Ettore Gotti Tedeschi
Chief Excutive Officer	Alberto Merchiori
Directors	Pedro De Elejabeitia Rodriguez
	Adelheid Maria Sailer-Schuster
	David Turiel Lopez (until 22/07/2019)
	Antonella Tornavacca
	Patrizia Rizzo
	Rafael Moral Salarich (from 23/07/2019)
	Pedro Miguel Aguero Cagigas (from 23/07/2019)

Board of Statutory Auditors

Chairman	Walter Bruno
Acting Auditors	Maurizio Giorgi
	Franco Riccomagno
Substitute Auditors	Luisa Girotto
	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 each 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 DeAgostini 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.

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 management decisions and the efficiency of its internal control system.

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 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 of functions and responsibilities; (ii) an appropriate balance of powers; (iii) a balanced composition of the corporate bodies; (iv) an integrated and effective control system; (v) monitoring of all business risks; (vi) remuneration mechanisms consistent with risk management policies 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 period of three financial 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 (Independent Director)
- Antonella Tornavacca (Director)
- Adelheid Maria Sailer-Schuster (Independent Director)
- Rafael Moral Salarich (Director)
- Pedro Miguel Aguero Cagigas (Director)

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. It fully exercises the functions pertaining to the overall governance of the Group, dealing effectively with the various different issues falling within 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 significant importance from an economic, financial and risk point of view;
- reporting to 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 2019, the Board met twelve times with a participation rate of 94%.

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 (Chairwoman)
- 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 (Chairwoman)
- 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 (Chairwoman)
- Patrizia Rizzo
- Pedro Miguel Aguero Cagigas

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 2019, the following were members: the Chief Executive Officer and General Manager Alberto Merchiori (ad interim also Head of Sales Network), Andrea Prioreschi (Head of Information Technology and Processes), Simona Cipollina (Head of 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), Luis Ignacio Oleaga Gascue (Head of Finance), Guido Piacenza (Head of Human Resources and Organisation), Andrea Mastellaro (Head of Internal Audit) and Daniele Gulino (Head of Integrated Multichannels).

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.

The General Management has, among other things, the following functions:

- 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, the activity of the aforementioned Body is oriented to the following macro-activities:

- 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 Marketing, the Head of the Sales Network, 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 Integrated Multichannels, and the Head of Human Resources and Organisation.

The Head of Internal Audit is permanently invited to the meetings.

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 Marketing, the Head of the Sales Network, 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 sensitive transactions that need to be analysed and reviewed.

The Committee meets on a quarterly basis.

The Excutive 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 Marketing, the Head of the Sales Network, 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 Excutive 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 Marketing, the Head of the Sales Network, 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, the Head of Internal Auditing and the Head of the Risk Control Unit who are 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 consists of the Chief Executive Officer and General Manager, the Head of Finance, the Head of Administration and Control, the Head of Risk and the Head of Marketing.

Meetings are also attended by the Head of the Risk Control Unit, the Head of Planning and Control, the Head of Treasury and Capital Management and the Head of Financial Management, as permanent invitees but without the right to contribute to decision making.

The Committee 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 Marketing, the Head of the Sales Network, 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 Operational Marketing and Insurance, the Head of Legal and Corporate Affairs, the Head of Compliance and Conduct and the Head of the Risk Control Unit.

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 Commitee

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 Heads 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 Marketing, the Head of the Sales Network, 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, Head of IT/Cyber Security, the Head of Risk, the Head of Marketing, the Head of the Sales Network, 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 Integrated Multichannels and the Head of Human Resources and Organisation.

The Committee meets nine times a year.

Human Resources and Cylture 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 Marketing, the Head of the Sales Network, 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, the Head of Integrated Multichannels and the Head of Human Resources and Organisation.

The Head of Internal Audit is permanently invited to the meetings.

The Committee meets on a quarterly basis.

The Surpervisory Board set up in accordance with Legislative Decree no. 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 Organisation, Management and Control Model 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.

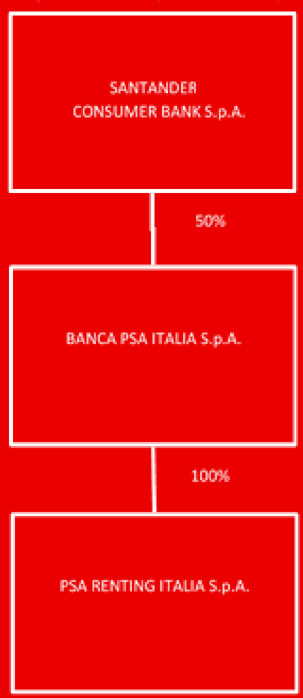
The Board currently in office - up to the Shareholders' Meeting that will be convened to approve the financial statements at 31 December 2020 - is composed of the Chairman of the Board of Statutory Auditors of Santander Consumer Bank S.p.A., an external member and the Head of Compliance.

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.

Santander Consumer Bank

Consolidated Financial Statements of the Santander Consumer Bank Group



Report on group operation

Report on Group operations

The macroeconomic scenario

In 2019 international economy[1] experienced a modest growth. International trade expanded again in the third quarter, but still with expectations of a downward risk: expectations softened with regard to the trade tariffs dispute between the United States and China, but prospects remained uncertain and geopolitical tensions were growing. The approach of the central banks of the main advanced countries remained widely accommodating.

In the third quarter of 2019 the GDP of the United States and of Japan grew at rates similar to that of the previous period, while it rose in the United Kingdom. In China the economic activity slowed down in the summer months, but more recent indicators suggest that it is stabilising.

Imports recovered both in advanced countries and in emerging economies, while short-term prospects for international trade remained uncertain, as the global PMI indices for summer orders remained under the level that would indicate an expansion.

In December the United States and the China reached a first trading agreement (phase-one deal), preliminary to a wider debate on the economic relationship between the two countries. The agreement averted increases in the US tariffs initially planned for mid December and halved those introduced in September; the Chinese government committed to increase imports in agricultural and energy products from the United States and offered guarantees with respect to intellectual property and exchange rate policies. The agreement reduced the economic tensions between the two countries, in place since early 2018, but the applicable tariffs are overall higher than they were two years ago. At the end of 2019, the US Congress approved the new trade agreement between the United States, Mexico and Canada (United States-Mexico-Canada Agreement, USMCA), which replace the 1994 agreement (North American Free Trade Agreement, NAFTA) and which imposes more restrictions on the regulations on the origin of products and production standards in the automotive sector.

In the main advanced economies consumer prices grew by about 2%. Long-term inflation expectations from returns in the financial markets remained essentially stable in the United States, at around 1.8%.

In the Eurozone[2] economic activity was slowed down by the weakness of the manufacturing sector. In the third quarter the GDP growth for the Eurozone remained stable at the same 0.2% level of the previous period. Economic activity was supported by internal demand and in particular by consumption, which strengthened thanks to the good performance in employment. In a context of weakness in the global trade scenario, the contribution of foreign trade was slightly negative. The product continued to expand in Spain, in France and, to a lesser extent, in Italy; it increased again in Germany, at a very modest rate although slightly higher than expected. Weakness was concentrated in the industrial sector, where activity contracted again in the summer months, with a particularly marked drop in Germany. However, added value in the services sector grew both in the zone overall and in the three main economies. The risk remains that, if continuing over time, the weakness of the industrial sector will affect activity in services in a more marked way.

In the fourth quarter of 2019 growth should have remained at modest levels: in December, the €-coin indicator developed by the Bank of Italy, which provides an estimate of area core trends, settled on very modest levels. In the period of October-November the drop in industrial output softened slightly, also thanks to the improved performance expectations in Germany. In the December Eurosystem projections, GDP growth in 2019 was estimated at 1.2%; it should go down to 1.1% in 2020 and then up to 1.4% in the following two years.

The 12-month rate of inflation was stable on average in the fourth quarter and in December it went up to 1.3%. According to the Eurosystem projections, inflation should remain stable in the 2020-22 period, consistently with the moderate growth in economic activity.

In the meeting of 12 December the Governing Council of the ECB confirmed its position on monetary policy: official rates will remain on values similar or lower than current ones until inflation forecasts settle around at about 2%; net purchases in the context of the wider financial assets purchase programme (Expanded Asset Purchase Programme, APP), of around 20 billion per month from November, will continue as long as necessary.

In Italy[3] economic activity, which had slightly grown in the third quarter of the year, remained essentially stable in the fourth quarter, continuing to be affected mainly by the weakness of the manufacturing sector.

In fact, in the third quarter the product rose by 0.1%, supported by domestic demand and in particular by household expenditure which accelerated by 0.4%. Consumption benefited by the favourable trend in disposable income, since last April moderately supported also by the citizenship income. Household purchasing power grew by 0.3%, while debit decreased slightly compared to the previous quarter. The foreign trade contribution was negative, due to the effect of a small reduction in exports.
In the autumn months the interest of foreign investors in Italian debt securities continued; between January and November net purchases from abroad amounted to a total of 108 billion, of which 90 in government securities, an amount higher than the net issues by the Treasury in the same period.

[1] Bank of Italy, Economic Bulletin, issue 1/2020
[2] Ibidem
[3] Ibidem

In the fourth quarter of 2019 the Italian GDP remained essentially unchanged, while the increase in disposable income recorded during 2019 supported households' expenditure in the summer months; propensity to save remained essentially unchanged.
Financing condition, therefore, remain relaxed: banks signalled a relaxing of the loan granting criteria and the cost of credit for households dropped significantly. Lending to enterprises dropped slightly, in line with the weakness in demand. The flow of new impaired loans is modest, in spite of the unfavourable cyclic phase.
Budget manoeuvres for the 2020-22 three-year period, approved by Parliament, increase the budget deficit with respect to trends by almost a percentage point on the product in 2020 and approximately 0.6 points on average per year in the following two years. In 2020 the manoeuvre eliminates the increases of indirect taxation due to safeguard clauses (equal to 1.3% of GDP) and allocates resources mainly to the reduction of the tax wedge on employment, public and private investments and the renewal of public contracts. To partially offset these expansive provisions, the manoeuvre finds sources of around 0.8 percentage points of the product, mainly by counteractive evasion, increases taxes on games and tobacco, and savings on expenditure.

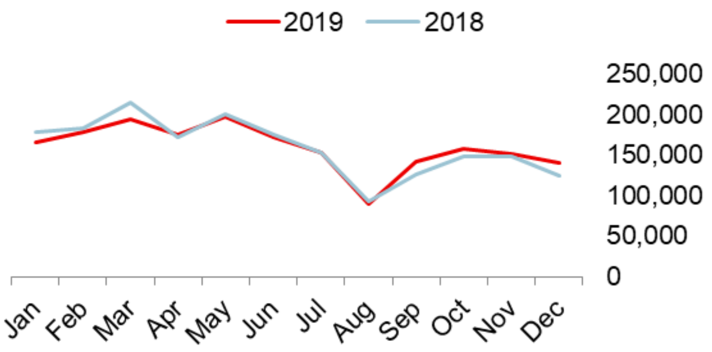
In a nutshell, the scenario outlined in Italy by the latest projections is the following:

- **Monetary policy.** Monetary conditions should remain highly accommodative. Short-term interest rates should remain negative, while medium/long-term ones should remain lower than the averages of 2018-2019 for the entire three-year period. Yield from 10-year Italian Government securities should be 1.6% in 2020, 1.9% in 2021 and 2.2% in 2022.
- **GDP.** Estimates anticipate GDP growth of 0.5% in 2020, 0.9% in 2021 and 1.1% in 2022**.**
- **Inflation.** Inflation should be 0.7% in 2020. It would then slowly rise to 1.1% in 2021 and to 1.3% in 2022. Both the acceleration of the cost of labour and the gradual recovery of profit margins, which would benefit from more favourable cyclic conditions, would contribute to this increase.

Industry trends

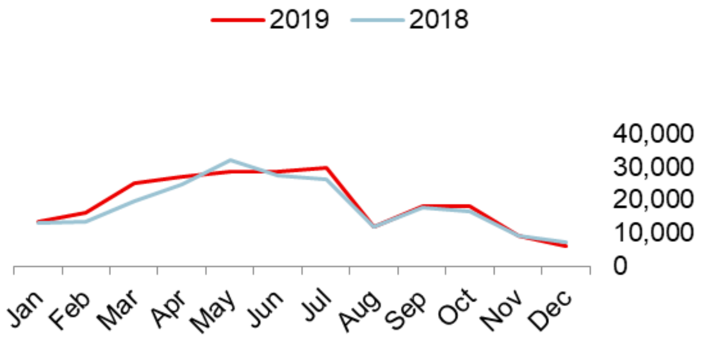
New car registrations increased in 2019 (+0.1%), with 1,926,535 cars, driven above all by the positive performance in the rental market[4]. There was an increase also in registration of two-wheel vehicles, which reached 231,937 units (+5.65%),[5] and in changes of ownership of vehicles net of transfers to dealers (+0.5%)[6]

Motor vehicle registrations



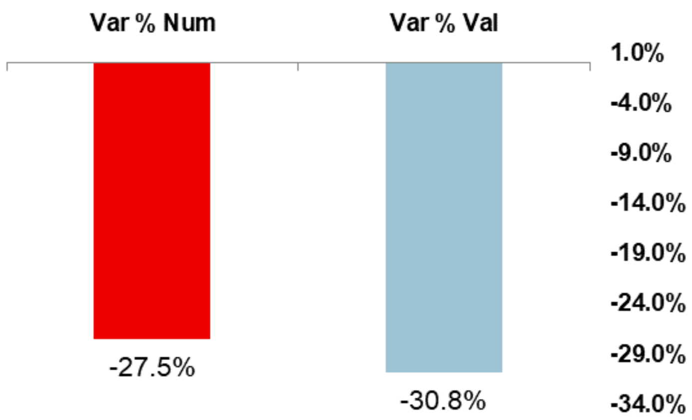
[4] UNRAE data at 31/12/2019
[5] ANCMA data at 31/12/2019 for vehicles over 50 cc
[6] ACI data at 31/12/2019

Motorcycle registration

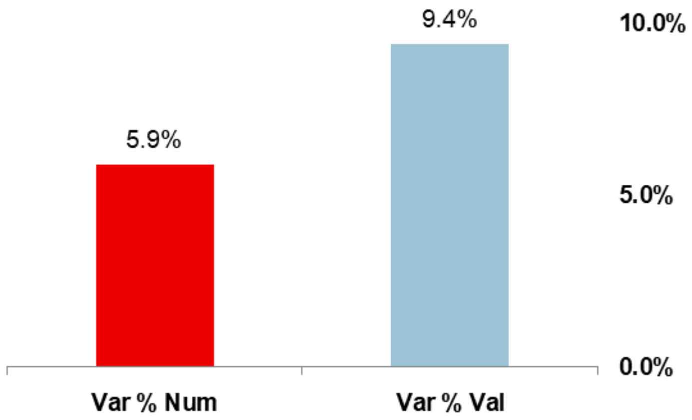


As regards the car leasing market, there was a decrease compared to the previous year (-5.9%), with a total of around Euro 14.1 billion of new loans[7]. The trend for motor vehicles indicates a contraction (-30.8%), while it shows an increase for commercial vehicles (+9.4%)[8].

Motor vehicle lease (Jan-Dec '19vs'18)



Commercial vehicle lease (Jan-Dec '19vs'18)



During 2019 riskiness of retail credit[9] recorded a further decrease, stabilising in the third quarter. In more details, in September 2019 the consumer credit default rate fell to 1.7%, a trend which was even more evident with regard to personal loans.

Forecasts for the next two years indicate that flows of loans to households will start to grow again also thanks to the progressive improvement of the macroeconomic scenario, which will stimulate demand, and the maintenance of good

[7] Assilea data at 31/12/2019
[8] Ibidem
[9] Observatory on retail credit (https://www.prometeia.it/news/osservatorio-credito-dettaglio-47-edizione)

funding conditions. The operating environment, however, remains complex also because of regulatory pressures which affect operators' strategies.

The flows of overall consumer credit in the last part of 2019 grew at a faster rate compared to 2018, continuing the trend recorded in the first 9 months of the year. In the second part of the year the growth in consumption could make an important contribution, especially in the durable goods sector, at least in part thanks to the effects of the citizenship income. In the subsequent two-year period the market will consolidate, but estimated flows are expected to show a progressively more moderate growth, falling in line again with the dynamics of households' consumption of durable goods for which greater use of consumer credit is made.

Strategic guidelines and outlook for 2020

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.** Offer a wider range of products, enriched by dedicated services, seizing the opportunities offered by digital technology.
- **Partners.** Maintain and strengthen the relationship with the current partners, supporting their commercial activities and search new cooperation opportunities on different channels.
- **Shareholders.** Ensure a solid, adequate and sustainable growth with value creation.
- **Actively managed funds and capital.** Increase the diversification of funding sources with a limitation of financial risks. Maintain capitalization levels in line with current regulations, with constraints imposed by the Supervisory Authorities, or with the objectives of the Santander Group.
- **Control and optimisation of operating costs**, ensuring their growth is lower than the growth in revenue.
- **Digitalisation.** Achieve full digitalisation of the sales process in order to create competitive advantages and to automate procedures and improve the Group's visibility and customer experience.
- **Effective risk management.** Constantly monitor the quality of the managed portfolio and the level of disputes using an effective strategy of acceptance and recovery.
- **Internal culture.** Update, develop and optimise corporate professionals, promote talent and encourage internal mobility.
- **Community and environment.** Support the communities in which the Group operates with experience/internship programmes, financial education and active participation in academic events; support voluntary associations and sustain eco-sustainability initiatives.

As part of this mission and strategic direction, the expectations for 2020 take into consideration:

- Total loans granted by the Group essentially stable, with a product mix aimed at growth in the personal loans sector, thanks to cross-selling activities and the expected developments on digital channels.
- A gradual growth in the managed portfolio, with an increasing focus on the Car sector and special-purpose loans.
- Maintain high levels of profitability thanks to the growth trend in margins, contain operating expenses and constantly monitor the cost of risk.

Business outlook

As regards consumer credit, the Santander Consumer Bank Group recorded an increase in volumes compared to the previous year (+12.0%), with a good performance in the Automotive sector (+13.7%) in special-purpose and personal loans, while it recorded a drop in salary assignment loans.

In the Automotive sector, the Parent Company Santander Consumer Bank recorded an increase of 8.5%, with a significant impact by brands relating to Captive Agreements, while Banca PSA Italia contributed in the total amount of Euro 1,185 million (+20.3% compared to the previous year).

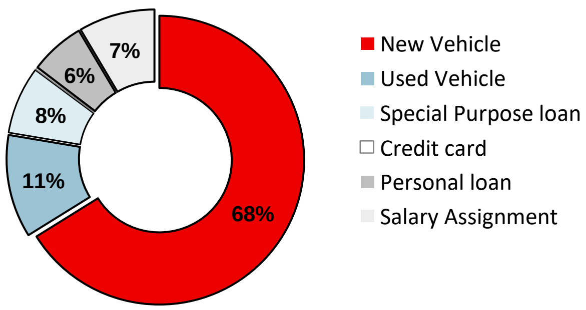
In the special-purpose loans the Group closed the year with an increase of 23.8% compared to the previous year, while for personal loans volumes increased by 7.1%.

In 2019, sales of the salary assignment product were down compared with the previous year (-9.6%), mainly due to a very competitive market linked to the presence of competitors with more aggressive financial positions.

Group Santander Consumer Bank	dec '19	dec '18	% 19/18
(Million euros)			
New Business Total*	*3,250.2*	2,901.8	12.0%
Total Vehicle	*2,561.7*	2,253.5	13.7%
New Vehicle	*2,201.1*	*1,919.3*	*14.7%*
Used Vehicle	*360.5*	*334.2*	*7.9%*
Special Purpose Loan	*270,2*	218.2	23.8%
Credit Card	*5.0*	5.6	-11.4%
Personal Loan	*190.2*	177.6	7.1%
Salary Assignment	*223.1*	246.9	-9.6%

* without Top Up and Refinancing

December 2019 – New Business (w/o) Stock Finance)



Financial management – The macroeconomic scenario and the financial markets

With regard to financial markets, the main events which occurred during 2019 are listed below.

In the global geopolitical context, the tariffs war between the USA and China was the focus of investors' attention throughout the year. The uncertain outcome of negotiations between the American President Trump and the Chinese leader Xi Jinping, which were restarted during the G20 meeting held in June, represented the main risk factor for balance in the global economy.

At the end of July, for the first time since the 2008 financial crisis, the Fed bank cut the interest rate by 25 basis points: in consequence of this, a few weeks later the yield curve of American government securities was inverted, if only for a few days.

At the end of 2019, a year in which the American stock exchange reached new records, the market attention was focused on the progression of the impeachment procedure against the USA president. These factors will certainly continue to be the centre of attention throughout the next year, when the White House election will take place, at the end of the first mandate of the current president.

In spite the year demonstrated overall some signals of a possible slight recovery in the global economy, differences between different areas and countries persist. The persisting of strong tensions caused by the increased gap between social classes, and the numerous episodes of civil unrest, bear witness to the malaise created by growing social inequalities. The Gini coefficient, which measures the differences in the distribution of income, in fact indicates an increase at global level of the concentration of wealth in few hands: as the OECD (Organisation for Economic Co-operation and Development) warns, the widening of the gap in purchasing power could disadvantage everyone because it reduces the potential for economic growth.

On the European front, in the month when the official exit of the United Kingdom from the European Unit should have taken place, a series of delays and plot twists began which culminated with the resignation of the Prime Minister, Theresa May. Boris Johnson took her place, and he subsequently consolidated his leadership with the victory in the December elections, thus confirming the prospect of saying goodbye to the European Union.

Again in March, the ECB announced a new series of TLTRO transactions, with seven liquidity auctions which will continue between September 2019 until March 2021. The announcement of further economy stimuli, interpreted by the financial community as a signal of the persisting of a slow growth, strengthened the investors' expectations of possible new cuts to the reference interest rates in the Eurozone. As an effect of this, the Euribor interest rate curve dropped to minimum levels for the year, achieved in June, before slowly rising during the year until the September meeting of the ECB, when the expected cut of 20 bps was reduced by only 10 bps.

At the end of October Mario Draghi finished his mandate as president of the ECB, emphasising, before leaving the scene, the urgency of further fiscal policies to stimulate the economy. Markets are now expecting his successor, Christine Lagarde, to move in the same direction, confirming the expectation of an interest rate curve slowly rising, again and only in the medium- and long-term.

The elections for the European Parliament which took place in May reduced the fear of a crumbling of the European Union, reducing Eurosceptic expressions to a few confined outbreaks.

In Italy, the year that has just finished was characterised by a strong political uncertainty, culminating in August with the government crisis between the Lega and the Five Star parties. This political scenario caused a strong shock to the spreads of government securities: record levels were reached, which returned to normality only following the formation of a new distinctly more pro-European government coalition, averting the danger of early elections and which therefore reduced the fears of a possible exit of our country from the European country.

With regard to the Italian economy, 2019 was a year characterised by choices that the Italian Parliament has had to adopt in terms of economic and fiscal policy, with the new Budget law approved by the EU in mid November, whose repercussions could only be assessed in the next year. The sustainability of the policies in the manoeuvre are mainly of concern to the Union, given the high level of the country's public debt.

Various factors have slowed down the growth of the Italian economy in 2019 and will presumably continue to have a negative impact also next year.

Access to the Citizenship Income for a lower than expected number of families has significantly reduced consumption forecasts. Furthermore, the slowdown of the German economy continues to have a steady impact on production in the automotive sector. These factors were accompanied by a drop in confidence for Italian enterprises and families, which translates into a more cautious approach to expenditure, which would be significantly influenced by any impact deriving from the increase in VAT according to the terms of the law.

The sectors of intermediate and investment goods recorded a weak performance during the year, while for consumer goods the slight growth in demand was determined exclusively by the growth in exports, thanks to the high degree of adaptation of Italian enterprises to both changed international scenarios and the dynamic in global demand. Domestic demand remains to date the weak link in the Italian economy, characterised by a weak dynamic that does not yet show any signs of recovery for the next year.

The availability of loans to enterprises, an important remise to the activation of investments, had a low profile in 2019 but a recovery is expected in 2020. In fact, two of the elements that in 2019 weighed on the offer of credit are improving: sovereign yields and non-performing bank loans.

Also to be noted at the end of 2019 was the rescue by the Italian government of Banca Popolare di Bari, crushed by the substantial level of Non-Performing Loans.

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.

The financial management of Santander Consumer Bank

With reference to collection, at the end of 2019 Santander Consumer Bank had net debt of Euro 5,626 million (+3.66% compared to the previous year).

This debt is mainly composed of structured funding, Group funding and deposits from customers.

At 31 December 2019, the amount resulting from participation in ECB auctions rose to Euro 1,022 million (TLTRO-II and TLTRO-III), as a result of the participation in TLTRO-III, in December 2019, for Euro 150 million.

The Bank also finalised a new STS securitisation transaction, pursuant to EU Regulation 2402 of 2017, obtaining Euro 558 million from the sale of the Senior class A security and from the sale of Mezzanine class units which have also allowed a benefit on the RWA calculation as it is recognised for prudential purposes as a transaction with a significant transfer of risk.

Finally, in December 2019, the Bank finalised a repurchase transaction, with quarterly duration, for an amount of Euro 79 million with an institutional investor.

Medium- to long-term liabilities include loans granted by the Spanish Parent Company, subordinated loans and non-preferred senior units subscribed 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 1,103 million at the end of 2018 to approximately Euro 1,211 million at December 2019. Further details on funding results are provided in the Deposit accounts section of the separate financial statements.

The cost of funding decreased in 2019 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 400 million at the end of 2019.

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.

In terms of the structure of financing sources, there was an increase of 32.4% in the amounts due to credit institutions to sustain the growth in assets, while the amounts due to customers, mainly represented by compensation accounts with dealers and time deposit accounts, and other liabilities decreased by 5.7%.

The following are highlighted during 2019: the realisation in July of a new self-funded securitisation transaction of a loans portfolio of Euro 660 million alongside the transaction in the previous year, the participation to the first two TLTRO-III transactions for Euro 195 million using the notes of the new securitisation transaction as collateral, the allocation to reserves of 50% of the 2018 profit, the payment from shareholders to the capital reserve for Euro 60 million and the issue of subordinated loans for Euro 22 million to maintain the statutory capital ratios at an adequate level to support the growth of the loans portfolio both in the retail (vehicles financing) and corporate (Stock financing transactions for the dealers network) segments.

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 2019.

Other facts worth mentioning

With regard to the main risks and uncertainties to which the Group is exposed, in accordance with the provisions of art. 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 art. 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 art. 2497 bis of the Italian Civil Code and art. 23 of Legislative Decree no. 385 of 1 September 1993, as updated to incorporate the amendments introduced by Legislative Decree no. 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 2019, 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 art. 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.

On 7 November 2019 Santander Consumer Bank SpA and TIM SpA signed an agreement to form a joint venture which will offer consumer credit services to the TIM's customers in Italy. The initial objective is to offer loans for the purchase of terminals through instalments loans and, at a later stage, other consumer credit and insurance products. The agreement envisages the creation of a joint venture in which Santander Consumer Bank S.p.A. has a 51% interest while TIM has 49%, and which will become operational in 2020.

On 4 December 2019, Bank of Italy has sent a communication to the financial intermediaries indicating the guidelines to which the latter must comply following the recent ruling made by the Court of Justice of the European Union10, with regard to the interpretation of the art. 16 par.1 of Directive 2008/48/EC, on consumer credit and early repayment of loans. Santander Consumer Bank has activated the necessary actions for the transposition of these guidelines; the Bank has therefore proceeded to estimate the impacts deriving from the new calculation methods to be applied on the existing portfolio when a request of early termination is submitted by the customer and to allocate in the financial statements, in accordance with the provisions of IAS 37, based on the principle of " prudent evaluation of the repayment rule" indicated in the above mentioned communication from Bank of Italy, a provision to hedge any liabilities deriving from the reimbursement of the charges paid by customers on consumer credit loans (including the salary assignment) and, according to the criteria from time to time included in the contract, recognized up-front at the time of the settlement.

Since the end of the year and up to the date of approval 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 2019.

In January 2020 the Covid 19 (hereinafter "Coronavirus") emergency occurred; with regard to the evaluations carried out by the Group for the management of this emergency, please refer to Part A - Section 4 "Events occurring after the reference date".

[10] Court of Justice of the European Union, 11 September 2019, lawsuit C-383/18 ("Lexitor")

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

	Shareholders' equity	of which: Result at 12/31/2019
Balances of the Parent Company at 12/31/2019	**897,640,395**	**81,270,125**
Effect of consolidation of subsidiaries	70,100,323	25,593,472
Minority interests	221,974,704	28,204,345
Consolidated balances at 12/31/2019	**1,189,715,422**	**135,067,942**

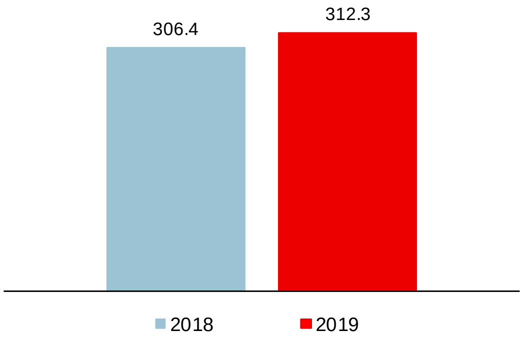
Comments on the results and key figures in the consolidated financial statements

The table shows the key economic and operating figures for the year, with comparative figures from the previous year (in millions of Euro).

Amounts in millions of Euro	2019	%	2018	%	Change	
					Amounts	%
Net investment margin	**312.3**	**3.1%**	**306.4**	**3.0%**	**5.9**	**1.9**
Net fee and commission	74.3	0.7%	60.6	0.6%	13.7	22.6
Profit or loss from insurance activities	0.0	0.0%	0.0	0.0%	0.0	--
Commercial margin	**386.6**	**3.8%**	**367.0**	**3.6%**	**19.6**	**5.3**
Dividends	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	(1.4)	0.0%	0.2	0.0%	(1.6)	(100.0)
Gains and losses on disposal of financial assets and liabilities	17.0	0.2%	(0.1)	0.0%	17.1	(100.0)
Net income (loss) on assets and liabilities measured at fair value	0.0	0.0%	0.0	0.0%	0.0	--
Operating income	**402.3**	**3.9%**	**367.1**	**3.6%**	**35.2**	**9.6**
other operating income (charges)	24.1	0.2%	17.1	0.2%	7.0	40.9
Administrative costs:	(158.3)	-1.5%	(153.9)	-1.5%	(4.4)	2.9
payroll costs	(63.1)	-0.6%	(60.0)	-0.6%	(3.1)	5.2
other administrative costs	(95.2)	-0.9%	(93.9)	-0.9%	(1.3)	1.4
Depreciation	(11.8)	-0.1%	(6.1)	-0.1%	(5.7)	93.4
Net operating margin	**256.3**	**2.5%**	**224.3**	**2.2%**	**32.0**	**14.3**
Impairment losses on financial assets	(28.9)	-0.3%	(37.7)	-0.4%	8.8	(23.3)
Other provisions	(32.1)	-0.3%	(9.8)	-0.1%	(22.3)	227.6
Profit (Loss) on Equity investments	0.0	0.0%	(0.1)	0.0%	0.1	(100.0)
impairment on goodwill	0.0	0.0%	0.0	0.0%	0.0	--
Gain and losses on disposal on investments	0.0	0.0%	0.0	0.0%	0.0	--
Total profit or loss before tax	**195.3**	**1.9%**	**176.8**	**1.7%**	**18.5**	**10.5**
Tax	(60.3)	-0.6%	(59.6)	-0.6%	(0.7)	1.2
Net profit or loss	135.1	1.3%	117.2	1.1%	17.9	15.3
Consolidated income (loss) of the period	**135.1**	**1.3%**	**117.2**	**1.1%**	**17.9**	**15.3**
Holdings income (loss) of the period	**106.9**	**1.0%**	**98.3**	**1.0%**	**8.6**	**8.7**

In the year in question, there was a slight increase in the Group's interest margin from Euro 306.4 million in 2018 to Euro 312.3 million in 2019, characterised by largely unchanged interest income (+1.3%) and a marked reduction in interest expense (-2.8%), favoured by the drop in rates and spreads paid to the market which resulted in a lower cost of funding.

Net interest margin



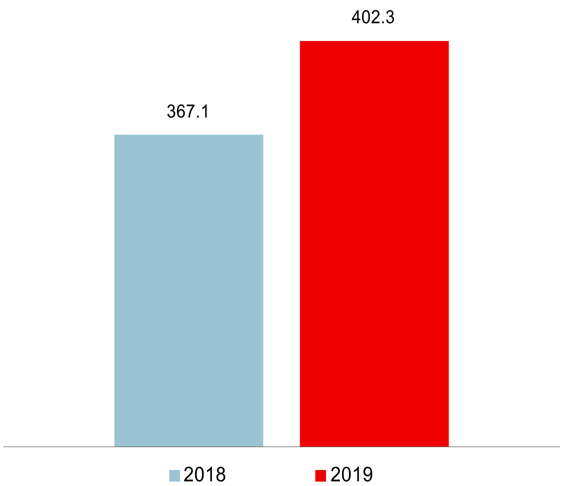
Net commissions increased significantly from Euro 60.6 million to Euro 74.3 million. Commission income linked to insurance products placed with customers financed by the Group increased (+9.4%), while commission expense decreased (-3.6%).

Net trading income (loss) and the net hedging income respectively represent the effect of the decrease in fair value of hedging derivatives on the loans portfolio overall and of structured securitisation derivatives.

The item Gains on disposal or repurchase of loans represents the balance net of receivables sold to third parties without recourse following the sale of loans in the first half of 2019 by the Parent Company.

The combination of the above mentioned effects leads to an increase of the banking income (+9.6%), which goes from Euro 367.1 to Euro 402.3 million.

Net banking income



Adjustments on loans significantly decreased (-23.5%), from Euro 37.7 to 28.9 million, in part due to the sale of the portfolio by the Parent Company, the update in the risk parameters and the gradual change in the mix of the portfolio managed, characterised by an increased focus on the Car sector.

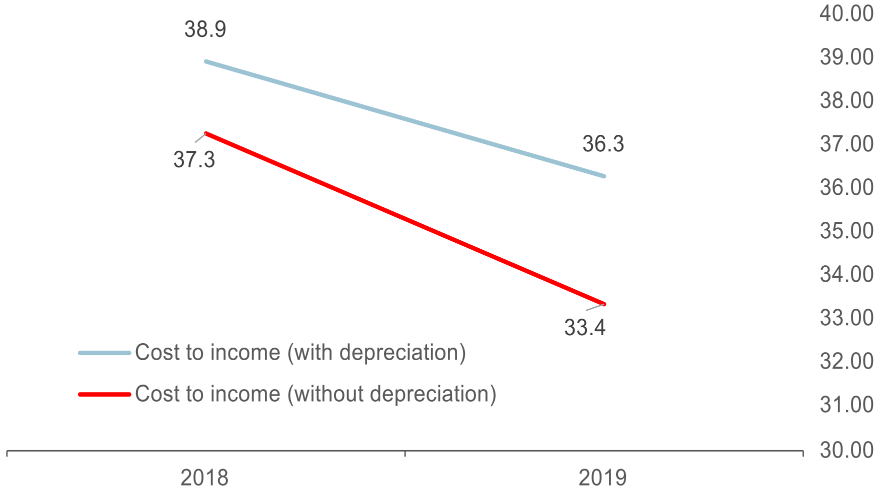
Administrative costs on the whole increased slightly (+2.9%), from Euro 153.9 to 158.3 million, which includes slightly increased personnel costs (+5.2%) and overheads essentially in line with the previous year (+1.4%).

Net provisions for risks and charges recorded an increase of Euro 22.3 million and included an allocation made by the Parent Company with regard to any future reimbursements, in case of early redemption, of charges paid in advance by customers, as indicated in the previous paragraph “Other facts worth mentioning”.

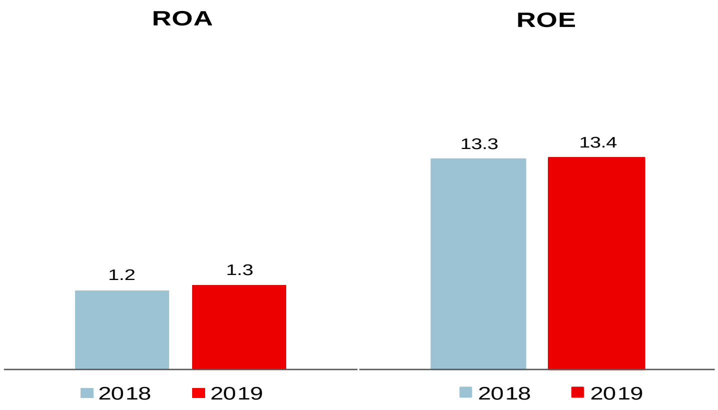
Also to be noted are the effects deriving from the introduction of the IFRS 16 standard, with regard to the items Interest expense, which generate an increase of Euro 308 thousand, and Adjustments to property and equipment of Euro 4,294 thousand for depreciation; conversely, the costs recorded in the item Other administrative expenses decreased.

The above aspects led to a result before tax of Euro 195.3 million and a net profit of Euro 135.1 million, of which Euro 106.9 million attributable to the Parent Company.

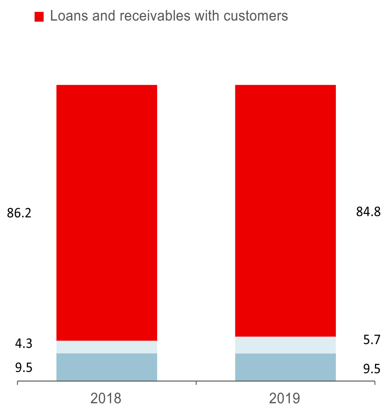
Cost to income

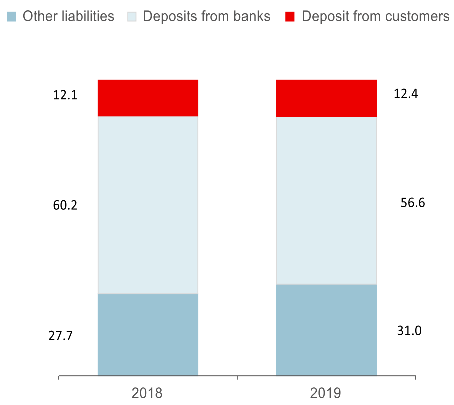


The cost-to-income ratio, calculated as the ratio between the sum of administrative costs and other net operating income records a reduction from 37.3% to 33.4% excluding depreciation and amortisation expense, and from 38.9% to 36.3% including depreciation and amortisation.



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 1.3%, while the ROE (Return on Equity) reached a value of 13.4%.





As regards the asset mix, loans to customers increased in absolute value, even though decreasing as a percentage of total assets. Amounts due from credit institutions increased in absolute value and as a percentage of assets, many deriving from the subsidiary Banca PSA.
Following the application of the IFRS 16 standard, the main effects in terms of Right of Use (ROU) and connected liabilities were approximately Euro 22.9 million, at the date of first application, and relate to the rental of premises used by the Bank to carry out its activities and the hire of cars for employees.
It is also highlighted that during the financial year the Bank finalised its first capital relief securitisation transaction, on the basis of what is permitted by art. 244 of the CRR.
Regarding the structure of sources of funds, on the other hand, amounts due to customers, consisting mainly of demand and time deposit accounts offered by the Parent Company, increased in absolute value but remained essentially in line with the previous year as a percentage of total liabilities. Amounts due to credit institutions increased in absolute value, mainly due to the subsidiaries Banca PSA and PSA Renting; this increase is partially offset by a contraction in amounts due by the Parent Company to credit institutions. Other liabilities increased in absolute value and as a percentage of total liabilities; this increase was mainly due to the effects of securitisation transactions which include new issues and amortisation of ABS securities.
As regards the change in loans to customers of the Group, the total increased compared to the previous year (+9%). Analysing the details by product, there was an increase in Car loans (+14%), special-purpose loans (+22%), leasing (+45%) and stock financing (+3%). Salary assignment (-10%), personal loans (-11%) and credit cards (-19%) are down.
"Other loans to customers" remain largely in line with the previous financial year.

"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 is deferred over the expected residual life of the loan.

Amounts in millions of Euro	**Amount**		**Change**	
	2019	**2018**	**Absolute**	**(%)**
Car loan	4,657	4,092	565	14
Special-purpose loan	355	292	63	22
Personnel loan	625	705	(80)	(11)
Cards	5	6	(1)	(19)
Leasing	566	390	176	45
Salary assignment	1,361	1,509	(148)	(10)
Stock financing	1,626	1,574	52	3
Other loans to customers	5	6	(2)	(30)
Other components of amortised cost	102	91	10	11
Gross loans to customers	**9,301**	**8,667**	**634**	**7**
Provision for loan losses	(206)	(298)	93	(31)
Net loans to customers	**9,095**	**8,369**	**727**	**9**

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 2019, the Bank granted financing totalling Euro 1,081 million, improving on its own forecasts of 12.4%.

Loans granted by Banca PSA and intended for the purchase of new vehicles represented 32.54% of the PSA Group vehicles registered in 2019 (excluding Opel).

In terms of breakdown by product type, 78.2% of the year's lending relates to financing for the purchase of new vehicles, 13.8% to finance lease transactions, and the remaining 8% to financing for the purchase of used vehicles.

The loan portfolio for Loans for Vehicles, Leasing and Corporate Dealers, gross of adjustment provisions, increased by 18.3% in 2019 to Euro 3,382 million (Euro 2,859 million in 2018) and breaks down as follows: Car Loans 55.4%, Leases 9.2%, loans to Corporate Dealers for Stock Financing 35.4% (note for the latter the growth of 13.9% compared to the previous year).

The Company, in this fourth 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.

2019 closed with a net profit of Euro 55,196 thousand with an increase with respect to 2018 of 50.1% (2018 net profit Euro 36,762 thousand).

This result was generated by the average net loan portfolio of Euro 3,197 million which, together with the sale of ancillary services, contributed with an average profitability of 3.63% (a decrease of 0.10 percentage points compared to 2018).

PSA Renting Italia S.p.A.

The company operates in the field of long-term rental of vehicles hired through the Peugeot, Citroen and DS networks of Dealers, through the channel of direct sales to medium and large enterprises.

As from 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 Parent Company and reflected in the budget for the year approved by 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.

In 2019 there was a significant increase in volumes compared to the previous year (+102.1%). The increase related to all distribution channels highlighting the significant consolidation of the "Other" sector thanks essentially to the development of the offer marketed through the dealers' network and the direct channel.

The technical characteristics of new contracts confirmed the trend of steady growth of the average amount granted, which in 2019 amounted to Euro 17.7 thousand (+9.9% compared to 2018), reflecting the increase in the average sales price of the PSA range. A decrease is noted in the average duration essentially due to the growth in contracts issued to Employees, to Rent-to-rent companies and to contracts resulting from extraordinary marketing campaigns, with a contractual duration of 12 months (average duration of lease agreements in 2019 was 27.0 months compared to 30.4 months in 2019).

The fleet as at 31 December 2019 practically doubled compared to 2018 and consisted of 8,569 vehicles, with a commercial brand distribution substantially unchanged compared to the previous year (Peugeot branded vehicles accounted for around 64% of the total fleet).

Revenues from production, reported in the separate financial statements provided by the company, amounted to Euro 32.9 million in total and are essentially made up of lease payments received from customers as well as including recoveries of expenses on insurance contracts and revenues linked to maintenance and guarantee extension services. The costs for services amounted to a total of Euro 13.6 million and are mainly represented by costs incurred for the acquisition of services provided to the customers (insurance and maintenance), registration costs and vehicle related taxes. An increase in the depreciation costs of 68.6% was recorded, proportional to the increase in the fleet size and the increase in financial expenses, which reflect the substantial growth in exposure with regard to related companies and strictly correlated to the business development. The pre-tax profit is of Euro 3.9 million.

The 2020 Budget includes a substantial increase in volumes (+30.4% compared to 2019) essentially linked to the optimisation of the overall offer in coordination with the automotive brand PSA, to the capillary diffusion of the offer through the direct channel and the capillary diffusion of Free2Move Lease products on the Citroen, DS and Peugeot dealer networks.

Other aspects

Pursuant to art. 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.

Santander Consumer Bank

Indipendent auditors' report on the consolidated financial statements at 31 December 2019

Independent Auditors' Report on the consolidated financial statements at 31 December 2019

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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 Shareholder of Santander Consumer Bank SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the Santander Consumer Bank Group (hereinafter, also, "the Group"), which comprise the consolidated balance sheet as of 31 December 2019, the consolidated income statement, statement of consolidated 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 2019 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 43 of Legislative Decree No. 136/2015.

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 (hereinafter, also, "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 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.

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 - **Bergamo** 24121 Largo Belotti 5 Tel. 035229691 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25121 Viale Duca d'Aosta 28 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*
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, Assets - 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 2019 represented a considerable share of item 40 b) "Financial assets measured at amortised cost – Loans and advances to customers", show a balance of Euro 9,095 million, accounting for about 85 per cent of total assets in the consolidated financial statements. The net value adjustments to loans and advances to customers for loans, charged during the year, amount to Euro 29 million and represent the best estimate made by the directors in order to reflect the expected credit losses (ECL) 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 book value and the complexity of the estimate criteria, in compliance with IFRS 9 "Financial Instruments"; the evaluation processes and methods are inevitably 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) and portfolio allocation (Staging), for the elaboration and determination of risk parameters, underlying the ECL calculation, which incorporate the use of macro-economic scenarios and prospective information,	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 design of the relevant controls within the monitoring, classification and valuation of loans and advances to customers for loans and we verified the operating efficacy of such controls. Particular attention was paid, also with the support of our network experts, to understand and verify the appropriateness of the policies, procedures and models used to measure the SICR and Staging and to determine the ECL both on a collective and analytic basis, as well as the methods to determine and estimate the main parameters used within these models with regard also to the methodological improvements brought during the financial year. We performed specific audit procedures regarding the analysis of 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 regarding 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

together with the identification of objective evidence of deterioration.	and other evidence, in addition to checking the correct application of the above-reported risk parameters. Furthermore, we selected a sample of loans that were evaluated on a analytic basis and verified the reasonableness of the assumptions made with reference to the identification and quantification of expected future cash flows from the recovery activities regarding these loans, to the evaluation of the guarantees backing these exposures and to the estimate of their 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 43 of Legislative Decree No. 136/2015 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. 39/2010

The directors of Santander Consumer Bank SpA are responsible for preparing a report on operations as of 31 December 2019, including its consistency with the relevant consolidated financial statements and its 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 with the consolidated financial statements of the Santander Consumer Bank Group as of 31 December 2019 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations is consistent with the consolidated financial statements of the Santander Consumer Bank Group as of 31 December 2019 and is prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/2010, 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.

Rome, 16 March 2020

PricewaterhouseCoopers SpA

Signed by

Lorenzo Bellilli
(Partner)

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

Santander Consumer Bank

Consolidated Financial Statements

Consolidated Balance Sheet

In Euro

	Balance sheet - Assets	12/31/2019	12/31/2018
10.	Cash and cash balances	9,118	1,769
20.	Financial assets designated at fair value through profit or loss	4,619,326	4,525,909
	a) Financial assets held for trading	4,619,326	4,525,909
40.	Financial assets measured at amortised cost	10,150,250,932	9,170,245,651
	a) Loans and advances to banks	613,362,897	416,531,710
	b) Loans and advances to customers	9,536,888,035	8,753,713,941
60.	Changes in fair value of portfolio hedged items (+/-)	8,543,837	4,702,567
90.	Property, plant and equipment	21,745,673	5,824,083
100.	Intangible assets	16,412,311	11,149,356
110.	Tax assets	272,838,478	247,715,250
	a) current	57,593,467	43,570,927
	b) deferred	215,245,011	204,144,323
120.	Non current assets and disposal groups classified as held for sale	-	1,800
130.	Other assets	249,915,291	265,543,265
	Total Assets	**10,724,334,966**	**9,709,709,650**

	Liabilities and Shareholders' equity	12/31/2019	12/31/2018
10.	Financial liabilities valued at amortised cost	9,000,228,617	8,172,148,751
	a) Deposits from banks	6,074,661,448	5,842,003,567
	b) Deposits from customers	1,324,520,225	1,173,866,403
	c) Debt securities in issue	1,601,046,944	1,156,278,781
20.	Financial liabilities held for trading	5,098,854	5,026,915
40.	Hedging derivatives	10,909,464	5,945,034
60.	Tax liabilities	78,457,792	65,208,284
	a) current	77,771,286	65,152,913
	b) deferred	686,506	55,371
80.	Other liabilities	393,694,906	403,393,450
90.	Provision for employee severance pay	4,246,411	4,252,305
100.	Provisions for risks and charges	41,983,498	25,292,037
	a) commitments and guarantees given	46,223	88,765
	c) other	41,937,275	25,203,272
120.	Valuation reserves	(485,663)	(409,424)
150.	Reserves	287,730,198	189,405,596
160.	Share premium	632,586	632,586
170.	Share capital	573,000,000	573,000,000
190.	Minorities shareholders' equity (+/-)	221,974,705	167,489,515
200.	Net Profit (Loss) for the year (+/-)	106,863,598	98,324,601
	Total liabilities and Shareholders' Equity	**10,724,334,966**	**9,709,709,650**

Consolidated Income Statement

In Euro

	Items	12/31/2019	12/31/2018
10.	Interest and similar income	356,995,354	352,382,083
	of which: interest income calculated using the effective interest method	353,499,719	348,277,060
20.	Interest expenses and similar charges	(44,669,389)	(45,949,534)
30.	**Net interest margin**	**312,325,965**	**306,432,549**
40.	Fee and commission income	133,089,112	121,610,381
50.	Fee and commission expenses	(58,805,019)	(61,019,029)
60.	**Net fee and commission**	**74,284,093**	**60,591,352**
80.	Net income financial assets and liabilities held for trading	(218,742)	(662,430)
90.	Net hedging gains (losses) on hedge accounting	(1,173,563)	845,851
100.	Gains and losses on disposal of:	17,036,921	(70,743)
	a) Financial assets at amortised cost	17,036,921	(70,743)
120.	**Operating income**	**402,254,674**	**367,136,579**
130.	Net losses / recoveries on credit risk relating to	(28,854,489)	(37,704,404)
	a) financial assets at amortised cost	(28,854,489)	(37,704,404)
150.	**Net profit from financial activities**	**373,400,185**	**329,432,175**
180.	**Net profit from financial and insurance activities**	**373,400,185**	**329,432,175**
190.	Administrative costs:	(158,313,098)	(153,902,294)
	a) payroll costs	(63,142,883)	(60,026,389)
	b) other administrative costs	(95,170,215)	(93,875,905)
200.	Net provisions for risks and charges	(32,099,739)	(9,751,929)
	a) commitments and financial guarantees given	42,542	(49,560)
	b) other net provisions	(32,142,281)	(9,702,369)
210.	Net adjustments / writebacks on property, plant and equipment	(5,205,797)	(1,120,572)
220.	Net adjustments / writebacks on intangible assets	(6,576,260)	(4,934,917)
230.	Other operating income/expenses	24,133,475	17,085,879
240.	**Operating costs**	**(178,061,419)**	**(152,623,833)**
250.	Gain (Losses) of equity investments	-	(54,912)
290.	**Total profit or loss before tax from continuing operations**	**195,338,766**	**176,753,430**
300.	Tax income of the year from continuing operations	(60,270,824)	(59,580,129)
310.	**Total profit or loss after tax from continuing operation**	**135,067,942**	**117,173,301**
330.	**Profit or loss for the year**	**135,067,942**	**117,173,301**
340.	Minority profit (loss) of the year	28,204,344	18,848,700
350.	**Parent Company's profit (loss) of the year**	**106,863,598**	**98,324,601**

Statement of Consolidated Comprehensive Income

In Euro

	Items	12/31/2019	12/31/2018
10.	**Net Profit (Loss) for the year**	**135,067,942**	**117,173,301**
70.	Defined benefit plans	(119,191)	154,787
170.	**Total other income components after tax**	**(119,191)**	**154,787**
180.	**Overall profitability (Item 10 + 170)**	**134,948,751**	**117,328,088**
190.	**Minority consolidated other comprehensive income**	28,161,392	18,908,271
200.	**Parent Company's consolidated other comprehensive income**	**106,787,359**	**98,419,817**

Statement of changes in Consolidated Shareholders' Equity

In Euro

Financial year 2019

				Allocation of prior year results		Changes during the year										
							Transactions on shareholders' equity									
	Balance at 12.31.2018	Changes in opening balances	Balance at 1.1.2019	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 2019	Group shareholders' equity at 12.31.2019	Minority interests at 12.31.2019
Share capital:	**643,154,500**		**643,154,500**												**573,000,000**	**70,154,500**
a) ordinary shares	643,154,500		643,154,500												573,000,000	70,154,500
b) other shares	-		-													
Share premium reserve	**12,404,771**		**12,404,771**												**632,586**	**11,772,185**
Reserves:	**255,930,045**		**255,930,045**	**113,497,098**									**30,000,000**		**287,730,198**	**111,696,945**
a) retained earnings	172,915,227	474,506	173,389,733	113,497,098											247,817,511	39,069,320
b) other	83,014,818	(474,506)	82,540,312										30,000,000		39,912,687	72,627,625
Valuation reserves	**(219,742)**		**(219,742)**											**(119,191)**	**(485,663)**	**146,730**
Equity instruments																
Treasury shares																
Net profit (loss) for the period	**117,173,301**		**117,173,301**	**(113,497,098)**	**(3,676,203)**									**135,067,942**	**106,863,598**	**28,204,344**
Shareholders' equity	**860,953,359**		**860,953,359**											**106,787,359**	**967,740,719**	
Minorities interests	**167,489,515**		**167,489,515**		**(3,676,203)**								**30,000,000**	**28,161,392**		**221,974,705**

Financial year 2018

				Allocation of prior year results		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**

Consolidated Cash Flow Statement (indirect method)

In Euro

A. ATTIVITA' OPERATIVA	Amount 12/31/2019	Amount 12/31/2018
1. Liquidity generated from operations	**220,530,191**	**128,115,253**
- net profit for the year (+/-)	135,067,942	117,173,302
- net gains/losses on financial assets held for trading and financial assets/liabilities designated at fair value through profit and loss (+/-)	(37,654)	(39,870)
- gains (losses) from hedging activities (+/-)	1,173,563	119,493
- net adjustments for credit risk (+/-)	29,755,174	47,837,907
- impairment/recoveries to property and equipment and intangible assets (+/-)	11,776,175	6,054,288
- net provisions for risks and charges and other costs/income (+/-)	29,686,817	8,113,003
- net premiums not collected (-)		
- other income insurance income/expense not collected (-/+)		
- unsettled taxes and tax credit (+/-)	48,289,356	(38,309)
- impairment/recoveries to disposal groups net of tax effect (-/+)	5,881	1,200
- other adjustments (+/-)	(35,187,063)	(51,105,761)
2. Liquidity generated/absorbed by financial assets	**(1,010,241,499)**	**(611,970,974)**
- financial assets held for trading	(677,630)	(3,367,673)
- financial assets designated at fair value through profit and loss		
- financial assets mandatorily designated at fair value		
- financial assets measured at amortized cost	(1,001,436,038)	(572,297,913)
- other assets	(8,127,830)	(36,305,388)
3. Liquidity generated/absorbed by financial liabilities	**771,160,090**	**501,290,438**
- financial liabilities measured at amortized cost	813,641,726	564,810,769
- financial liabilities held for trading	144,266	3,653,149
- financial liabilities designated at fair value through profit and loss		
- other liabilities	(42,625,902)	(67,173,480)
Net liquidity generated/absorbed by operating activities	**(18,551,218)**	**17,434,717**
B. INVESTING ACTIVITIES		
1. Liquidity generated by	326,661	114,255
- sale of equity investments		
- dividends collected on equity investments		
- sale of property and equipment	326,661	114,255
- sale of intangible assets		
- sale of lines of business		
2.Liquidity absorbed by	**(8,091,892)**	**(17,550,604)**
- purchase of equity investments		(6,094,000)
- purchase of property and equipment	(766,327)	(5,362,850)
- purchase of intangible assets	(7,325,565)	(5,739,025)
- purchase of lines of business		(354,729)
Net liquidity generated/absorbed by investing activities	**(7,765,331)**	**(17,436,349)**
C. FUNDING ACTIVITIES		
- issue/purchase of treasury shares		
- issue/purchase of equity instruments	30,000,000	
- dividends distributed and other allocations	(3,676,203)	
- sale/purchase of minority control		
Net cash generated/absorbed by financing activities	**26,323,797**	
NET CASH GENERATED/ABSORBED IN THE YEAR	**7,348**	**(1,632)**

Key:

(+) generated

(-) absorbed

Reconciliation

Items	Amount	
	12/31/2019	**12/31/2018**
Cash and cash equivalents at beginning of year	**1,769**	**3,401**
Net increase (decrease) in cash and cash equivalents	**7,348**	**(1,632)**
Cash and cash equivalents: effect of change in exchange rates		
Cash and cash equivalents at end of year	**9,118**	**1,769**

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 no. 38 of 28 February 2005, the Consolidated Financial Statements of the Santander Consumer Bank Group 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 EU Regulation 1606 of 19 July 2002.

The Consolidated Financial Statements at 31 December 2019 have been prepared in accordance with Circular no. 262/05 (hereinafter also the Circular) as subsequently amended by the 6th update of 30 November 2018 "Banks financial statements: layouts and preparation" 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 2019 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 no. 38/2005, the Financial Statements have been prepared using the Euro as the functional currency.

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

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 2018.

It is noted that in the context of the application of the First Time Adoption (FTA) of IFRS 16, the Santander Consumer Bank Group has chosen to adopt the modified retrospective approach, which allows the option, indicated in the standard, to recognise the cumulative effect of the application of the standard at the time of first application and not to restate the comparative financial statements data at the first application of IFRS 16. Therefore, the figures in the financial statements relative to the 2019 financial year are not comparable with reference to the valuation of right of use and the correspondent liability for leases.

Annex 1 First Time Adoption IFRS 16 – Criteria for valuation and impact, provides details of the reconciliation between the figures in the balance sheet figures originally published, and used as comparison in the accounting statements section, and the figures reflecting the effects deriving from the application of IFRS 16. More details on the adoption of the accounting standard are reported in the next section, "Transition from IAS 17 to IFRS 16".

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 for which the use of subjective judgements by management is most required are:

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 financial statements

Consolidated Balance sheet and 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.

Consolidated 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 Consolidated 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.

Consolidated 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's name	Head office	Registered Office	Type of relationship (1)	Nature of holding: Parent company	% 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 consideration 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. (hereinafter also Banca PSA), PSA Renting Italia S.p.A. (hereinafter also PSA Renting) as well as the segregated funds pertaining to the vehicles SPE Golden Bar S.r.l. (Securitisation), Auto Abs Italian Loans 2018-1 S.r.l. and Auto ABS Italian Baloon 2019-1 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 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 Banca PSA Italia S.p.A. and that Banque PSA Finance exercises a significant influence thereover.
In January 2018, Banca PSA Italia S.p.A. acquired the entire shareholding of PSA Renting Italia S.p.A.. Therefore, the parent company Santander Consumer Bank controls it through the indirect shareholding of 50% in Banca PSA.
As regards the analysis performed of the impact of IFRS 10 on securitisation 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 vehicles Golden Bar S.r.l, Auto Abs Italian Loans 2018-1 S.r.l. and Auto ABS Italian Baloon 2019-1 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.	Torino
2. Auto Abs Italian Loans 2018-1 S.r.l.	Conegliano (TV)
3. Auto Abs Italian Baloon 2019-1 S.r.l.	Milano

3. Investments in subsidiaries with significant minority interests

3.1 Minority interests, minority voting rights and dividends distributed to holder 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.	3,856,659		3,677,205	1,213	3,245,799	441,952	95,687	116,701	-29,662	82,168	55,196		55,196	-86	55,110
PSA Renting S.r.l	163,235		132,070	113	142,965	8,092	4,584	13,344	-10,266	2,393	2,679		2,679		2,679

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.

Section 4 – Subsequent events

Pursuant to IAS 10, these financial statements were authorised for publication by the Board of Directors on 19 February 2020.

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 2019.

However, it must be highlighted that the Bank is monitoring the evolution of the Covid 19 emergency (hereinafter "Coronavirus") which, in the first weeks of 2020, started to impact economic activities in China and which later spread to other countries. The consequences of this on the economy are difficult to quantify and assess at present.

Therefore, these events are deemed not to require any adjustments to the financial statements balances, pursuant to IAS 10 § 21, given that the Coronavirus emergency at international level was declared only at the end of January, even though it had manifested itself in China before the closing date of the financial statements.

However, if these effects were to be significant, it must be highlighted that these might also have a significant impact on future growth prospects as they have an impact on the economy generally and on financial markets.

At present, having made the necessary assessments, it is not possible to predict the evolution that this event might have, also in Italy, and in consequence the impact it will have on the economy and, therefore, it is not possible to determine any negative economic and financial impacts that might influence the first quarter of 2020.

While awaiting a more complete definition of the scenario also in terms of economic policy interventions on the part of institutions, it is considered that this event is not an element that can be evaluated in our estimates with reference to the financial statements closed at 31 December 2019.

Section 5 – Other aspects

Complete copies of the last Financial Statements with the Reports on Operations of the companies that at 31 December 2019 were subsidiaries or associates, and that their respective Boards of Directors will submit for approval of their shareholders' meeting by 29 April 2020, 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 2019 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 2019:

- **IFRS 16** – Leases – this standard establishes the principles relating to the recognition, evaluation and presentation in financial statements and supplementary information on leases. The objective is to ensure that lessors and lessees provide appropriate information according to procedures that faithfully represents operations. The information provides financial statements users the elements to evaluate the effect of leases on the economic and financial position, the profit and the financial flows of the entity (EU Reg. 2017/1986).
- **Amendments to IFRS 9** – Financial instruments – these changes refer to elements of early repayments with negative compensation and are finalised to clarify the classification of specific pre-payable financial assets when IFRS 9 is applied (EU Reg. 2018/498)
- **IFRIC 23** – Uncertainty over income tax treatments – this clarifies the interpretation on how to reflect the uncertainty of income tax treatment and the relative updates relative to IFRS 1 (EU Reg. 2018/1595).
- **Amendments to IAS 28** – Investments in associates and joint ventures – these amendments relate to long-term interests in associates and joint ventures and aim at clarifying that the provisions with regard to the reduction of values pursuant to IFRS 9 are applied to long-term interests in associates and joint ventures (EU Reg. 2019/237).
- **Amendments to IAS 19** – Employee benefits – these amendments aim to clarify that, after the amendment, reduction or extinction of a defined benefit plan, the entity should apply updated hypotheses to the redetermination of its net liabilities (assets) for defined benefits for the rest of the reference period (EU Reg. 2019/402).
- Yearly cycle of improvements of the 2015-2017 IFRS (EU Reg. 2019/412).

An analysis of the main qualitative/quantitative impacts deriving from the introduction of IFRS 16 in the financial year is provided below.

From IAS 17 to IFRS 16

1) Introduction

In January 2016 the IASB - International Accounting Standards Board - issued the new IFRS 16 Leases accounting standard, which came into force on 1 January 2019.

The new standard replaces all previously applicable IFRS accounting standards for the accounting treatment of leases (IAS 17 and IFRIC 4) and is applied to all contracts which include the right of use of an asset (so-called Right of Use) for a certain period of time, in exchange of a specific payment.

Exceptions, which are therefore excluded from the application of the standard, are: intellectual property licences granted by a lessor, rights held by a lessee in licence agreements (such as cinema films, video recordings, theatre works, manuscripts, patents and copyright), leases for biological assets, agreements for the concession of services and licences for the exploration or exploitation of minerals, oil, natural gas and similar non-regenerative resources.
The following are also excluded:

- Contracts of duration of or less than 12 months (so-called short-term lease);
- Lease agreements for assets of lesser value (less than 5,000 USD/€).

IFRS 16 marks the end of the differentiation in terms of classification and accounting treatment, between operating leases (whose information are reported out of financial statements) and financial leases (which are recognised in the balance sheet).

The right of use of a leased asset and the commitment made towards the lessor are recognised in the balance sheet, independently of the contractual form, i.e. lease, rental or hire.

2) The possible options for the transition to the new accounting standard included in IFRS 16

At the first application of the standard, the lessee may apply the new standard to lease agreements:

- retroactively, applying IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" and restating comparative figures; or
- retroactively, according to the so-called modified approach, accounting for the cumulative effect of the application of the standard as an adjustment to the opening balance of profit brought forward (or, if applicable, to another component of the net equity) without restating comparative figures.

In the case the option referred to in the second point is used, for leases previously classified as operating leases, on the date of initial application the lessee:

- recognises the lease liability as the current value of the residual payments relative to the lease agreement, using the lessee's marginal financing rate applicable at the date of first application as the discounting rate;
- recognises the asset represented by the right of use of the underlying asset of the lease agreement alternatively:
  - at the accounting value determined as if the standard had been applied from the starting date of the lease, but discounted using the lessee marginal interest rate applicable at the date of first application;
  - at an amount equal to the amount of liability for the lease (adjusted by any accruals and deferrals recognised before the date of first application);
  - evaluate the assets represented by the right of use on the basis of the provisions of IAS 36.

In case the so-called modified approach is used, the lessee may also use, for the purposes of the recognition of lease agreements, the following practical expedients:

- apply a single discounting rate to homogenous portfolios of lease agreements;
- rely on previous valuations, carried out on the basis of IAS 37, relative to so-called "onerous contracts" for the recognition of cumulative reductions in value of the asset represented by the right of use at the date of first application;
- recognise lease agreements with a residual duration of no more than 12 months (independently from the original duration of the contract) as a cost directly in the income statement;
- exclude the direct initial costs from the valuation of the asset represented by the right of use at the date of initial application;
- estimate the duration of the lease on the basis of experience acquired/information available at the date of first application with regard to the exercise of extension or early resolution options.

3) Application choices of Santander Consumer Bank

In the context of the process of transitioning to IFRS 16 coordinated by the Spanish Parent Company, the Group has adopted the following options:

- the choice to recognise the effects of the initial application of the standard according to the so-called modified approach, as previously defined, without therefore retrospectively recognising the effects of the application of the same in compliance with IAS 8;
- the choice to recognise the asset represented by the right of use of the underlying asset of the lease agreement at the date of the first application at an amount equal to the amount of the lease liability. This choice means that the adoption of IFRS 16 does not generate an impact on the Bank's net equity at the date of first application.

Furthermore, on the basis of the options granted by IFRS 16, the following practical expedients have been used in the transition to the new standard:

- recognition of lease agreements with a residual duration of no more than 12 months (independently from the original duration of the contract) as a cost directly in the income statement;
- exclusion of the direct initial costs from the valuation of the asset represented by the right of use;
- estimation of the duration of the lease on the basis of experience acquired/information available at the date of first application with regard to the exercise of extension or early resolution options.

The Bank has also chosen to use the following practical expedients, applicable during the validity of IFRS 16:

- not to subject operating leases with a duration of less than 12 months to the provisions of the standard;
- not to apply the new accounting requirements relative to the recognition and valuation of the right of use and of the lease liability to contracts with underlying assets of a value under the significativity threshold set at Euro 5,000.

Lastly, for the purposes of the determination of the incremental financing rate, the Bank has decided to adopt the determination of the “financial liabilities for leases”, discounting curves internally constructed by taking into account average financing rates with similar duration and economic context.

At the level of accounting impacts at the time of first application of the standard, the choices listed above involve the recognition in the balance sheet of the right of use of the asset and the financial liability corresponding to the current value of future payments. The two values coincide at the point of initial recognition. The financial liability includes the current value of payments, discounted at a discount rate determined as described above.

After the first application:

- The value of use is reduced by a depreciation or amortisation charge calculated on the basis of IAS 16 in proportion to the duration of the period of use;
- The financial liability that has been discounted using the discount rate defined at the start of the lease contract is reduced due to the effect of the payment of lease instalments required by the contract.

At economic level, the depreciation or amortisation charge reducing the right of use is recognised on the basis of the contract duration of the lease and the interest on payments. The portion of the lease payment not attributable to the asset, linked to services or administrative expenses of the lease, is recognised under administrative expenses.

4) Transitioning to IFRS 16

In the context of the activities for transitioning to the provisions of the new IFRS 16 standard, the Group has implemented the following activities for the application of the accounting standard:

- Definition of the scope of application through mapping and census of current leases;
- Identification of the lease characteristics to check the presence of the conditions set by the standard;
- Identification of In Scope and Not in Scope contracts.

Since the valuation of the contracts applicable as at 1 January 2019, the following lease contracts have been added to the scope of application of the standard:

- Leases for properties used as offices and branches;
- Company car hire (company fleet) for the parent company.

The main contracts excluded from the scope of application relate to the hire of computers, printers and scanners, as these contracts relate to hired goods with a value as new lower than the limit set by the standard of Euro 5,000, even though the contracts have a duration of over 12 months, as well as cars hired by the subsidiary as they are contracts with a duration of less than 12 months.

The Group has adopted the modified retrospective approach to the transition as described in the paragraphs above.

With reference to the rates used for discounting of contractual lease payments in relation to lease liabilities at the time of first application, the main rates used are the internal rates based on EUR IRS for the lease of property assets.

5) Impact deriving from the first application on 1° January 2019

On the first application on 1 January 2019, the right of use of each asset within the scope of the application of the standard was recognised under property and equipment for an amount corresponding to the lease liabilities; therefore, the FTA reserve relative to the first application of the standard is nil.

The subsequent recognition at the first application provides for the right of use to be recognised using the cost model for which the same is annually deducted by an Amortisation and depreciation Provision and by any losses of value and by increasing the current value of lease payments of the new hired goods, which fall within the scope of application of the standard.

The right of use is then reduced due to the effect of depreciation and amortisation expenses calculated in a linear proportion until the end of the hire contract.

The individual balance sheet item impacted by the application of the standard are highlighted in the following table.

Lastly, it is noted that as at 31 December 2018 there was no commitment in the financial statements relative to operating leases in accordance with IAS 17.

For details of the balance sheet impacts deriving from the first application of IFRS 16, please refer to Annex 1, which reports the reconciliation statements of the Consolidated Financial Statements as at 1 January 2019.

Listed below are the relevant international accounting standards approved by the European Commission, that will become effective after the balance sheet date:

- **IFRS 17** - Insurance Contracts, in force from 1 January 2021 (EU Reg. 2017/1988)

- **Amendments to the references of the Conceptual Framework**, applicable since 1 January 2020. (EU Reg. 2019/2075).

Finally, below are the main standards currently awaiting approval:

- Amendments to IFRS 17.
- Amendments to IAS 12.
- Amendments to IAS 39, IFRS 9 and IFRS 7, linked to the effects of the IBOR reform on the financial statements.
- Amendments to IAS 1.
- Amendments to IFRS 3.

A.2 – Main items in the financial statements

This section explains the accounting policies used to prepare the 2019 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 throught 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 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 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.

This item also includes the loans originated by lease operations, governed by IFRS 16 in continuity with the previous IAS 17, as the model of accounting for lease contracts by the lessor remained essentially unchanged.

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 the method of fair value hedging to neutralise changes in fair value of hedged financial assets and liabilities.

It is explained that, for the purposes of the valuation of hedging transactions, 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. Therefore, 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 FVH derivatives, changes in the fair value of the hedging derivative and of the hedged item are recognised in the income statement.

Differentials on FVH hedging derivatives are recognised in the income statement on a pro-rata basis.

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.

Starting from 1 January 2019, this item also includes the rights of use acquired with leases, in accordance with the provisions of IFRS 16.

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 of liabilities, 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.

Starting from 1 January 2019, this item also includes the debts recognised by the company as lessee in the context of leases operations. On the effective date the Bank evaluates the lease payables at the current value of the payments due for leases not yet paid at that date, discounted using the marginal financing rate, determined by the Bank taking into account the average financing rates with similar durations and economic context.

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. Lease payables are amended when there is a lease modification which is not considered as a separate contract; these amendments, as indicated by IFRS 16, involve the use of the updated rate (for example: the change of the lease duration, the change of the amount of payments).

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 financial 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 – Foreing 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 IFRS 16, 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 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 income:

- 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 income 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.

For further details please refer to Part E, Section 2, paragraph “2.3 Methods for the measurement of expected losses”.

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.

For further details please refer to that previously mentioned in Section 3 – Scope of consolidation and consolidation method.

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 model 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 Valuations 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

	12/31/2019			12/31/2018		
	L1	L2	L3	L1	L2	L3
1. Financial assets valued at fair value with through profit or loss	-	4,619	-	-	4,526	-
a) financial assets held for trading	-	4,619	-	-	4,526	-
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	-	-	-	-	-	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	-	4,619	-	-	4,526	-
1. Financial liabilities held for trading	-	5,099	-	-	5,027	-
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	10,909	-	-	5,945	-
Total	-	16,008	-	-	10,972	-

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

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	12/31/2019				12/31/2018			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets valued at amortised cost	10,150,251	440,939	-	9,546,000	9,170,246	385,082	-	8,551,318
2. Property, plant and equipment held for investment	-	-	-	-	-	-	-	-
3. Non current assets classified as held for sale	-	-	-	-	2	-	2	-
Total	**10,150,251**	**440,939**	**-**	**9,546,000**	**9,170,247**	**385,082**	**2**	**8,551,318**
1. Financial liabilities measured at amortised cost	9,000,229	-	1,279,428	10,321,097	8,172,149	-	-	8,166,110
2. Liabilites included in disposal group classified as hfs	-	-	-	-	-	-	-	-
Total	**9,000,229**	**-**	**1,279,428**	**10,321,097**	**8,172,149**	**-**	**-**	**8,166,110**

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

At the financial statements closing date, transfers of liabilities are recognised between level 3 and level 2 following the change in the treatment of inputs used for the valuation of financing received from Bank of Italy (reverse repurchase agreements, TLTRO-II and TLTRO-III) and reverse repurchase agreements, in compliance with the Group’s reporting criteria.

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 12/31/2019	Total 12/31/2018
a) Cash	9	2
b) On demand deposits with Central banks	-	-
Total	**9**	**2**

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

2.1 Financial assets held for trading: breakdown by type

This item has a balance of Euro 4,619 thousand (Euro 4,526 thousand at 31 December 2018) and includes the positive fair value of derivatives entered into in connection with securitisation transactions by Group companies.

Items	Total 12/31/2019			Total 12/31/2018		
	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. Investment funds unit	-	-	-	-	-	-
4. Loans		-	-	-	-	-
4.1 REPOs	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-
Total (A)	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivative instruments	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial derivates	-	4,619	-	-	4,526	-
1.1 trading	-	4,619	-	-	4,526	-
1.2 fair value hedges	-	-	-	-	-	-
1.3 others	-	-	-	-	-	-
2. Credit derivates	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-
2.2 fair value hedges	-	-	-	-	-	-
2.3 others	-	-	-	-	-	-
Total (B)	**-**	**4,619**	**-**	**-**	**4,526**	**-**
Total (A+B)	**-**	**4,619**	**-**	**-**	**4,526**	**-**

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

Items/Values	Total 12/31/2019	Total 12/31/2018
A. Financial assets		
1. Debt securities	-	-
a) Central Banks	-	-
b) Public Administrations	-	-
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) Public Administrations	-	-
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	4,619	4,526
Total (B)	**4,619**	**4,526**
Total (A+B)	**4,619**	**4,526**

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 12/31/2019						Total 12/31/2018					
	Balance value			Fair value			Balance value			Fair value		
	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3
A. Loans to Central Banks	**175,706**	-	-	-	-	**175,706**	**44,465**	-	-	-	-	**44,465**
1. Time deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Compulsory reserves	175,706	-	-	X	X	X	44,465	-	-	X	X	X
3. Repos	-	-	-	X	X	X	-	-	-	X	X	X
4. Others	-	-	-	X	X	X	-	-	-	X	X	X
B. Loans to banks	**437,657**	-	-	-	-	**437,657**	**372,067**	-	-	-	-	**372,067**
1. Loans	437,657	-	-	-	-	437,657	372,067	-	-	-	-	372,067
1.1 Current accounts and demand deposits	425,133	-	-	X	X	X	364,585	-	-	X	X	X
1.2. Time deposits	-	-	-	X	X	X	-	-	-	X	X	X
1.3 Other loans:	12,524	-	-	X	X	X	7,482	-	-	X	X	X
- Repos	-	-	-	X	X	X	-	-	-	X	X	X
- Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
- Others	12,524	-	-	X	X	X	7,482	-	-	X	X	X
2. Debts securities	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	-	-	-	-	-	-	-	-	-	-	-	-
Total	**613,363**	-	-	-	-	**613,363**	**416,532**	-	-	-	-	**416,532**

Amounts due from Central Banks include the compulsory reserve paid directly to the Bank of Italy and the liquidity generated by the participation in the second auction in December for the TLTRO-III transaction with the European Central Bank.

Amounts due from banks refer to:

- credit balances on bank current accounts for Euro 425,133 thousand (Euro 364,585 thousand at 31 December 2018), consisting of cash deposits belonging to the segregated funds of the securitisations (Euro 390,492 thousand);
- other loans, mainly relating to the sums paid by way of guarantee deposit against the negative fair value of derivatives contracts entered into.

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					
	12/31/2019						12/31/2018					
	Balance value			Fair value			Valore di bilancio			Fair value		
	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3
1. Loans	**9,049,560**	**45,735**	**784**	**-**	**-**	**8,932,637**	**8,296,718**	**72,072**	**1,634**	**-**	**-**	**8,134,786**
1.1.Current account	30,061	2,181	-	X	X	X	26,545	2,411	-	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	3,587,277	17,488	784	X	X	X	3,337,317	39,009	1,634	X	X	X
1.5 Lease loans	546,638	2,604	-	X	X	X	370,313	2,860	-	X	X	X
1.6. Factoring	372,047	-	-	X	X	X	450,699	-	-	X	X	X
1.7. Other loans	4,513,538	23,463	-	X	X	X	4,111,844	27,792	-	X	X	X
2. Debt securities	**441,593**	**-**	**-**	**440,939**	**-**	**-**	**384,924**	**-**	**-**	**385,082**	**-**	**-**
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	441,593	-	-	440,939	-	-	384,924	-	-	385,082	-	-
Total	**9,491,153**	**45,735**	**784**	**440,939**	**-**	**8,932,637**	**8,681,642**	**72,072**	**1,634**	**385,082**	**-**	**8,134,786**

Specifically, the loans include:

- Euro 32,242 thousand (of which, Euro 2,181 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 3,604,765 thousand (of which Euro 17,488 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 549,242 thousand (of which, Euro 2,604 thousand non-performing loans) for loans to customers for finance leases, recorded at amortised cost;
- Euro 372,047 thousand of loans relating to factoring transactions with car manufacturers;
- Euro 4,537,001 thousand (of which, Euro 23,463 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 3,879,561 thousand, of which Euro 14,411 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.

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

Type of transaction / Values	Total 12/31/2019			Total 12/31/2018		
	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. Debt securities	**441,593**	-	-	**384,924**	-	-
a) Public Administration	441,593	-	-	384,924	-	-
b) Other financial company	-	-	-	-	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non financial companies	-	-	-	-	-	-
2. Loans to:	**9,049,560**	**45,735**	**784**	**8,296,718**	**72,072**	**1,634**
a) Public Administration	6,825	3,838	-	9,687	445	-
b) Other financial company	10,277	16	-	4,604	15	-
of which: insurance companies	4	6	-	30	-	-
c) Non financial companies	2,286,009	10,981	-	2,095,086	15,996	-
d) Households	6,746,449	30,900	784	6,187,341	55,616	1,634
Total	**9,491,153**	**45,735**	**784**	**8,681,642**	**72,072**	**1,634**

4.4 Financial assets measured at amortised cost: gross value and total write-downs

		Gross value				Writedown			
		First stage	of which: low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	Write off partial total
Debt securities		441,593	-	-	-	-	-	-	-
Loans		9,464,143	-	265,806	184,291	38,276	28,751	138,556	-
Total	**12/31/2019**	**9,905,736**	**-**	**265,806**	**184,291**	**38,276**	**28,751**	**138,556**	**-**
Total	**12/31/2018**	**8,937,540**	**354,574**	**236,818**	**294,104**	**59,209**	**16,976**	**222,032**	**-**
of which: impaired financial assets purchased or created		X	X	603	1,305	X	92	1,031	-

Section 5 – Hedging derivatives – Item 50

The Group has not designated 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 to hedged assets / Values	Total 12/31/2019	Total 12/31/2018
1. Positive adjustment	**8,544**	**4,703**
1.1 of specific portfolios:	8,544	4,703
a) financial assets at amortised cost	8,544	4,703
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	**8,544**	**4,703**

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 21,746 thousand (Euro 5,824 thousand at 31 December 2018) and are made up as follows:

Activities/Values	Total 12/31/2019	Total 12/31/2018
1. Owened assets	**2,992**	**5,824**
a) lands	-	-
b) buildings	-	-
c) furniture	710	657
d) electronic system	1,802	1,789
e) other	480	3,378
2. Leased assets	**18,754**	-
a) lands	-	-
b) buildings	18,232	-
c) furniture	-	-
d) electronic system	-	-
e) other	522	-
Total	**21,746**	**5,824**
of which: obtained by the enforcement of collateral	-	-

These are mostly property and equipment of the Parent Company (Euro 20,458 thousand). For further details please refer to the same section of the Separate Financial Statements.

The rights of use acquired through leases and relative to the use of property and equipment in application of the new IFRS 16 accounting standard are included under property and equipment assets.

9.2 Investment property: breakdown of assets measured at cost

There are no tangible assets held for investment purposes.

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

There are no tangible assets held for investment purposes.

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 property and equipment.

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

	Lands	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balance	**-**	**-**	**3,981**	**11,108**	**11,695**	**26,784**
A.1 Total net reduction value	-	-	(3,324)	(9,320)	(8,317)	(20,960)
A.2 Net opening balance	**-**	**-**	**657**	**1,789**	**3,378**	**5,824**
B. Increase:	**-**	**21,397**	**143**	**624**	**2,254**	**24,418**
B.1 Purchasing	-	584	143	624	82	1,433
- of which business combinations	-	-	-	-	-	-
B.2 Capitalised expenditure on improvements	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Positive changes in fair value allocated to	-	-	-	-	-	-
a) net equity	-	-	-	-	-	-
b) profit & loss	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Transfer from investment properties	-	-	X	X	X	-
B.7 Other adjustment	-	20,813	-	-	2,172	22,985
C. Decrease:	**-**	**3,165**	**89**	**611**	**4,631**	**8,496**
C.1 Sales	-	-	-	-	-	-
- of which business combinations	-	-	-	-	-	-
C.2 Amorisation	-	2,754	89	611	1,746	5,200
C.3 Impairment losses allocated to	-	-	-	-	-	-
a) net equity	-	-	-	-	-	-
b) profit & loss	-	-	-	-	-	-
C.4 Negative chages in fair value allocated to	-	-	-	-	-	-
a) net equity	-	-	-	-	-	-
b) profit & loss	-	-	-	-	-	-
C.5 Negative exchange difference	-	-	-	-	-	-
C.6 Transfer to:	-	-	-	-	-	-
a) held for sale investment	-	-	X	X	X	-
b) non-current assets and group of assets held for sale	-	-	-	-	-	-
C.7 Other adjustment	-	411	-	-	2,885	3,296
D. Net closing balance	**-**	**18,232**	**710**	**1,802**	**1,002**	**21,746**
D.1 Total net reduction in value	-	(2,683)	(3,375)	(9,931)	(9,760)	(25,749)
D.2 Final gross balance	**-**	**20,915**	**4,085**	**11,733**	**10,762**	**47,494**
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 item C.7 "Other decreases" includes the amount relative to improvements and incremental expenses incurred on third-party assets not separable from the fixed asset itself (Euro 2,800 thousand), initially recognised under item 80 "Property and equipment" and classified in these financial statements under the item 120 "Others".

The details of the annual changes in property and equipment for operating purposes relating to assets acquired through financial leases are reported below.

	Lands	Buildings	Furniture	Electronic System	Others	Total
A. Gross opening balance	-	-	-	-	-	-
A.1 Total net reduction value	-	-	-	-	-	-
A.2 Opening net balance	-	-	-	-	-	-
B. Increase:	-	**21,397**	-	-	**2,172**	**23,569**
B.1 Purchasing	-	584	-	-	-	584
- of which business combinations	-	-	-	-	-	-
B.2 Capitalised expenditure on	-	-	-	-	-	-
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	-	20,813	-	-	2,172	22,985
C. Decreases:	-	**3,165**	-	-	**1,650**	**4,815**
C.1 Disposal	-	-	-	-	-	-
- of which business combinations	-	-	-	-	-	-
C.2 Depreciation	-	2,754	-	-	1,565	4,319
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	-	411	-	-	85	496
D. Net final balance	-	**18,232**	-	-	**522**	**18,754**
D.1 Total net reduction in value	-	(2,683)	-	-	(1,565)	(4,248)
D.2 Gross closing balance	-	**20,915**	-	-	**2,087**	**23,002**
E. Carried at cost	-	-	-	-	-	-

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 16,412 thousand (Euro 11,149 thousand at 31 December 2018).

Activities/Values	Total 12/31/2019		Total 12/31/2018	
	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	**16,412**	**-**	**11,149**	**-**
A.2.1 Assets valued at cost	16,412	-	11,149	-
a) intangible assets generated internally	-	-	-	-
b) other assets	16,412	-	11,149	-
A.2.2 Assets valued at fair value	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
Total	**16,412**	**-**	**11,149**	**-**

These are mostly intangible assets of the Parent Company (Euro 16,375 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 intangible assets: internally generated		Other intangible assets: others		Total
		Finite	Indefinite	Finite	Indefinite	
A. Opening balance	-	-	-	**85,987**	-	**85,987**
A.1 Total net reduction in value	-	-	-	(74,837)	-	(74,837)
A.2 Net opening balance	-	-	-	**11,149**	-	**11,149**
B. Increases	-	-	-	**12,166**	-	**12,166**
B.1 Purchases	-	-	-	7,341	-	7,341
B.2 Increments of internal intagible assets	X	-	-	-	-	-
B.3 Write-backs	X	-	-	-	-	-
B.4 Positive variations of fair value	-	-	-	-	-	-
- equity	X	-	-	-	-	-
- to P&L statement	X	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Other variations	-	-	-	4,825	-	4,825
C. Decreases	-	-	-	**6,903**	-	**6,903**
C.1 Sales	-	-	-	327	-	327
C.2 Write-downs	-	-	-	6,576	-	6,576
- Amortisations	X	-	-	6,576	-	6,576
- Depreciations	-	-	-	-	-	-
+ equity	X	-	-	-	-	-
+ P&L statement	-	-	-	-	-	-
C.3 Negative variations of fair value	-	-	-	-	-	-
- equity	X	-	-	-	-	-
- to P&L statement	X	-	-	-	-	-
C.4 Transfer to non-current assets	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Other variations	-	-	-	-	-	-
D. Net closing balance	-	-	-	**16,412**	-	**16,412**
D.1 Adjustment of net total values	-	-	-	(81,052)	-	(81,052)
E. Gross closing balance	-	-	-	**97,464**	-	**97,464**
F. Evaluation to 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 item B.6 "Other increases" include the amount relative to software under development previously recognised under item 120 "Other assets" and classified in these financial statements under the item 90 "Intangible assets".

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 110 amount to Euro 57,593 thousand (Euro 43,571 thousand in 2018), while current liabilities recognised in liability line item 60 amount to Euro 77,771 thousand (Euro 65,153 thousand in 2018).

11.1 Deferred tax assets: breakdown

	12/31/2019	12/31/2018
- Balancing the income statement	214,896	203,807
- Balancing net equity	349	337
Total	**215,245**	**204,144**

Deferred tax assets were 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 its accounting recognition, as required by IAS 12.

The balance of Euro 215,245 thousand (Euro 204,144 thousand at 31 December 2018) consists of deferred tax assets recognised through the income statement in the amount of Euro 214,896 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

	12/31/2019	12/31/2018
- Recognised to the income statement	680	45
- Recognised to the net equity	6	10
Total	**687**	**55**

Deferred tax liabilities offset in the Income Statement mainly refer to the tax effect (of Euro 526 thousand) deriving from the valuation at amortised cost of ABS securities of the GB 2019-1 transaction (Euro 1,592 thousand at 31 December 2019).

11.3 Changes in deferred tax assets (through income statement)

	12/31/2019	12/31/2018
1. Opening balance	**203,807**	**201,776**
2. Increases	**18,711**	**12,509**
2.1 Deferred tax assets of the year	18,711	10,972
a) related to previous fiscal year	994	-
b) due to changes in accountable parameters	5	-
c) write-backs	-	-
d) others	17,712	10,972
2.2 New levies or increases in fiscal rates	-	-
2.3 Other increases	-	1,537
3. Decreases	**7,622**	**10,478**
3.1 Anticipated levies cancelled in fiscal year	7,622	9,045
a) reversals of temporary differences	7,622	9,045
b) write-downs of non-recoverable items	-	-
c) changes in accountable parameters	-	-
d) others	-	-
3.2 Decreases in fiscal rates	-	-
3.3 Other decreases:	-	1,433
a) conversion into tax credit under L. 214/2011	-	-
b) others	-	1,433
4. Closing balance	**214,896**	**203,807**

The increase in the item “Deferred tax assets of the year - other” reflects the temporary IRES and IRAP differences of the Parent Company to which reference is made to the same section of the Separate financial statements, as well as the temporary IRES differences deriving from the provisions for risks and charges and to directors’ fees made in the year by the PSA Italia subsidiary. The increase in the item “Deferred tax assets of the year - relating to previous financial years” reflects the increase relative to PSA renting deriving from the higher tax loss recognised following the 2019 income tax return submission compared to the calculations made in the preparation of the 2018 financial statements.

11.4 Changes in deferred tax assets as per Law no. 214/2011

	Total 12/31/2019	Total 12/31/2018
Opening balance	**182,361**	**183,795**
2. Increases	**-**	**-**
3. Decreases	**-**	**1,433**
3.1 Reversals of temporary differences	-	-
3.2 Transformation 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**	**182,361**

No changes related to the conversion in tax credit were recognised in the 2019 financial year.

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

	Total 12/31/2019	Total 12/31/2018
1. Opening balance	**45**	**-**
2. Increases	**711**	**522**
2.1 Defered levies observed in the fiscal year	711	522
a) related to precedent fiscal year	-	-
b) due to change in accountability parameters	-	477
c) others	711	45
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**75**	**477**
3.1 Defered levies cancelled in the fiscal year	75	477
a) reversals of temporary differences	75	-
b) due to changes in accountable parameters	-	477
c) others	-	-
3.2 Decreases in fiscal rates	-	-
3.3 Other decreases:	-	-
4. Closing balance	**680**	**45**

The increases and decreases in deferred tax liabilities offset in the Income Statement mainly refer to the tax effect of the valuation at amortised cost of ABS securities issued for the GB 2019-1 securitisation transaction (Euro 1,592 thousand at 31 December 2019).

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

	Total 12/31/2019	Total 12/31/2018
1. Opening balance	**337**	**314**
2. Increases	**16**	**41**
2.1 Deferred tax assets during the year	16	41
b) related to previous fiscal years	-	-
b) due to changes in accountable parameters	-	41
c) others	16	-
2.2 New taxes or increase in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**4**	**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 fiscal rates	-	-
3.3 Other decreases:	4	-
4. Closing balance	**349**	**337**

The increase in the item "Deferred tax assets of the year - other" derives from the change in deferred tax assets of the Parent Company to which reference is made to the same section of the Separate financial statements.

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

	12/31/2019	12/31/2018
1. Opening balance	**10**	**143**
2. Increases	**-**	**6**
2.1 Deferred tax liabilities during the year	-	6
a) related to previous fiscal year	-	-
b) due to changes in accountable parameters	-	-
c) others	-	6
2.2 New levies or increases in fiscal rates	-	-
2.3 Other increases	-	-
3. Decreases	**4**	**139**
3.1 Deferred tax liabilities derecognised during the year	-	139
a) reversals of temporary differences	-	-
b) due to changes in accountable parameters	-	41
c) others	-	99
3.2 Reduction in tax rates	-	-
3.3 Other decreases	4	-
4. Closing balance	**6**	**10**

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

	12/31/2019	12/31/2018
A. Assets held for sale		
A.1 Financial assets	-	-
A.2 Equity investments	-	-
A.3 Tangible assets	-	2
of which: inventories of tangible assets arising from the recovery of guarantees received	-	-
A.4 Intangible assets	-	-
A.5 Other non current assets	-	-
Total A	**-**	**2**
of which carried at cost	-	-
of which carried at fair value level 1	-	-
of which carried at fair value level 2	-	2
of which carried at fair value level 3	-	-
B. Discontinued operations		
B.1 Financial assets at fair value with effect on P&L	-	-
- Financial assets held for trading	-	-
- Financial assets designated at fair value	-	-
- Other financial assets mandatorily designated at fair value	-	-
B.2 Financial assets designated at fair value with effects on comprehensive income	-	-
B.3 Financial assets valued at amortised cost	-	-
B.4 Equity investments	-	-
B.5 Property, Plant and Equipment	-	-
of which: inventories of tangible assets arising from the recovery of guarantees received	-	-
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 valued at amortised cost	-	-
D.2 Financial trading liabilities	-	-
D.3 Financial liabilities designated at fair value	-	-
D.4 Reserves	-	-
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 249,915 thousand (Euro 265,543 thousand at 31 December 2018), is made up as follows:

	12/31/2019	12/31/2018
Advances to suppliers	15,439	24,422
VAT receivables	20,606	4,673
Stamp duties	8,569	3,801
Withholding taxes	615	1,537
Other tax receivables	10,408	3,930
Due from dealers	4,682	4,798
Due from insurances	39,494	20,326
Accruals and prepaid expenses	48,670	54,793
Assets in transit	26,553	34,159
Leasehold improvements	2,672	-
Other items	72,206	113,103
Total	**249,915**	**265,543**

The item "Due from insurances" mainly relates to receivables due for insurance brokerage commissions linked to insurance brokerage activities.

The item "Improvements on third-party assets" includes the amount relating to improvements and incremental expenses incurred on third-party property and equipment not separable from the fixed asset itself, previously classified under item 80 "Property and equipment".

The item "Other items" mainly consists of receivables for ancillary services offered by the subsidiary Banca PSA to customers in conjunction with financing.

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 6,074,661 thousand (Euro 5,842,004 thousand at 31 December 2018) and are made up as follows:

Type of transaction/Values	Total 12/31/2019				Total 12/31/2018			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Deposits from central banks	**1,201,190**	X	X	X	**864,937**	X	X	X
2. Deposits from banks	**4,873,471**	X	X	X	**4,977,066**	X	X	X
2.1 Other current accounts and demand deposits	2,820	X	X	X	2,670	X	X	X
2.2 Time deposits	220,000	X	X	X	595,000	X	X	X
2.3 Loans	4,450,211	X	X	X	4,179,063	X	X	X
2.3.1 Repos	79,114	X	X	X	109,060	X	X	X
2.3.2 Other	4,371,097	X	X	X	4,070,004	X	X	X
2.4 Liabilities relating to commitments	-	X	X	X	-	X	X	X
2.5 Lease payables	-	X	X	X	-	X	X	X
2.6 Other liabilities	200,440	X	X	X	200,333	X	X	X
Total	**6,074,661**	**-**	**1,279,428**	**7,403,353**	**5,842,004**	**-**	**-**	**5,846,967**

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

The item "Due to central banks" includes loans received from the Bank of Italy in connection with TLTRO-II and TLTRO-III operations.
"Due to banks" consist mainly of:

- short-term loans granted by the Parent Company, reported in the item "Time deposits";
- repo transactions with a third party (Euro 79,114 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 1,324,520 thousand (Euro 1173866 thousand at 31 December 2018) and are made up as follows:

Type of transaction/Value	Total 12/31/2019				Total 12/31/2018			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	764,654	X	X	X	737,390	X	X	X
2. Time deposits	514,882	X	X	X	411,491	X	X	X
3. Loans	22,521	X	X	X	22,522	X	X	X
3.1 Reverse repos	-	X	X	X	-	X	X	X
3.2 Other	22,521	X	X	X	22,522	X	X	X
4. Liabilities relating to commitments to repurchase treasury shares	-	X	X	X	-	X	X	X
5. Lease payables	18,828	X	X	X	-	X	X	X
6. Other liabilities	3,635	X	X	X	2,464	X	X	X
Total	**1,324,520**	**-**	**-**	**1,313,396**	**1,173,866**	**-**	**-**	**1,165,489**

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

The item "Current accounts and demand deposits" mainly include on demand deposits from customers and ordinary current accounts to affiliates.

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

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 12/31/2019				Total 12/31/2018			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3	0	L1	L2	L3
A. Debts securities								
1. bonds	1,601,047	-	-	1,604,347	1,156,279	-	-	1,153,654
1.1 structured	-	-	-	-	-	-	-	-
1,2 other	1,601,047	-	-	1,604,347	1,156,279	-	-	1,153,654
2. other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
Total	**1,601,047**	**-**	**-**	**1,604,347**	**1,156,279**	**-**	**-**	**1,153,654**

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

The balance of the item "Debt securities issued" mainly refers to securitisation transactions issues sold on the market and non-preferred senior bonds entirely subscribed by the Parent Company, for an amount of Euro 120,030 thousand.

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 securities/debts

Type	12/31/2019	12/31/2018
TIER II subordinated debt to SCF - Santander Consumer Finance - maturing to 2028	35,000	35,000
TIER II subordinated debt to 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
TIER II subordinated debt to SCF - Santander Consumer Finance - maturing to 2029	10,000	-
LOW TIER II subordinated debt to Santander BENELUX - maturing to 2029	-	4,000
LOW TIER II subordinated debt to BANCO MADESANT - maturing to 2019	-	2,500
UP TIER II subordinated debt to Santander BENELUX - maturing to 2019	-	20,000
UP TIER II subordinated debt to BANCO MADESANT - maturing to 2019	-	12,500
Tier II subordinated debt to PSA Finance Nederlands B.V. - maturing to 2027	22,500	22,500
Tier II subordinated debt to Banque PSA Finance S.A. - maturing to 2029	11,000	
Total	**158,500**	**176,500**

For further details on subordinated debt to banks mentioned in the table, see Part F “Information on Consolidated Shareholders’ Equity”.

1.5 Details of structured debts

The Group has no structured debts.

1.6 Finance lease payables

The composition of financial outflows for leases relative to the 2019 financial year (IFRS 16 paragraph 53) and the analysis of maturity of the relative liabilities (IFRS 16 paragraph 58) is given below.

	Capital	Interest	Variable payments	Total cash flow leasing
	a	b	c	d=a+b+c
cash outflows	**4,097**	**308**	**767**	**5,173**

	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
lease payables	**-**	**843**	**-**	**-**	**262**	**588**	**947**	**6,150**	**10,038**	**-**

Section 2 – Financial liabilities held for trading – item 20

2.1 Financial liabilities held for trading: breakdown by type

Operation type / Values	Total 12/31/2019					Total 12/31/2018				
	NV	Fair Value			Fair Value *	NV	Fair Value			Fair Value *
		L1	L2	L3			L1	L2	L3	
A. Financial liabilities										
1. Deposits from banks	-	-	-	-	-	-	-	-	-	-
2. Deposits from 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. Derivative instruments										
1. Financial derivatives	X	-	5,099	-	X	X	-	5,027	-	X
1.1 Trading	X	-	5,099	-	X	X	-	5,027	-	X
1.2 Related with fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credits derivatives	X	-	-	-	X	X	-	-	-	X
2.1 Trading	X	-	-	-	X	X	-	-	-	X
2.2 Related with fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**-**	**5,099**	**-**	**X**	**X**	**-**	**5,027**	**-**	**X**
Total (A+B)	**X**	**-**	**5,099**	**-**	**X**	**X**	**-**	**5,027**	**-**	**X**

Key:
NV= Notional value
L1=eivel 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	12/31/2019		NV	Fair value	12/31/2018	
	12/31/2019	L1	L2	L3	12/31/2018	L1	L2	L3
A) Financial derivatives	**1,618,624**	-	**10,909**	-	**2,015,130**	-	**5,945**	-
1) Fair value	1,618,624	-	10,909	-	2,015,130	-	5,945	-
2) Cash flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**1,618,624**	**-**	**10,909**	**-**	**2,015,130**	**-**	**5,945**	**-**

Key:
NV=National 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 1.2 - Market risk, Subsection 1.2.2 - 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 2019 (in Euro):

Notional (euro)	Start date	Settlement date	Counterparty	Fair value (euro)
103,750,000	01/30/2017	10/31/2025	Banco Santander	583,251
88,438,000	04/26/2017	07/28/2025	Banco Santander	500,136
99,780,500	04/26/2017	08/26/2025	Banco Santander	600,486
99,477,500	04/26/2017	09/26/2025	Banco Santander	600,042
53,508,000	05/31/2017	06/30/2023	Banco Santander	242,148
68,981,500	05/31/2017	07/31/2023	Banco Santander	353,413
68,579,500	07/31/2017	11/29/2024	Banco Santander	470,109
75,753,500	07/31/2017	12/31/2024	Banco Santander	503,055
67,080,500	07/31/2017	01/31/2025	Banco Santander	497,316
23,703,000	09/29/2017	12/31/2025	Banco Santander	172,222
50,000,000	06/30/2020	12/31/2027	Banco Santander	908,911
82,945,000	06/29/2018	09/30/2024	Banco Santander	564,711
83,897,500	07/31/2018	07/31/2028	Banco Santander	952,438
69,036,500	08/31/2018	08/31/2028	Banco Santander	706,597
95,144,000	12/21/2018	12/21/2028	Banco Santander	949,234
66,548,500	05/31/2019	11/30/2027	Banco Santander	141,039
51,000,000	04/20/2017	02/28/2022	BNP Paribas	81,505
59,000,000	04/20/2017	04/30/2022	BNP Paribas	102,508
50,000,000	04/20/2017	03/31/2022	Natixis	87,285
32,000,000	06/29/2018	06/30/2023	RBS	244,718
34,000,000	06/29/2018	04/30/2023	BNP Paribas	206,761
27,000,000	06/29/2018	05/31/2023	HSBC	189,362
37,000,000	07/31/2018	07/31/2023	Banco Santander	356,801
35,000,000	07/31/2018	05/31/2023	Banco Santander	287,841
30,000,000	07/31/2018	06/30/2023	BNP Paribas	256,169
9,000,000	10/19/2018	05/31/2021	Banco Santander	38,982
17,000,000	10/19/2018	06/30/2021	Natixis	80,513
16,000,000	10/19/2018	07/31/2021	Natixis	83,154
10,000,000	10/19/2018	08/31/2021	Banco Santander	56,688
15,000,000	10/19/2018	09/30/2021	Banco Santander	92,070
1,618,623,500				**10,909,463**

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	equities and equity	currencies and gold	credit	commodities	others				
1. Financial assets at fair value through other comprehensive income	-	-	-	-	X	X	X	-	X	X
2. Financial assets valued to amortised cost	-	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	10,909	X	-	X
4. Other operations	-	-	-	-	-	-	X	-	X	-
Total assets	**-**	**-**	**-**	**-**	**-**	**-**	**10,909**	**-**	**-**	**-**
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Expected	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

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 393,695 thousand (Euro 403,393 thousand at the end of 2018) and consist of:

	12/31/2019	12/31/2018
- Due to suppliers	100,113	99,824
- Due to dealers	34,327	35,152
- Payables to employees	7,004	5,617
- Due to Social Security institutions	3,251	3,398
- Tax payables	8,509	5,750
- Other amounts due to customers	18,227	16,856
- Due to insurances	43,713	26,670
- Factoring payables	72,754	70,457
- Accruals and deferred income	43,641	59,162
- Items in transit	47,728	64,306
- Other liabilities for commissions	3,779	4,883
- Other payables	10,651	11,319
Total	**393,695**	**403,393**

"Other amounts due to customers" include temporary debt balances with customers for early repayments and the temporary debt 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 12/31/2019	Total 12/31/2018
A. Opening balance	**4,252**	**4,299**
B. Increases	**221**	**531**
B.1 Provision of the year	65	40
B.2 Other increases	156	491
C. Reductions	**(227)**	**(577)**
C.1 Severance payments	(212)	(417)
C.2 Other reductions	(15)	(161)
D. Closing balance	**4,246**	**4,252**
Total	**4,246**	**4,252**

The provision for employee termination indemnities amounts to Euro 4,246 thousand (Euro 4,252 thousand at 31 December 2018) 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 – Provisions for risks and charges – Item 100

10.1 Provisions for risks and charges: breakdown

Items/Components	Total 12/31/2019	Total 12/31/2018
1. Provisions for credit risk on commitments and financial guarantees given	46	89
2. Provisions for other commitments and other guarantees given	-	-
3. Pensions and other post-retirement benefit obligations	-	-
4. Other funds for risks and obligations	41,937	25,203
4.1 legal disputes	6,743	5,716
4.2 staff expenses	-	-
4.3 others	35,195	19,487
Total	**41,983**	**25,292**

10.2 Provisions 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	-	-	**25,203**	**25,203**
B. Increases	-	-	**34,832**	**34,832**
B.1 Provision for the year	-	-	34,832	34,832
B.2 Time value change	-	-	-	-
B.3 Difference due to discount-rate changes	-	-	-	-
B.4 Other variations	-	-	-	-
- of which business aggregation operations	-	-	-	-
C. Decreases	-	-	**18,098**	**18,098**
C.1 Use in the exercise	-	-	18,098	18,098
C.2 Difference due to discount-rate changes	-	-	-	-
C.3 Other variations	-	-	-	-
- of which business aggregation operations	-	-	-	-
D. Closing balance	-	-	**41,937**	**41,937**

The main increases in item B.1 “Provision for the year” relate to provisions for legal disputes with customers and dealers, and other allocations to provisions for customer disputes or future reimbursements to customers.

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 3,439 thousand, and to utilisations of provisions set up in prior years as a result of disbursements made for Euro 14,659 thousand.

10.3 Provisions for credit risk on commitments and financial guarantees given

	Provisions for credit risk on commitments and financial guarantees given			
	First stage	Second stage	Third stage	Total
Loan commitments given	46	1	-	46
Financial guarantees given	-	-	-	-
Total	**46**	**1**	**-**	**46**

10.4 Provisions on other commitments and other guarantees given

The Group does not have provisions on other commitments and other guarantees given.

10.5 Defined-benefit pension plans

The Group has not established any company defined-benefit pension plans.

10.6 Provisions for risks and charges – other provisions

Provisions for legal disputes relate to provisions for disputes with customers and dealers.

Other provisions include provisions for legal disputes with customers relating to the salary assignment loan portfolio, the provisions for future reimbursements, in case of early redemption, of charges paid in advance by customers.

For further details please refer to Part E, Section 2, paragraph 1.5 Operational risk.

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 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 outstanding: closing balance	**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	-	-

13.3 Share capital: other information

At 31 December 2019, the share capital of Santander Consumer Bank S.p.A. amounts to Euro 573 million, made up as follows:

	Total	
	12/31/2019	12/31/2018
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 :		
Number of shares under contract		
Total amount		

13.4 Profit reserves: other information

The Group's profit reserves at 31 December 2019 consist mainly of the legal reserve (Euro 13,489 thousand), the extraordinary reserve (Euro 196,586 thousand), the merger reserve (Euro -182 thousand), the business unit merger reserve (Euro -355 thousand), the first-time adoption reserve (Euro -6,081) and the retained earnings of the subsidiaries (Euro 44,360 thousand).

13.5 Equity instruments: breakdown and change in the year

The Group has not issued any equity instruments.

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	12/31/2019	12/31/2018
Investments in consolidated companies with significant minority interests		
1. Banca PSA Italia S.p.A.	220,976	167,097
2. PSA Renting Italia S.p.A.	999	392
Other investments		
	221,975	**167,490**

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 12/31/2019	Total 12/31/2018
	First stage	Second stage	Third stage		
Loan commitments given	**448,127**	**27,412**	**1**	**475,540**	**438,737**
a) Central banks	-	-	-	-	-
b) Public Administration	-	-	-	-	-
c) Banks	-	-	-	-	-
d) Other financial companies	-	-	-	-	25
e) Non-financial companies	444,654	27,362	-	472,016	405,775
f) Households	3,473	50	1	3,524	32,937
Financial guarantees issued	-	-	-	-	-
a) Central banks	-	-	-	-	-
b) Public Administration	-	-	-	-	-
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	Total
	12/31/2019	12/31/2018
Other guarantees issued		
of which: non-performing loans	-	-
a) Central banks	-	-
b) Public Administration	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Other commitment		
of which: impaired	144	-
a) Central banks	-	-
b) Public Administration	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	18,863	22,118
f) Households	-	-

3. Assets used to guarantee own liabilities and commitments

Portfolios	Amounts 12/31/2019	Amounts 12/31/2018
1. Financial assets designated at fair value through profit or loss	-	-
2. Financial assets at fair value through other comprehensive income	-	-
3. Financial assets valued to amortised cost	3,213,398	2,379,118
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-II and TLTRO-III 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 S.p.A.;
- 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. Breakdown of investments relating to unit-linked and index-linked insurance policies

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

5. Administration and trading on behalf of third parties

No Group company operates 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)	12/31/2019	12/31/2018
1. Derivatives		2,041	-	2,041	-	2,203	(161)	167
2. Repo's		-	-	-	-	-	-	-
3. Securities lending		-	-	-	-	-	-	-
4. Others		-	-	-	-	-	-	-
Total	**12/31/2019**	**2,041**	**-**	**2,041**	**-**	**2,203**	**(161)**	**X**
Total	**12/31/2018**	**1,828**	**-**	**1,828**	**-**	**1,661**	**X**	**167**

As required by IFRS 7, it is hereby disclosed that the derivatives in place as at 31 December 2019 were entered into by Group companies and have positive fair value equal to Euro 2,041 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.

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 Sheet		Net amount (f=c-d-e)	Net amount (f=c-d-e)
					Financial instruments (d)	Cash Collateral received (e)	12/31/2019	12/31/2018
1. Derivatives		9,363	-	9,363	-	10,103	(739)	422
2. Repos		79,114	-	79,114	79,114	-	-	-
3. Securities lending		-	-	-	-	-	-	-
4. Other operations		-	-	-	-	-	-	-
Total	**12/31/2019**	**88,477**	**-**	**88,477**	**79,114**	**10,103**	**(739)**	**X**
Total	**12/31/2018**	**113,693**	**-**	**113,693**	**109,060**	**4,211**	**X**	**422**

The financial liabilities subject to offsetting have the following characteristics:

- Derivatives with negative fair value entered into by Group companies, equal to Euro 9,363 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 Group does not have any transaction in securities lending.

9. Information on joint arrangements

The Group does not have any joint arrangements.

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 356,995 thousand (Euro 352,382 thousand at 31 December 2018) and is made up of:

Items/Technical forms	Debt securities	Loans	Other operations	Total 12/31/2019	Total 12/31/2018
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 fair value	-	-	-	-	-
2. Financial assets at fair value through other comprehensive income	-	-	X	-	-
3. Financial assets at amortised cost	**973**	**352,292**	**X**	**353,266**	**348,747**
3.1 Loans to banks	104	14	X	118	15
3.2 Loans to customers	869	352,279	X	353,148	348,732
4. Hedging derivatives	**X**	**X**	-	-	-
5. Other assets	**X**	**X**	**144**	**144**	**97**
6. Financial liabilities	**X**	**X**	**X**	**3,586**	**3,539**
Total	**973**	**352,292**	**144**	**356,995**	**352,382**
of which: interest income on credit impaired financial assets	-	-	-	-	-
of which: interest income on financial lease	-	19,186	-	19,186	-

The value of interest on loans to customers is mainly 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 and III 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 income on foreign currency financial assets

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

1.3 Interest and similar expense: breakdown

Items/Technical forms	Debts	Securities	Other operations	Total 12/31/2019	Total 12/31/2018
1. Financial liabilities valued at amortised cost	34,735	3,216	X	37,950	37,526
1.1 Deposits from central banks	-	X	X	-	-
1.2 Debts from banks	19,530	X	X	19,530	20,077
1.3 Debts to customers	15,204	X	X	15,204	17,128
1.4 Debt securities in issue	X	3,216	X	3,216	321
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and funds	X	X	12	12	3
5. Hedging derivatives	X	X	6,444	6,444	7,172
6. Financial assets	X	X	X	263	1,248
Total	**34,735**	**3,216**	**6,456**	**44,669**	**45,950**
of which: interest expense on lease payables	308	-	-	308	-

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 7,378 thousand and to PSA Renting Euro 158 thousand.

Interest expense on debt securities issued relates to securities issued under EMTN programmes and the issue of non-preferred Senior bonds.

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 14,063 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.

1.5 Differentials on hedging transactions

Items	Totale 12/31/2019	Totale 12/31/2018
A. Positive differentials related to hedging operations:	-	2
B. Negative differentials related to hedging operations:	(6,444)	(7,173)
C. Balance (A-B)	**(6,444)**	**(7,172)**

The balance of differentials on hedging interest rate swaps is negative (as in 2018).

Section 2 – Commissions – Items 40 and 50

2.1 Commission income: breakdown

The commission income generated during the year amounts to Euro 133,089 thousand (Euro 121,610 thousand at 31 December 2018) and is broken down as follows:

Type of service/Values	Total 12/31/2019	Total 12/31/2018
a) guarantees given	-	-
b) credit derivatives	-	-
c) management services, brokerage and consultancy	103,829	96,483
1. Securities trading	-	-
2. Currency trading	-	-
3. portfolio management	-	-
3.1 individuals	-	-
3.2 collectives	-	-
4. stock custody and administration	-	-
5. depositary 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	103,829	96,483
9.1 porfolios management	-	-
9.1.1 individuals	-	-
9.1.2 collectives	-	-
9.2 insurance products	61,465	51,794
9.3 other products	42,364	44,689
d) collection and payment services	23,577	21,439
e) securitisation servicing	-	-
f) factoring services	-	-
g) tax collection services	-	-
h) management of multilateral trading facilities	-	-
i) management of current account	-	-
j) other services	5,683	3,688
Total	**133,089**	**121,610**

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 50,126 thousand and by the subsidiaries in the amount of Euro 11,339 thousand, salary assignment loans granted by the Bank in the amount of Euro 11,863 thousand and services to install theft and fire safety devices for Banca PSA in the amount of Euro 22,430 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 58,805 thousand (Euro 61,019 thousand at 31 December 2018) and is broken down as follows:

Services/Amounts	Total 12/31/2019	Total 12/31/2018
a) guarantees received	16	19
b) credit derivatives	-	-
c) management and brokerage services	50,364	52,361
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	65	72
5. financial instruments placement	-	-
6. off-site distribution of financial instruments, products and services	50,299	52,289
d) collection and payment services	4,019	3,710
e) other services	4,407	4,929
Total	**58,805**	**61,019**

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

The Group has not received any dividends in the financial year.

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

4.1 Net trading income (loss): breakdown

Net trading income (loss) amounts to Euro (219) thousand and is broken down as follows:

Transactions / Income	Capital gain (A)	Realised profits (B)	Capital loss (C)	Realised losses (D)	Net result
1. Financial assets held for trading	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-
1.2 Equity stocks	-	-	-	-	-
1.3 O.I.C.R. shares	-	-	-	-	-
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	(2)
3. Derivatives	**1,593**	**2,140**	**(1,676)**	**(2,274)**	**(217)**
3.1 Financial derivatives:	1,593	2,140	(1,676)	(2,274)	(217)
- On debt securities and interest rates	1,593	2,140	(1,676)	(2,274)	(217)
- On capital stocks and stock indexes	-	-	-	-	-
- On currency and gold	X	X	X	X	-
- Others	-	-	-	-	-
3.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected to fv option (IFRS 7, par. 9 lett. d)	X	X	X	X	-
Total	**1,593**	**2,140**	**(1,676)**	**(2,274)**	**(219)**

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 12/31/2019	Total 12/31/2018
A. Income from:		
A.1 Fair value hedging instruments	129	1,905
A.2 Financial assets hedged (fair value)	7,866	6,524
A.3 Financial liabilities hedged (fair value)	-	-
A.4 Cash-flow hedging derivatives	-	-
A.5 Foreign currency assets and liabilities	-	-
Total income in hedge accounting (A)	**7,994**	**8,429**
B. Charges on		
B.1 Fair value hedging instruments	(5,143)	(6,171)
B.2 Financial assets hedged (fair value)	(4,024)	(1,412)
B.3 Financial liabilities hedged (fair value)	-	-
B.4 Cash-flow hedging derivatives	-	-
B.5 Foreign currency assets and liabilities	-	-
Total charges from hedging activity (B)	**(9,168)**	**(7,583)**
C. C. Net hedging activity (A-B)	**(1,174)**	**846**
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 12/31/2019			Total 12/31/2018		
	Gain	Losses	Net profit	Gain	Losses	Net profit
A. Financial assets						
1. Financial assets valued at amortised cost	20,606	(3,569)	17,037	-	(71)	(71)
1.1 Loans to banks	-	-	-	-	-	-
1.2 Loans and customers	20,606	(3,569)	17,037	-	(71)	(71)
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-	-
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**20,606**	**(3,569)**	**17,037**	**-**	**(71)**	**(71)**
B. Financial liabilities valued at amortised cost	-	-	-	-	-	-
1. Deposits with banks	-	-	-	-	-	-
2. Deposits with customers	-	-	-	-	-	-
3. Debt securities in issue	-	-	-	-	-	-
Total liabilities (B)	**-**	**-**	**-**	**-**	**-**	**-**

The item Loans to customers includes the balance of receivables sold by the Parent Company without recourse to third parties during the year, net of related write-downs.

The item Loans to customers includes receivables sold without recourse during the year, net of related write-downs. In particular, the increase in the item is related to the extraordinary sale of non-performing loans in the first half of 2019 by the Parent Company.

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 12/31/2019	Total 12/31/2018
	First and second stage	Third stage		First and second stage	Third stage		
		Write-off	Others				
A. Loans to banks	-	-	-	-	-	-	-
- Loans	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-
of which: acquired or originated impaired loans	-	-	-	-	-	-	-
B. Loans to customers	(41,129)	(1,116)	(50,934)	45,629	18,695	(28,854)	(37,704)
- Loans	(41,129)	(1,116)	(50,934)	45,629	18,695	(28,854)	(37,704)
- Debt securities	-	-	-	-	-	-	-
of which: acquired or originated impaired loans	-	-	(855)	43	194	(618)	91
Total	**(41,129)**	**(1,116)**	**(50,934)**	**45,629**	**18,695**	**(28,854)**	**(37,704)**

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 63,143 thousand (Euro 60,026 thousand at 31 December 2018) and is split as follows:

Type of expense/Amounts	Total 12/31/2019	Total 12/31/2018
1) Employees	**60,312**	**57,012**
a) wages and salaries	43,698	40,655
b) social obligation	11,532	11,106
c) Severance pay	286	362
d) Social security costs	-	-
e) reserve to staff severance indemnity	65	62
f) reserve to retirement fund and similar obligations	-	-
- defined contribution	-	-
- defined benefit	-	-
g) payments to external pension funds:	2,621	2,551
- defined contribution	2,621	2,551
- defined benefit	-	-
h) Expenses resulting from share based payments	-	-
i) other employee benefits	2,110	2,276
2) Other staffs in activity	**2,140**	**2,323**
3) Managers and statutory auditors	**690**	**691**
4) Early retirement costs	-	-
Total	**63,143**	**60,026**

“Social security charges” include pension costs incurred by the Group in 2019.

The “provision for employee termination indemnities” shows the amount calculated in accordance with actuarial estimates.

12.2 Average number of employees, by category

	12/31/2019	12/31/2018
Employees:		
a) Senior managers	21	22
b) Managers	228	216
of which 3rd and 4th level	*74*	*70*
c) Remaining employees staff	575	550
Total	**824**	**788**
Other personnel	**35**	**46**

12.3 Defined-benefit pension plans: costs and revenues

The Group has not allocated defined-benefit pension plans.

12.4 Other personnel benefits

	12/31/2019	12/31/2018
Ancillary staff expenses (contributions to rent and health insurance, luncheon vouchers and other minor benefits)	3,959	3,373
Incentive plan reserved for managers and middle managers		5
Cost of allocation of share by the parent company to employees		
Total	**3,959**	**3,378**

12.5 Other administrative expenses: breakdown

Other administrative expenses amount to Euro 95,170 thousand (Euro 93,876 thousand at 31 December 2018) and are made up as follows:

Type of service/Amounts	Total 12/31/2019	Total 12/31/2018
Indirect taxes and duties	12,139	9,761
Telephone, broadcasting and postal	3,890	3,927
Maintenance, cleaning and waste disposal	741	1,094
Property lease, removals and condominium expenses	997	4,478
Professional fees and corporate expenses	20,642	17,560
Travel and accomodation	2,506	4,478
Stamp duty and flat-rate substitute tax	5,275	5,014
Insurance charges	104	109
Forms, stationery and consumables	243	378
Supplies, licences EDP consulting and maintenance	10,039	11,340
Debt recovery charges	11,241	12,869
Legal fees	5,545	4,035
Advertising, promotion and representation	3,335	2,262
Commercial information and searches	4,651	3,960
Other expenses	13,823	12,610
Total	**95,170**	**93,876**

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 12/31/2019	Net provision 12/31/2018
Net provision on commitment and financial guarantees	(22)	65	43	(50)

13.2 Net provisions relating to other commitments and other guarantees given: breakdown

The Group has not recognised other commitments and other guarantees given.

13.3 Net provisions for other risks and charges: breakdown

	Additions	Uses	Net provision 12/31/2019	Net provision 12/31/2018
Net personnel expense provision				
Net provision for legal disputes	(5,739)	2,689	(3,050)	(893)
Other provisions	(29,092)		(29,092)	(8,809)
Totale	**(34,832)**	**2,689**	**(32,142)**	**(9,702)**

Per maggiori informazioni si rimanda a quanto riportato nella parte B, sezione 10 “Fondi per rischi ed oneri”.

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 5,206 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, equipment and investment property				
A.1 For operational use	5,200	6	-	(5,206)
- Owned	881	6	-	(887)
- Licenses acquired through lease	4,319	-	-	(4,319)
A.2 Held under finance leases	-	-	-	-
- Owned	-	-	-	-
- Licenses acquired through lease	-	-	-	-
A.3 Inventories	X	-	-	-
Total	**5,200**	**6**	**-**	**(5,206)**

Section 15 – Net adjustments to/recoveries on intangible assets – Item 220

15.1 Net adjustments to/recoveries on intangible assets: breakdown

Net adjustments to intangible assets amount to Euro 6,576 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	6,576	-	-	(6,576)
- Generated internally by the company	-	-	-	-
- Other	6,576	-	-	(6,576)
A.2 Held under finance leases	-	-	-	-
Total	**6,576**	**-**	**-**	**(6,576)**

Section 16 – Other operating expenses/income – Item 230

16.1 Other operating expenses: breakdown

Other operating expenses amount to Euro 33,809 thousand (Euro 31,422 thousand at 31 December 2018) and are divided as follows:

	Total 12/31/2019	Total 12/31/2018
Amortization on improvements (not separable) on real estates owned by the C	341	-
Rebates and discounts	99	52
Losses on disposal	598	165
Miscellaneous expenses	1,667	1,270
Expenses related to leasing activities	26,507	23,860
Other expenses	4,597	6,075
Total	**33,809**	**31,422**

16.2 Other operating income: breakdown

Other operating income amounts to Euro 57,942 thousand (Euro 48,508 thousand at 31 December 2018) and can be broken down as follows:

	Total 12/31/2019	Total 12/31/2018
Recovery of taxes	9,651	8,922
Recovery of lease instalments	249	82
Recovery of other expenses	1,319	990
Recovery of preliminary expenses	9,221	10,703
Rebates and discounts received	4	3
Insurance reimbursements	-	8
Gains on disposal	27	347
Income related to leasing transactions	27,267	26,525
Other income	10,204	928
Total	**57,942**	**48,508**

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 (60,271) thousand (Euro (59,580) thousand at 31 December 2018) and represents the provision made during the year in accordance with current tax law. It is made up as follows:

Income components/Sectors	Total 12/31/2019	Total 12/31/2018
1. Current tax expense (-)	(70,912)	(58,610)
2. Change of current taxes of previous years (+/-)	188	(123)
3. Reduction in 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 (+/-)	11,088	(1,252)
5. Change of deferred tax liabilities (+/-)	(635)	405
6. Tax expenses for the year (-) (-1+/-2+3+3bis+/-4+/-5)	**(60,271)**	**(59,580)**

The change is due to the recognition of deferred tax assets generated by deductible temporary differences, mostly due to allocations to provisions for risks and charges and to directors' fees allocated during the year, as well as the reversal to income of the year of the portions of tax assets recorded in previous years and accruing to the current year.

For further details of changes in tax balances, please see Section 11 – Tax assets and tax liabilities.

21.2 Reconciliation between 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.

	12/31/2019	12/31/2018
Profit (loss) from continuing operations before tax	198,889	176,753
Profit before tax on discontinuing operations		
Theoretical taxable income	**198,889**	**176,753**
IRES - Theoretical tax charge	(54,610)	(48,585)
- effect of income and expenses that do not contribute to the tax base	3,709	2,757
- effect of expenses that are wholly or partially non-deductible	1,442	(3,211)
- Reduction in tax for the period	1,079	517
IRES - Effective tax burden	**(48,380)**	**(48,523)**
IRAP - Theoretical tax charge	(11,038)	(9,835)
- portion of non-deductible administrative expenses, depreciation and amortisation	(588)	(550)
- portion of non-deductible interest expense		
- effect of income and expenses that do not contribute to the tax base	2,694	3,521
- effect of expenses that are wholly or partially non-deductible	(3,061)	(4,100)
- Reduction in tax for the period	103	(94)
IRAP - Effective tax burden	**(11,890)**	**(11,057)**
Effective tax burden as shown in the financial statements	**(60,271)**	**(59,580)**

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”

	12/31/2019	12/31/2018
Investments in consolidated companies with significant minority interests		
1. PSA Italia spa	26,865	18,381
2. PSA Renting Italia S.p.A.	1,339	468
Other investments		
Total	**28,204**	**18,849**

The result attributable to minority interests amounts to Euro 28,204 thousand and relates to the profit attributable to Banque PSA arising from its 50% interest in Banca PSA Italia, equal to Euro 26,865 thousand, and 50% in PSA Renting, equal to Euro 1,339 thousand.

Section 24 – Other information

Information on public funds pursuant to art. 1, paragraph 125 of Law no. 124 of 4 August 2017 (“Annual law for the market and the competition”)

Law no. 124 of 4 August 2017 introduced some measures in art. 1 paragraphs from 125 to 129 with the objective of ensuring transparency in the issue of public funds. In particular, the law provides the obligation for enterprises that receive subsidies, contributions, paid positions and in any case economy advantages of any nature from public administrations, to publish such amounts in the explanatory notes to the financial statements and in the explanatory notes of any consolidated financial statements.

In order to avoid the accumulation of non-relevant information, the obligation to publish is waived when the amount of these public funds received is less than Euro 10,000.

In addition, the National Register of State aids is active, in which State aids by subjects that grant and manage these aids must be published.

With regard to this, it is specified that, on the reference date of these financial statements, there were contributions deliberated but not yet issued in favour of Santander Consumer Bank, with reference to training provisions granted by the Fondo Banche e Assicurazioni.

For further information, please refer to the National Register of State Aids (RNA), under the "Transparency" section.

Section 25 – Earnings per share

25.1 Average number of ordinary shares (fully diluted)

	Number	Days	Weighted number
Opening balance	573,000	365	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	135,068
Basic earnings per share	0.21

Profit (loss) for the period pertaining to the Parent Company	106,864
Basic earnings per share	0.19

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	12/31/2019	12/31/2018
10.	**Net Profit (Loss) for the year**	**135,068**	**117,173**
	Other comprehensive income after tax not to be recycled to income statement		
20.	Equity securities designated at fair value with an impact on total income:	-	-
	a) changes in fair value	-	-
	b) transfers to other components of equity	-	-
30.	Financial liabilities designated at fair value with impact on the income statement (changes in creditworthiness):	-	-
	a) changes in fair value	-	-
	b) transfers to other components of equity	-	-
40.	Hedges of equity securities designated at fair value with an impact on total profitability:	-	-
	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	(136)	74
80	Non current assets classified as held for sale	-	-
90.	Valuation reserves from investments accounted for using the equity method	-	-
100.	Income taxes relating to other income components without reversal to the income statement	16	81
	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 differrences:	-	-
	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) reclassification through profit or loss	-	-
	c) other changes	-	-
150.	Financial assets (no equity securities) measured at fair value with an impact on total profitability:	-	-
	a) changes in fair value	-	-
	b) reclassification through profit or loss	-	-
	- adjustments to credit risk	-	-
	- gains / losses from realization	-	-
	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 changes	-	-
170.	Valutation reserves from investments accounted for using the equity method;	-	-
	a) changes in fair value	-	-
	b) reclassification through profit or loss	-	-
	- impairment adjustments	-	-
	- gains / losses from realization	-	-
	c) other changes	-	-
180.	Income taxes relating to other income components with reversal to the income statement	-	-
190.	**Total of other comprehensive income after tax**	**(119)**	**155**
200.	**Comprehensive income (Items 10+190)**	**134,949**	**117,328**
210.	Minority consolidated other comprehensive income	28,161	18,908
220.	**Parent Company's consolidated other comprehensive income**	**106,787**	**98,420**

Part E – Information on risks and related hedging policies

Introduction

Again in 2019 the Santander Consumer Bank Group (hereinafter the Group) placed great importance on the governance of risks in accordance with the requirements of the prudential supervision regulations, 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 into account both the macro-economic scenario and the risk profile, stimulating the growth of the risk culture and encouraging a transparent and accurate presentation of the risks associated with the portfolios held, ensuring adequate organisational and methodological procedures consistent with the regulatory and operational context.

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, which is entrusted with the task of supporting the Board of Directors in relation to risk, so allowing it to take correct decisions with regard to risk governance. In addition to these, managerial committees have been established. These include the Executive Risk Committee, whose Chairman is the Chief Executive Officer (CEO) with the Chief Risk Officer (CRO), the Head of Administration and Control and the Head of Finance as permanent members.

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.

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.

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.

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 company SCB is continuing the 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 and improve 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 continued the same development process at the same time, using an approach always based on the principle of proportionality. 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

Credit risk is the main type of risk to which the Group 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.

In this business environment and in compliance with the applicable provisions relating to the Internal Control System (Circular Letter of Bank of Italy no. 285 of 17 December 2013) the Group is provided with an organisational and operational structure adequate to the assigned objectives. This structure has also been consolidated and modified in the individual units also in consideration of the entry into force of the new IFRS 9 accounting standard in order to guarantee an adequate risk management, with particular reference to the definition of the policies for the valuation and classification of loans, the development of second level controls and the monitoring of positions in the assigned stages.

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 their 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 by assigning a specific score, 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		Bad exposures	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Performing exposures	Total
1. Financial assets valued to amortised cost		5,890	21,666	18,179	68,194	10,036,322	10,150,251
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	**12/31/2019**	**5,890**	**21,666**	**18,179**	**68,194**	**10,036,322**	**10,150,251**
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 financial assets by portfolio and credit quality (gross and net values)

Portfolio/quality		Non-Performing Assets				Performing Assets			
		Gross exposure	Specific writedowns	Net exposure	Overall partial write-off*	Gross exposure	Specific writedowns	Net exposure	Total (net exposition)
1. Financial assets valued to amortised cost		184,291	(138,556)	45,735	-	10,171,542	(67,027)	10,104,516	10,150,251
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	**12/31/2019**	**184,291**	**(138,556)**	**45,735**	**-**	**10,171,542**	**(67,027)**	**10,104,516**	**10,150,251**
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		-	-	4,619
2. Hedging Derivatives		-	-	-
Total	**12/31/2019**	**-**	**-**	**4,619**
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 Head of Risk 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:

1. acceptance of a loan application;
2. monitoring and reporting;
3. 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.

The bank also provides to carry out half-yearly stress testing finalised at checking and assessing for the group:

- the adequacy of the capital
- the adequacy of provisions
- the sustainability of the business in scenarios of plausible difficulties

The applied policies, in accordance with the requirements of the regulations, apply different levels of plausibility (base scenario and stressed scenario) and the results are brought to the attention of the Parent Company's Board of Directors and Senior Management.

2.3 Methods for the measurement of expected losses

In accordance with IFRS 9 classification, financial assets can be classified into three categories, two main ones and a residual one:

- 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 business model of the Group's units 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 introduced with IFRS 9 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 income. Specifically, the new model requires that the at the time of analysis an assessment is carried out on whether the credit risk of the instrument or of the position has suffered a significant increase in risk with respect to the initial recognition (origination). To carry out this assessment, the data reported in the origination stage is compared with the current data. The elements that mainly determine the assessment of the significant increase in credit risk (SICR) are determined by the comparison between the PD calculated at the origination stage and the PD calculated in the month of observation. At the end of the monthly analysis, the positions are classified in stages as required by the regulations:

- 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 income 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 used 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 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:

a) LGD Non-Defaulted portfolio;
b) LGD Reversible Defaulted portfolio;
c) 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. With reference to these processes, each Group unit has internally formalised the guidelines and the procedures of the governance system to support the adequate use of guarantees.

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 Group, 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. Esposizioni creditizie deteriorate

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 financial assets 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, again regulated in Bank of Italy Circular no. 272 of 30 July 2008, 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 covers 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 2019;
- **Corporate Single Name:** measures the level of individual exposure towards counterparties, expressed in terms of insolvency with respect to the equity of the Bank;

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.
- **Corporate Single Name:** measures the level of individual exposure towards counterparties, expressed in terms of insolvency with respect to the equity of the Bank.

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 the 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 separate explanatory 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. For further details, reference is made to the reports produced by the individual Group units.

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.

During the 2019 financial year, the Parent Company sold some portfolios, whose content were fully illustrated in the separate explanatory notes.

3.3 Purchased or originated impaired financial assets

Purchased or originated impaired financial assets include loans subject to refinancing measures which at the time of the concession of refinancing were classified as impaired loans; these loans are classified in stage 3.

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 Group, through the individual units that compose it, 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 Group units are 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 is described in the policies adopted by the Group units.

For reporting purposes, in addition to that indicated previously, the Parent Company 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 Parent Company, 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 Parent Company, for the reports for which it is responsible, 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, described in detail in the notes to the financial statements of the Parent Bank.

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 / stages of risk		First stage			Second stage			Third stage		
		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		39,479	1,077	820	7,016	16,156	3,645	796	1,344	28,042
2. Financial assets at fair value through other comprehensive income		-	-	-	-	-	-	-	-	-
3. Financial assets held for sale		-	-	-	-	-	-	-	-	-
Total	**12/31/2019**	**39,479**	**1,077**	**820**	**7,016**	**16,156**	**3,645**	**796**	**1,344**	**28,042**
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 write-downs and total provisions

Causal / risk stages	Total value adjustments									
	First stage activities					Second stage activities				
	Financial assets measured at amortised cost	Financial assets measured at fair value with an impact on total profitability	Financial assets held for sale	of which: individual impairment	of which: collective impairment	Financial assets measured at amortised cost	Financial assets measured at fair value with an impact on total profitability	Financial assets held for sale	of which: individual impairment	of which: collective impairment
Opening balance	**59,209**	-	-	-	**59,209**	**16,976**	-	-	-	**16,976**
Increases in acquired or originated financial assets	19,340	-	-	-	19,340	7,834	-	-	-	7,834
Reversals different from writeoffs	(5,678)	-	-	-	(5,678)	(1,085)	-	-	-	(1,085)
Net losses/recoveries on credit impairment	(34,289)	-	-	-	(34,289)	5,210	-	-	-	5,210
- Contractual changes without cancellation	-	-	-	-	-	-	-	-	-	-
Changes in the estimation methodology	-	-	-	-	-	-	-	-	-	-
Write-off are not recognised directly in profit or loss	(305)	-	-	-	(305)	(184)	-	-	-	(184)
Other variations	-	-	-	-	-	-	-	-	-	-
Closing balance	**38,276**	-	-	-	**38,276**	**28,751**	-	-	-	**28,751**
Recoveries from financial assets subject to write-off	-	-	-	-	-	-	-	-	-	-
Write-off are recognised directly in profit or loss	(328)	-	-	-	(328)	(31)	-	-	-	(31)

Causal / risk stages	Total value adjustments						Total provisions on commitments to disburse funds and financial guarantees issued			Total
	Activities included in the third stage					Of which: acquired or originated impaired financial assets				
	Financial assets measured at amortised cost	Financial assets measured at fair value with an impact on total p...	Financial assets held for sale	of which: individual impairment	of which: collective impairment		First stage	Second stage	Third stage	
Opening balance	**222,032**	-	-	**17,577**	**204,455**	**2,722**	**84**	**5**	-	**298,306**
Increases in acquired or originated financial assets	8,590	-	-	1,176	7,414	97	46	1	-	**35,810**
Reversals different from	(116,935)	-	-	(792)	(116,144)	(1,551)	(65)	-	-	**(123,764)**
Net losses/recoveries on credit impairment	33,670	-	-	5,443	28,227	(118)	(19)	(5)	-	**4,568**
- Contractual changes without cancellation	-	-	-	-	-	-	-	-	-	-
Changes in the estimation methodology	105	-	-	105	-	-	-	-	-	**105**
Write-off are not recognised directly in profit or loss	(8,907)	-	-	(4,928)	(3,979)	(28)	-	-	-	**(9,396)**
Other variations	-	-	-	-	-	-	-	-	-	-
Closing balance	**138,556**	-	-	**18,582**	**119,974**	**1,123**	**46**	**1**	-	**205,629**
Recoveries from financial assets subject to write-off	26	-	-	26	-	-	-	-	-	-
Write-off are recognised directly in profit	(757)	-	-	(377)	(379)	-	-	-	-	-

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)

Portofolios/risk stages		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	
		From first to second stage	From second stage to first stage	From second to third step	From thirth to second step	From first to thirth step	From thirth to first step
1. Financial assets valued at amortised cost		124,049	40,974	17,346	10,637	41,688	6,116
2. Financial assets at fair value through other comprehensive income		-	-	-	-	-	-
3. Financial assets held for sale		-	-	-	-	-	-
4. Commitments and financial guarantees given		-	-	-	-	-	-
Total	**12/31/2019**	**124,049**	**40,974**	**17,346**	**10,637**	**41,688**	**6,116**
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. Credit exposures for cash					
a) Bad exposures	-	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	4	-	4	-
- of wich: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	613,359	-	613,359	-
- of wich: forborne exposures	X	-	-	-	-
Total (A)	**-**	**613,363**	**-**	**613,363**	**-**
B. Off-balance sheet credit exposures					
a) Non-performing	-	X	-	-	-
b) Performing	X	567	-	567	-
Total (B)	**-**	**567**	**-**	**567**	**-**
Total (A+B)	**-**	**613,930**	**-**	**613,930**	**-**

A.1.5 Prudential consolidation – On- and off-balance sheet exposures to customers: gross and net values

Type of exposure/Amounts	Gross exposures		Overall Write-Downs and provisions	Net exposure	Total Write-off
	Non-performing	Performing			
A. Credit exposures for cash					
a) Bad exposures	70,734	X	(64,844)	5,890	-
- of which: forborne exposures	7,411	X	(6,834)	577	-
b) Unlikely to pay	68,119	X	(46,453)	21,666	-
- of which: forborne exposures	23,738	X	(17,396)	6,342	-
c) Non-performing past due	45,438	X	(27,259)	18,179	-
- of which: forborne exposures	31	X	(19)	12	-
d) Performing past due	X	88,981	(20,791)	68,190	-
- of which: forborne exposures	X	3,704	(652)	3,052	-
e) Other performing exposures	X	9,469,198	(46,236)	9,422,963	-
- of which: forborne exposures	X	16,438	(2,660)	13,779	-
Total (A)	**184,291**	**9,558,179**	**(205,583)**	**9,536,888**	**-**
B. Off-balance sheet credit exposures					
a) Non-performing	144	X	-	144	-
b) Performing	X	494,258	(46)	494,212	-
Total (B)	**144**	**494,258**	**(46)**	**494,356**	**-**
TOTAL A+B	**184,435**	**10,052,438**	**(205,629)**	**10,031,244**	**-**

This table gives details of impaired and performing loans to customers, gross and net of specific and portfolio adjustments.

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	Bad exposures	Unlikely to pay	Non-Performing Past due
A. Opening balance (gross amount)	**138,364**	**95,902**	**59,839**
- of which sold non-cancelled exposures	18,276	11,036	21,752
B. Increases	**35,141**	**42,390**	**47,346**
B.1 transfers from performing loans	6,686	30,107	45,605
B.2 transfer from acquired or originated impaired financial assets	2,345	1,646	51
B.3 transfers from other impaired exposures	25,372	8,472	68
B.4 contractual changes without cancellations	-	-	-
B.5 other increases	738	2,165	1,623
C. Decreases	**102,771**	**70,173**	**61,747**
C.1 transfers to perfomorming loans	101	4,200	12,568
C.2 write-offs	4,726	2,955	1,980
C.3 collections	1,776	18,924	8,985
C.4 sales proceeds	17,324	7,165	1,290
C.5 losses on disposals	76,211	14,942	3,277
C.6 transfers to other non-performing exposures	97	9,569	24,246
C.7 contractual changes without cancellations	-	-	-
C.8 other decreases	2,536	12,419	9,400
D. Closing balance (gross amounts)	**70,734**	**68,119**	**45,438**
- of which sold non-cancelled exposures	8,053	10,862	15,294

A.1.7bis Prudential consolidation – Cash credit exposures to customers: dynamics of gross forborne exposures by credit quality

Description/Quality	Forborne exposures Non-performing	Forborne exposures: performing
A. Opening balance (gross amount)	**62,327**	**26,849**
- of which sold non-cancelled exposures	4,949	1,282
B. Increases	**15,353**	**13,926**
B.1 Transfers from performing not forborne exposures	3,398	7,328
B.2. Transfers from performing forborne exposures	4,094	X
B.3. Transfers from impaired forborne exposures	X	4,561
B.4 Transfers from impaired not forborne exposure	-	-
B.4 other increases	7,861	2,037
C. Decreases	**46,500**	**20,633**
C.1 Transfers to performing not forborne exposures	X	8,141
C.2 Transfers to performing forborne exposures	4,561	X
C.3 transfers to impaired exposures not forborne	X	4,094
C.4 write-offs	439	17
C.5 recoveries	4,837	7,758
C.6 sales proceeds	10,530	5
C.7 losses on disposals	23,643	26
C.8 other decreases	2,490	592
D. Closing balance (gross amounts)	**31,180**	**20,143**
- of which sold non-cancelled exposures	1,549	974

A.1.8 Prudential consolidation – Cash non-performing credit exposures to banks: dynamics of total write-downs

Exposures to banks are not subject to write-downs.

A.1.9 Prudential consolidation – Cash non-performing credit exposures to customers: dynamics of total write-downs

Description/Category	Bad exposures		Unlikely to pay		Non-Performing Past due	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Opening 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	-
B. Increases	**34,426**	**4,599**	**25,390**	**8,472**	**25,318**	**19**
B.1 write-downs of acquired or originated impaired financial assets	110	X	186	X	-	X
B. 2 other write-downs	13,602	2,597	19,263	7,608	20,920	-
B.3 losses on disposal	2,677	94	313	97	386	-
B.4 transfer from other impaired exposure	17,766	1,886	4,736	15	3	-
B. 5 contractual changes without cancellations	-	-	-	-	-	-
B.6 other increases	272	22	892	752	4,008	19
C. Reductions	**97,895**	**21,306**	**44,098**	**20,172**	**26,617**	**15**
C.1 write-backs from assessments	318	40	7,345	3,352	4,774	-
C.2 write-backs from recoveries	902	506	2,588	1,290	885	-
C.3 gains on disposal	14,692	5,029	5,446	4,247	445	-
C.4 write-offs	4,642	171	2,898	267	1,866	-
C.5 transfers to other categories of non-performing exposures	8	7	7,808	1,886	14,688	8
C. 6 contractual changes without cancellations	-	-	-	-	-	-
C.7 other decreases	77,333	15,553	18,013	9,130	3,959	7
D. Closing overall amount of writedowns	**64,844**	**6,834**	**46,453**	**17,396**	**27,259**	**19**
- of which sold non-cancelled exposures	7,176	439	5,427	915	7,195	-

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 valued at amortised cost	-	-	-	-	-	-	**10,355,833**	**10,355,833**
- First stage	-	-	-	-	-	-	9,905,736	9,905,736
- Second stage	-	-	-	-	-	-	265,806	265,806
- Third stage	-	-	-	-	-	-	184,291	184,291
B. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-
- First stage	-	-	-	-	-	-	-	-
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-	-
C. Financial assets held for sale	-	-	-	-	-	-	-	-
- First stage	-	-	-	-	-	-	-	-
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-	-
Total (A+B+C)	**-**	**-**	**-**	**-**	**-**	**-**	**10,355,833**	**10,355,833**
of which: acquired or originated impaired financial assets	-	-	-	-	-	-	1,907	1,907
D. Loan commitments and financial guarantees given								
- First stage	-	-	-	-	-	-	448,695	448,695
- Second stage	-	-	-	-	-	-	27,412	27,412
- Third stage	-	-	-	-	-	-	1	1
Total (D)	**-**	**-**	**-**	**-**	**-**	**-**	**476,107**	**476,107**
Total (A+B+C+D)	**-**	**-**	**-**	**-**	**-**	**-**	**10,831,940**	**10,831,940**

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)						Total (1)+(2)
							Credit derivatives		Credit derivatives			Signature loans			
								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	public administrations	Banks	Other financial companies	Other entities	
1. Guaranteed cash loans:	**702,513**	**688,120**	**1,286**	-	-	**439,575**	-	-	-	-	-	-	**80,171**	-	**140,220**	**661,252**
1.1 totally secured	655,883	642,149	1,286	-	-	437,467	-	-	-	-	-	-	71,754	-	131,641	642,149
- of which: non-performing	15,200	6,227	1,286	-	-	2,137	-	-	-	-	-	-	207	-	2,598	6,227
1.2 partially secured	46,630	45,971	-	-	-	2,107	-	-	-	-	-	-	8,417	-	8,579	19,103
- of which: non-	827	467	-	-	-	56	-	-	-	-	-	-	81	-	23	160
2. Off-balance-sheet credit exposures guaranteed:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1 totally secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which: non-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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	Public administration		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 Bad exposures	-	-	1	34	-	-	1,449	21,340	4,440	43,469
- of wich: forborne exposures	-	-	-	-	-	-	13	214	563	6,621
A.2 Unlikely to pay	961	236	9	15	6	-	7,032	6,109	13,664	40,093
- of wich: forborne exposures	-	-	-	-	-	-	716	1,231	5,626	16,165
A.3 Non-performing past-due	2,877	301	5	5	-	-	2,500	4,487	12,796	22,466
- of wich: forborne exposures	-	-	-	-	-	-	-	-	12	19
A.4 Performing exposures	448,418	2,912	10,277	64	4	-	2,286,009	6,634	6,746,449	57,416
- of wich: forborne exposures	-	-	-	-	-	-	150	34	16,681	3,278
Total (A)	**452,256**	**3,448**	**10,293**	**119**	**9**	**-**	**2,296,990**	**38,570**	**6,777,349**	**163,445**
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	144	-	1	-
B.2 Performing exposures	-	-	-	-	-	-	490,689	46	3,523	-
Total (B)	**-**	**-**	**-**	**-**	**-**	**-**	**490,832**	**46**	**3,524**	**-**
Total (A+B) 12/31/2019	**452,256**	**3,448**	**10,293**	**119**	**9**	**-**	**2,787,823**	**38,617**	**6,780,873**	**163,445**
Total (A+B) 12/31/2018	**395,056**	**2,539**	**4,644**	**176**	**30**	**-**	**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 Bad exposures		949	9,874	498	5,085	1,638	10,715	2,805	39,169
A.2 Unlikely to pay		4,485	8,780	1,512	3,395	3,538	8,825	12,131	25,452
A.3 Non-performing past-due due exposures		3,768	5,546	1,596	2,682	3,619	5,459	9,197	13,572
A.4 Performing exposures		2,715,296	15,375	1,708,220	10,158	2,181,275	12,409	2,886,332	29,085
TOTAL A		**2,724,498**	**39,575**	**1,711,826**	**21,320**	**2,190,069**	**37,409**	**2,910,465**	**107,278**
B. Off-balance sheet credit exposures									
B. 1 Non-performing exposures		2	-	-	-	1	-	142	-
B. 2 Performing exposures		156,878	10	126,267	9	101,109	12	109,957	15
TOTAL B		**156,880**	**10**	**126,267**	**9**	**101,110**	**12**	**110,099**	**15**
Total (A+B)	**12/31/2019**	**2,881,378**	**39,585**	**1,838,093**	**21,329**	**2,291,180**	**37,421**	**3,020,564**	**107,293**
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		United States		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 Bad exposures		-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay		-	-	-	-	-	-	-	-	-	-
A.3 Non-Performing past due exposures		-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures		228,944	-	384,419	-	-	-	-	-	-	-
Total (A)		**228,944**	**-**	**384,419**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Off-balance sheet credit exposures											
B.1 Non-performing exposures		-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures		-	-	567	-	-	-	-	-	-	-
Totale (B)		**-**	**-**	**567**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B)	**12/31/2019**	**228,944**	**-**	**384,987**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
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 Grandi esposizioni

	12/31/2019
Number	5
Weighted value	541,288
Book value	1,709,877

At the balance sheet date there were five counterparties that could be classified as large exposures: Ministry of Economy and Finance (MEF), Banco Santander S.A., Hyundai Motor Company Italy S.r.l, Mazda Motor Italia S.r.l. and Bank of Italy.

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 vehicle (SPV) 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) and Banca PSA use securitisations as a regular financing instrument, respectively via the vehicle Golden Bar (Securitisation) S.r.l. and the vehicle Auto ABS Italian Loans 2018-1 S.r.l. and in the context of these transactions they take on 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 2019 the Parent Company finalised a new securitisation transaction, GB 2019-1.

The transaction in question, with a value of Euro 600.5 million and legal maturity in 2039, was concluded through the sale at par value of a portfolio of performing loans, made up of car 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 four classes of securities, Senior Class A securities in the amount of Euro 525.4 million, quoted on the Luxembourg Stock Exchange, mezzanine bonds in the amount of Euro 18 million (Class B) and Euro 45.1 million of Class C wholly subscribed by investors. Junior securities in the amount of Euro 12 million, without ratings, were 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 67 bps (with a zero-coupon floor).

Within the scope of the same transaction, the special purpose entity also concluded two Interest Rate Swaps to hedge the interest rate risk of the Senior class and of the B Class.

The GB 2019-1 securitisation, which has a revolving 1-year structure, was structured in compliance with the requirements for STS securitisations on the basis of the provisions of the Securitisation Regulation which came into effect on 1 January 2019. Class A also obtained eligibility with the ECB.

The table below shows the main information relating to Golden Bar 2019-1.

	Class A	Class B	Class C	JN
Issuer	Golden Bar (Securitisation) S.r.l			
ISIN	IT0005374076	IT0005374084	IT0005374092	IT0005374100
Amount (K€)	525400	18000	45100	12000
Tranching	87,5%	3,0%	7,5%	2,0%
Rating	AA-	A-	NR	NR
Coupon (floor 0%)	EUR3M +67 bps	EUR3M +175 bps	8,25%	1+Excess Spread
Listing	Luxembourg	Luxembourg	Luxembourg	Unlisted
Law	Italian 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 Stand Alone 2018-1	459,287	395,700	82,750	3,957		n.a.	n.a.	n.a.	n.a.
Golden Bar 2019-1	538,381	588,500	12,000	5,434	5,606,182	n.a.	n.a.	n.a.	n.a.
Auto ABS Italian Loans 2018-1 S.r.l.	603,648	563,044	66,780	32,543		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	12/31/2019		
	Golden Bar Stand Alone 2018-1	Golden Bar 2019-1	Auto ABS Italian Loans 2018-1 S.r.l.
Interest expense on securities issued	(14,214)	(12,279)	(415)
Commisions and fees for the operation	(568)	(373)	(661)
- for servicing	(547)	(354)	(636)
- for other services	(21)	(19)	(25)
Other charges	(8,143)	(3,828)	(3,051)
Interest generated by the securitised assets	25,675	21,920	37,188
Other revenues	2,146	1,372	4,915
Total	**4,896**	**6,812**	**37,976**

As at 31 December 2019 the GB 2018-1 transaction was still outstanding for the countervalue of securities issued as it was still in the revolving period.

It is also noted that during 2019 the revolving period of the Banca PSA Auto Abs Italian Loans 2018-1 transaction terminated, by effect of which, starting from September, the ABS securities, starting with the Senior securities, started their period of reimbursement.

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	57,219	(269)			111,445	(1,784)												
Golden Bar Stand Alone 2018-1	57,219	(269)			72,068	(351)												
Auto ABS Italian Loans 2018-1 consumenr credit					39,377	(1,434)												

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 2018-1	Torino (TO)	NO	459,287		24,731	395,700		82,750
Golden Bar 2019-1	Torino (TO)	NO	538,381		71,125	525,400	63,100	12,000
Auto ABS Italian Loans 2018-1 S.r.l.	Conegliano (TV)	NO	602,647		27,177	563,044		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 2018-1 - Torino (TO)	Golden Bar 2019-1 - Torino (TO)	Auto ABS Italian Loans 2018-1 S.r.l., Conegliano (TV)
A. Securitized assets	**459,287**	**538,381**	**602,647**
A.1 Credits	459,287	538,381	602,647
A.2 Securities	-	-	
A.3 Others	-	-	
B. Investments of deriving from the credit management	**24,506**	**70,976**	**57,629**
B.1 Debt securities	-	-	-
B.2 Equity securities	-	-	-
B.3 Availability current account	24,506	70,976	57,629
C. Altre attività	**225**	**149**	**4,724**
C.1 Transitorio incassi	-	-	1,777
C.2 Altre Attività	225	149	2,947
D. Securities issued	**478,450**	**600,500**	**629,824**
D.1 Senior	395,700	525,400	563,044
D.2 Mezzanine	-	63,100	
D.3 Junior	82,750	12,000	66,780
E. Loans received	-	-	**25,893**
F. Derivati con valori negativi	-	-	-
G. Other liabilities	**5,568**	**9,006**	**9,283**
G.1 Accrued interest on securities	-	-	9,262
G.2 Other liabilities	5,568	9,006	21
H. Interest expenses on securities issued	**19,109**	**19,090**	**38,391**
I. Fees and commissions related to the transaction	**568**	**373**	**661**
I.1 Servicing Service	548	354	636
I.2 Other Servicing	21	19	25
L. Other charges	**8,143**	**3,829**	**3,051**
L.1 Other interest expenses	91	54	-
L.2 Other charges	1,485	135	1,617
L.3 Value adjustments on loans	6,567	3,640	1,434
M. Interest income on securitized assets	**25,675**	**21,920**	**37,188**
N. Other revenues	**2,146**	**1,372**	**4,915**
L.1 Recuperi diversi	2,146	1,372	4,915

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 already described at Point C “Securitisation transactions”, to which reference is made, the subsidiary Banca PSA performs disposal transactions carried out pursuant to Law no. 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 concerns an amount of Euro 200 million.

Quantitative information

D.1 Prudential consolidation – Financial assets sold and fully recognised, and associated financial liabilities: book values

	Financial assets sold as a whole				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	-	-	-	X	-	-	-
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets designated at fair	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets at fair value through other comprehensive	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost	**1,834,127**	**1,601,316**	**88,243**	**2,318**	**1,760,657**	**1,481,544**	**79,114**
1. Debt securities	-	-	-	-	-	-	-
2. Loans	1,834,127	1,601,316	88,243	2,318	1,760,657	1,481,544	79,114
Total 12/31/2019	**1,834,127**	**1,601,316**	**88,243**	**2,318**	**1,760,657**	**1,481,544**	**79,114**
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 booked	Partially booked	Total	
			12/31/2019	12/31/2018
A. Financial assets held for trading	-	-	-	-
1. Debt securities	-	-	-	-
2. Equities	-	-	-	-
3. Loans	-	-	-	-
4. Derivatives	-	-	-	-
B. Other financial assets mandatorily 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 at fair value through other comprehensive income	-	-	-	-
1. Debt securities	-	-	-	-
2. Equities	-	-	-	-
3. Loans	-	-	-	-
E. Financial assets measured at amortised cost (fair value)	**1,841,116**	-	**1,841,116**	**1,392,481**
1. Debt securities	-	-	-	-
2. Loans	1,841,116	-	1,841,116	1,392,481
Total financial assets	**1,841,116**	-	**1,841,116**	**1,392,481**
Total associated financial liabilities	**1,745,829**	-	**X**	**X**
Valore netto 12/31/2019	**95,288**	-	**95,288**	**X**
Valore netto 12/31/2018	**78,201**	-	**X**	**78,201**

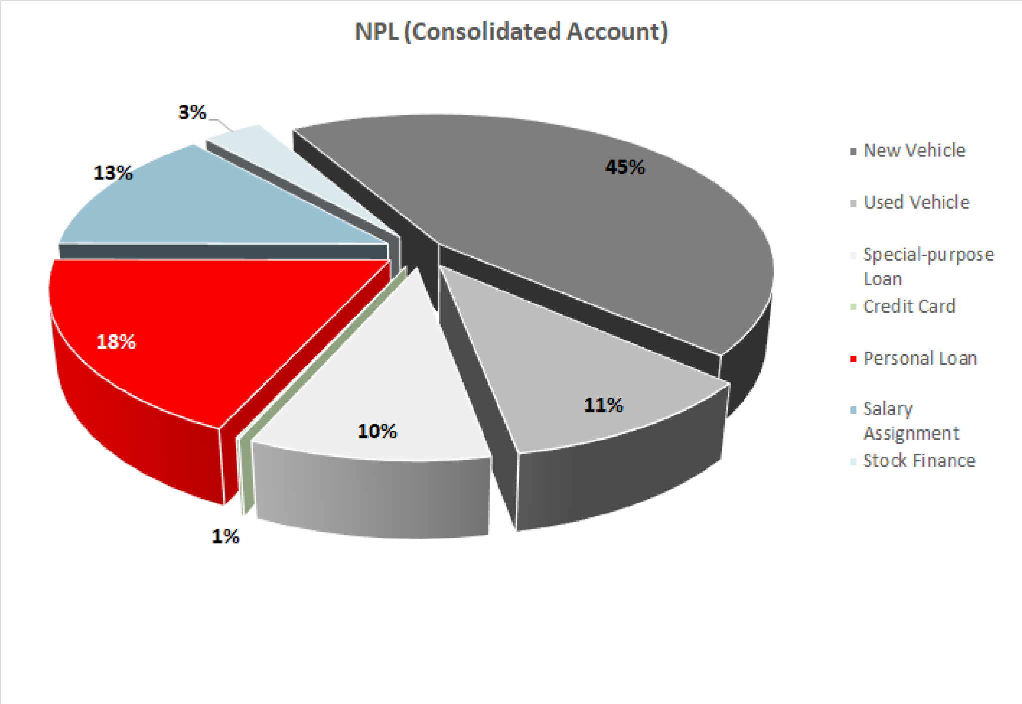
B. Financial assets sold and fully derecognised with recognition of the continued involvement

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 2019.

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 means of:

- 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. Within the Parent Company and the units, according to the local structures adopted, 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 within the Group units. 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 Group units implement 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 Group.

Of the various types of risk hedges that are acceptable, the units have chosen to adopt derivatives instruments in accordance with the methods described below.

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. It performs a second-level control of Finance operations and the risk exposure measured from month to month.

"Market Value of Equity" (MVE) sensitivity indicator
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 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.

"Net Interest Margin" (NIM) sensitivity indicator
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 margin (analysis period: 12 months). As regards interest rate shift scenarios, please see the information provided in the paragraph above.

At 31 December 2019, the consolidated MVE calculated with a shift of +100 basis points was Euro -31.52.

At 31 December 2019, the consolidated NIM with a shift of -100 basis points was Euro -0.23.

+100 bps MM	MVE	NIM
December 2019	-31.52	-2.68
Limit	65.8	19

-100 bps MM	MVE	NIM
December 2019	14.30	-0.23
Limit	65.8	19

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 12/31/2019				Totale 12/31/2018			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central Counterparts	without central counterparties			Central Counterparts	without central counterparties		
		with clearing arrangements	without clearing arrangements			with clearing arrangements	without clearing arrangements	
1. Debt securities and interest rate	-	-	3,004,287	-	-	-	2,184,749	-
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	3,004,287	-	-	-	2,184,749	-
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	**-**	**-**	**3,004,287**	**-**	**-**	**-**	**2,184,749**	**-**

A.2 Financial derivatives held for trading: positive and negative gross fair value – breakdown by product

Types of derivatives	Totale 12/31/2019				Totale 12/31/2018			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central Counterparts	Without central counterparties			Central Counterparts	Without central counterparties		
		With clearing arrangements	Without clearing arrangements			With clearing arrangements	Without clearing arrangements	
1. Positive fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swap	-	-	4,619	-	-	-	4,526	-
c) Cross currency	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-
Total	**-**	**-**	**4,619**	**-**	**-**	**-**	**4,526**	**-**
2. Negative fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swap	-	-	5,099	-	-	-	5,027	-
c) Cross currency	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-
Total	**-**	**-**	**9,718**	**-**	**-**	**-**	**9,553**	**-**

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	3,004,287	-	-
- positive fair value	X	4,619	-	-
- negative fair value	X	5,099	-	-
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) 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		351,502	1,484,516	1,168,269	3,004,287
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	**12/31/2019**	**351,502**	**1,484,516**	**1,168,269**	**3,004,287**
Total	**12/31/2018**	**-**	**791,400**	**1,393,349**	**2,184,749**

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 at 31 December 2019, there were no cash flow hedging derivatives.

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[11]).

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.

[11] 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 12/31/2019				Totale 12/31/2018			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central Counterparts	without central counterparties			Central Counterparts	without central counterparties		
		with clearing arrangements	without clearing arrangements			with clearing arrangements	without clearing arrangements	
1. Debt securities and interest rate	-	422,000	1,196,624	-	-	597,000	1,418,130	-
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	422,000	1,196,624	-	-	597,000	1,418,130	-
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	**-**	**422,000**	**1,196,624**	**-**	**-**	**597,000**	**1,418,130**	**-**

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 of the hedge	
	Total 12/31/2019				Total 12/31/2018				Total 12/31/2019	Total 12/31/2018
	Over the counter				Over the counter					
		Without central counterparties				Without central counterparties				
	Central Counterparts	With clearing arrangements	Without clearing arrangements	Mercati organizzati	Central Counterparts	With clearing arrangements	Without clearing arrangements	Mercati organizzati		
Positive fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swap	-	-	-	-	-	-	-	-	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Negative fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swap	-	2,164	8,745	-	-	1,312	4,633	-	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-	-	-
Total	**-**	**2,164**	**8,745**	**-**	**-**	**1,312**	**4,633**	**-**	**-**	**-**

A.3 OTC financial 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				
- notional value	X	1,196,624	-	-
- positive fair value	X	-	-	-
- negative fair value	X	8,745	-	-
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) 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	-	422,000	-	-
- positive fair value	-	-	-	-
- negative fair value	-	2,164	-	-
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 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		500,391	1,070,030	48,203	1,618,624
A.2 Financial derivative contracts on equity securities and stock indexes		-	-	-	-
A.3 Financial derivative contracts on currency and gold		-	-	-	-
A.3 Financial derivative on commodities		-	-	-	-
A.5 Other financial derivatives		-	-	-	-
Total	**12/31/2019**	**500,391**	**1,070,030**	**48,203**	**1,618,624**
Total	**12/31/2018**	**463,055**	**1,446,274**	**105,802**	**2,015,130**

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 (trading and hedging) derivatives

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair value by counterparty

A. Financial derivatives	Central counterparty	Banks	Other financial companies	Other entities
A. Financial derivatives				
1) Debt securities and interest rates				
- notional amount	-	4,622,911	-	-
- positive fair value	-	4,619	-	-
- negative fair value	-	16,008	-	-
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:

$$\text{LCR} = \frac{\text{Stock* of high quality liquid assets}}{\text{Total expected** net cash flow in the subsequent 30 calendar days}}$$

(*) The stock of liquid assets is weighted on the basis of the quality of the same
(**) expected in a hypothetical scenario of stress defined by the regulator through the assignment of standard weighting coefficients for the various categories of inflows and outflows

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 as from 2018 was set at 100%. Santander Consumer Bank satisfies this liquidity ratio and during the year it 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	**537,553**	**12,407**	**80,920**	**168,853**	**814,201**	**1,401,925**	**1,934,835**	**4,638,364**	**624,286**	**175,706**
A.1 Government securities	-	-	-	-	183,514	150,438	106,004	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 Units in investment funds	-	-	-	-	-	-	-	-	-	-
A.4 Loans	537,553	12,407	80,920	168,853	630,687	1,251,487	1,828,830	4,638,364	624,286	175,706
- Banks	437,635	-	-	20	2	-	-	-	-	175,706
- Customers	99,919	12,407	80,920	168,833	630,685	1,251,487	1,828,830	4,638,364	624,286	-
B. On-balance sheet liabilities	**774,557**	**16,843**	**17,756**	**232,235**	**684,064**	**885,598**	**2,016,688**	**4,193,087**	**226,477**	-
B.1 Deposits and current accounts	771,838	15,902	17,756	64,163	302,455	281,689	898,302	1,851,189	11,279	-
- Banks	2,820	10,002	10,002	45,006	226,062	197,727	739,824	1,691,015	11,279	-
- Customers	769,018	5,901	7,754	19,157	76,394	83,962	158,478	160,174	-	-
B.2 Debt securities	-	-	-	27,430	50,202	108,835	251,066	1,139,422	57,165	-
B.3 Other liabilities	2,719	941	-	140,642	331,407	495,074	867,320	1,202,476	158,033	-
C. Off-balance sheet transactions										
C.1 Physically settled financial derivatives										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.2 Cash settled financial derivatives										
- Long positions	-	-	-	79	378	1,019	1,953	-	-	-
- Short positions	-	-	-	481	1,584	2,459	4,683	-	-	-
C.3 Deposit to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	-	-	-	-	-	-	-	-	-	80,326
- Short positions	80,326	-	-	-	-	-	-	-	-	-
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 2019, the Parent Company was involved in two securitisations of performing loans for which it had subscribed all of the securities issued: Golden Bar 2015-1 and Golden Bar 2016-1.

Furthermore, during 2019 Banca PSA was involved in one securitisation transaction of performing loans, called Auto Abs Italian Balloon 2019-1 S.r.l., for which it subscribed all of the securities issued.

On 29 May 2019, the unwinding of the Golden Bar 2014-1 transaction was completed, with the subsequent repayment of the securities.

The securitisations are stand-alone.

Again as at 31 December 2019, the Group was involved in three transactions subscribed by third party investors, Golden Bar 2018-1 and Golden Bar 2019-1, via the vehicle of Banca SCB Golden Bar, and 2018-1 via the vehicle of Banca PSA Auto ABS Italian Loans.

Below is a summary of the main features of the transactions originated by the Group in 2019:

Transaction	12/31/2019				
	Class	ISIN Code	Rating Moody's / DBRS	Activities	Outstanding al 31/12
Golden Bar 2014-1	A	IT0005026163		Car loan	0
	B	IT0005026189			0
	C	IT0005026197			0
Golden Bar 2015-1	A	IT0005137580	Aa3/ AAL	Car loan and Personnel loan	253,276,727
	B	IT0005137598	A2 / A		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
Auto ABS Italian Balloon 2019-1	A	IT0005379463	AA / AAH	Car loan	554,400,000
	B	IT0005379471	NR / NR		105,600,000

The table below shows the details of the changes in securities during financial year 2019:

Transaction	Notional value			
	Opening balance	Increases	Expenses	Closing balance
Golden Bar 2014-1	126,654,356	- -	126,654,356	-
Golden Bar 2015-1	797,961,196	- -	369,684,469	428,276,727
Golden Bar 2016-1	1,100,000,000	-	-	1,100,000,000
Auto ABS Italian Balloon 2019-1	-	660,000,000	-	660,000,000

The tables below show the changes in the reserves and subordinated loans:

Transaction	Subordinate loans				
	Distribute	Opening balance	Increases	Expenses	Closing balance
Golden Bar 2014-1	18,830,000	-	-	-	-
Golden Bar 2015-1	25,030,000	-	-	-	-
Golden Bar 2016-1	49,500,000	-	-	-	-
Auto ABS Italian Balloon 2019-1	6,600,000	-	6,600,000	-	6,600,000

Transaction	Cash Reserve				
	Composed	Opening balance	Increases	Expenses	Closing balance
Golden Bar 2014-1	18,800,000	6,332,718	- -	6,332,718	-
Golden Bar 2015-1	25,000,000	25,000,000	- -	4,758,987	21,413,836
Golden Bar 2016-1	27,500,000	27,500,000	-	-	27,500,000
Auto ABS Italian Balloon 2019-1	-	-	-	-	-

Transaction	Liquidity Reserve				
	Composed	Opening balance	Increases	Expenses	Closing balance
Golden Bar 2014-1	-	-	-	-	-
Golden Bar 2015-1	-	-	-	-	-
Golden Bar 2016-1	22,000,000	22,000,000	-	-	22,000,000
Auto ABS Italian Balloon 2019-1	-	-	-	-	-

	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 Stand Alone 2014-1						n.a.	n.a.	n.a.	n.a.
Golden Bar VFN 2015-1	406,811	318,277	110,000	21,414	9,095,296	n.a.	n.a.	n.a.	n.a.
Golden Bar VFN 2016-1	1,060,041	1,099,890	110	27,500		n.a.	n.a.	n.a.	n.a.
Auto ABS Balloon 2019-1	646,451	554,400	105600	6,600		Liquidity deposit	n.a	monthly	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 2019

	12/31/2019			
Breakdown of the excess spread accrued during the year	**Golden Bar Stand Alone 2014-1**	**Golden Bar VFN 2015-1**	**Golden Bar VFN 2016-1**	**Auto ABS Balloon 2019-1**
Interest expense on securities issued	(181)	(7,724)	(21,162)	(3,903)
Commisions and fees for the operation	(260)	(862)	(2,011)	(249)
- for servicing	(256)	(840)	(1,993)	(243)
- for other services	(4)	(22)	(18)	(6)
Other charges	(100)	(27,612)	(2,632)	(1,237)
Interest generated by the securitised assets	2,692	40,478	70,729	14,006
Other revenues	313	3,422	8	1,161
Total	**2,464**	**7,702**	**44,932**	**9,779**

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 VFN 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**

1.5 Operational risk

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 2019, by risk category, recorded by the companies of the Group:

	2019			
Risk Type	Net Losses	Net provisions	Addition and Uses	Net Op Risk Impact
Internal Fraud				
External Fraud	566		(408)	158
Employment. Practices & Workplace Safety				
Clients, Products & Business Practices	9,033	3,699	(8,619)	4,112
Damage to Physical Assets				
Business Disruption & System Failures				
Execution, Delivery & Process Management	711	704	(1,937)	(522)
TOTAL	**10,310**	**4,403**	**(10,964)**	**3,748**

There are some pending administrative and judicial proceedings in respect of the Group that are considered relevant for the purposes of the management of operational risks and of this report, as reported below:

- On 9 January 2019 the Antitrust Authority, following the outcome of an inspectional activity aimed at identifying the violation of art. 110 of the Treaty on the Functioning of the European Union by some of the captive banks, including the subsidiary Banca PSA Italia S.p.A., announced the decision adopted on 8 January 2020, within which the Authority ascertained:

  - the responsibility of the captive banks involved in the proceeding, including the subsidiary Banca PSA Italia S.p.A., as well as Assilea and Assofin for having implemented an anti-competitive agreement contrary to art. 101 of the Treaty on the Functioning of the European Union, consisting in a single and complex agreement over time aimed at distorting competition in the context of the sale of motor vehicles of the participating groups through financing provided by the same, overall in the period from 2003 to April 2017;

  - the responsibility for this behaviour also of the parent companies of these captive banks including, in relation to Banca PSA Italia S.p.A., Santander Consumer Bank S.p.A. and Banque PSA Finance S.A. in relation to the period from 1 January 2016 and 3 April 2017.

  It is specified that Santander Consumer Bank S.p.A. was not subject to any sanction nor was it jointly and severally responsible for the payment of the sanction imposed on the subsidiary Banca PSA Italia S.p.A.. The decision of the Authority was appealed at the Lazio Regional Administrative Court (TAR), whose decision is expected during the 2020 financial year.

- 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 decisions and measures were made over time in favour of the Bank before the competent courts. At the end of 2019 the above mentioned dealer was declared bankrupt and the Bank was included in the relative receivable deriving from the favourable decisions adopted by 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, by virtue of the resumed proceedings by the administration.

- The total number of complaints received by the Bank in the course of the 2019 financial year is 10,373, an increase of 4.7% 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 72% of the total) and (ii) Interest rates applied to Customers (5.7% of the total). The rate of acceptance of disputes handled is 34.7%.

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 shereholders' 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. In consequence any strategic finance operations (e.g. increases in capital, issuance of subordinated loans, capitalisation of profits) are proposed, defined and undertaken in order to adjust the equity in respect of the requirements put in place by the competent Control Bodies.

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 and the capital instruments of Banca PSA Italia, qualifying for inclusion in consolidated capital. Intangible assets, the prudential filter relative to the prudent valuation of assets and liabilities designated at fair value, and the position with regard to the STS securitisation finalised during 2019 are deducted from the aforementioned CET 1 instruments and items.

The amount included in Additional Tier 1 capital relates to the equity share of Banca PSA Italia, qualifying for inclusion in Tier 1 consolidated capital.

Tier 2 capital currently consists of subordinated loans and the equity share of Banca PSA Italia, qualifying for inclusion in Tier 2 consolidated capital.

Furthermore, in 2019 the first issue was finalised of Tier 2 unsecured debt instruments (commonly referred to as Non-Preferred Senior) with the intention of preparing the Bank to achieve the objectives that will be defined within the regulations relating to the Minimum Requirements for own funds and Eligible Liabilities (MREL).

The Group's strategic objectives in terms of capital are:

1) Adequate expected profitability: special attention is paid to the Return on Risk Weighted Assets (RORWA)[12]. 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.
2) Profitability in terms of RORWA is measured and assessed at Group level, by product / channel / agreement, on generations of new productions as well as on the total portfolio generated.
3) 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:

4) Capital Planning and monitoring;
5) RAF (Risk Appetite Framework)[13];
6) ICAAP.

Capital Planning and Monitoring is a process aimed at 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.

[12] Calculated as the ratio between Profit After Taxes and RWAs.

[13] Policy risk appetite framework.

In capital planning,[14] all components of regulatory capital and the corresponding RWA are monitored constantly. 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; they are monitored both on an actual basis, with reference to the Supervisory reports[15], and prospectively[16], 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 prudential 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 2019 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 7.00% of Common Equity, 8.50% of Tier 1 and 10.50% of Total Capital.

[14] 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.

[15] Figures sent on a quarterly basis.

[16] 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. Capital	715,309	-	-	(72,155)	643,155
2. Emission Fees	24,177	-	-	(11,772)	12,405
3. Reserves	469,392	-	-	(69,965)	399,427
4. Capital Instruments	-	-	-	-	-
5. (Own shares)	-	-	-	-	-
6. Valuation reserves:	(339)	-	-	-	(339)
- 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 coverage	-	-	-	-	-
- 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	(339)	-	-	-	(339)
- Provisions for valuation reserves related to equity investments valued at shareholders' equity	-	-	-	-	-
- Special revaluation laws	-	-	-	-	-
7. Net (Loss) (+/-) of Group and minorities	139,145	-	-	(4,077)	135,068
Shareholders’ equity	**1,347,684**	**-**	**-**	**(157,968)**	**1,189,715**

B.2 Valuation reserves for financial assets measured at fair value through comprehensive income: breakdown

The Bank does not have any financial instruments classified under financial assets designated at fair value through comprehensive income.

B.3 Valuation reserves for financial assets measured at fair value through comprehensive income: change in the year

The Bank does not have any financial instruments classified under financial assets designated at fair value through comprehensive income.

B.4 Valuation reserves related to defined-benefit pension plans: change in the year

During the year there was a decrease in valuation reserves related to defined-benefit pension plans of Euro 103 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 included in Circular no. 285 issued by the Bank of Italy in Directive 2013/36/EU (CRD IV) and (EU) Regulation 575/2013 (CRR) which transpose 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.

Quantitative information concerning the composition of own funds and capital adequacy is provided below. The table shows the amount of capital for supervisory purposes and its fundamental components which correspond to those indicated in supervisory reports.

Consolidated Own Funds	Total	
	12/31/2019	12/31/2018
A. Capital primary Class 1 (Common Equity Tier 1 - CET1) before application of prudential filters	1,001,460	949,662
of which CET1 instruments subject to transitional provisions		
B. Prudential filters CET1 (+/-)	(10)	(10)
C. CET1 before items to be deducted and the effects of the transitional arrangements (A +/- B)	1,001,449	949,652
D. Deductions from CET1	24,774	11,149
E. Transitional regime - Impact on CET1 (+/-)		
F. Total Capital primary Class 1 (Common Equity Tier 1 - CET1) (C - D +/- E)	976,676	938,502
G. Additional Tier 1 Capital (Additional Tier 1 - AT1) before items to be deducted and the effects of the transitional arrangements	23,752	20,911
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)	23,752	20,911
M. Capital Class 2 (Tier 2 -T2) before items to be deducted and the effects of the transitional arrangements	139,919	131,631
of which T2 instruments subject to transitional provisions		
N. Deductions from T2		
O. Transitional regime - Impact on T2 (+/-)		
P. Total Share of Class 2 (Tier 2 -T2) (M - N +/- O)	139,919	131,631
Q. Total own funds (F + L + P)	**1,140,347**	**1,091,044**

The table shows the amount of risk assets and capital requirements, according to information reported in supervisory reports.

Categories/Values	Non weighted assets		Weighted assets	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
A. RISK ASSETS				
A.1 Credit and counterparty risk	10,296,273	9,861,252	7,260,943	7,110,980
1. Standardized approach	10,296,273	9,861,252	7,260,943	7,110,980
2. IRB approach				
2.1 Foundation				
2.2 Advanced				
3. Securitizations				
B. CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			548,503	509,896
B.2 Risk valuation adjustment credit			35,188	64,111
B.3 Regulation Risk				
B.4 Market Risk				
1. Standardized approach				
2. Internal models				
3. Concentration risk				
B.5 Operational risk			47,237	49,270
1. Basic indicator approach (BIA)			20,161	20,565
2. Traditional standardized approach (TSA)			27,077	28,706
3. Advanced measurement approach (AMA)				
B.6 Other calculation elements				
B.7 Total capital requirements			630,928	623,278
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Weighted risk assets			7,886,597	7,790,971
C.2 Capital primary class1 / Risk			12.38 %	12.05 %
C.3 Capital Class 1 / Risk-weighted assets (Total capital ratio)			12.69 %	12.31 %
C.4 Total own funds / Risk-weighted assets (Total capital ratio)			14.46 %	14.00 %

Part G – Business combinations

The Bank has not realised any business combinations.

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 2019 to members of the management and control bodies and to managers with strategic responsibilities that fall within the definition of "related party".

		12/31/2019
Short-term benefits		2,653
Post-employment benefits		-
Other long-term benefits		200
Termination indemnities		-
Share-based payments		143
	Total	**2,996**

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 Euro):

	Receivables	Payables	Derivatives	Expenses	Income
Banco Santander	386,909	904,841	3,180,824	14,279	2,642
Santander Consumer Finance	-	4,700,414	-	18,246	-
Società del Gruppo Peugeot SA	8,365	87,662	-	11,742	12,195
Altre Società del Gruppo Santander	1,443	50,586	-	5,126	8,071

Versus 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 and reserves belonging to the segregated funds of the securitisations;
- the payables mainly relate to the securitisation transaction issues established by the companies of the Group and subscribed by the Parent Company, as well as to derivative contracts transactions subscribed with the Spanish counterparty;
- 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 the result of hedging and trading activities from derivatives entered into as part of securitisation transactions;
- the income mainly relates the result of hedging and trading activities from derivatives entered into as part of securitisation transactions;

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 mainly relate to interest expense on loans received and to negative differentials on the hedging of the Group companies;

Relationships are also maintained with other companies of the Santander Group. The most relevant payables consist of current accounts (Euro 26,608 thousand), and subordinated loans (Euro 22,521 thousand). Revenues mainly consist of commissions for services rendered (Euro 7,921 thousand), while charges mainly relate to costs for consultancies and services offered by the companies of the Group (Euro 3,131 thousand).

With regard to the positions with the Peugeot SA Group companies, payables mainly relate to a subordinated loan (Euro 11 million) and payables for various services linked to leasing operations (Euro 71,617).

As regards relations with related parties, it should be noted that there are amounts due in the amount of Euro 226 thousand and amounts payable in the amount of Euro 756 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)	169,400
	PricewaterhouseCoopers SpA	Subsidiaries	Audit services (annual report, consolidated financial statements, interim report, accounting checks)	143,000
	PricewaterhouseCoopers SpA	SPV Golden Bar	Audit services (annual report, accounting checks)	23,000
	PricewaterhouseCoopers SpA	SPV Auto Abs Italian Loans 2018-1	Audit services (annual report, accounting checks)	25,000
	PricewaterhouseCoopers SpA	SPV Auto Abs Italian Baloon 2019-1	Audit services (annual report, accounting checks)	21,500
Other services	PricewaterhouseCoopers SpA	Parent Company	Validation of specific long term funding operations (TLTRO).	26,500
	PricewaterhouseCoopers SpA	Subsidiaries	Translation activity, verification procedures	4,500
Total				**412,900**

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.

Part M – Report on leases

Section 1 – Lessee

Qualitative information

The Group has applied IFRS 16 to lease agreements relative to the rental of offices for their activities (mainly head office, branches, data centres) and the hire of vehicles for its employees.

The Group has determined the duration of lease agreements by taking into account the original contract duration as well as the options for extension and resolution, also contractually provided. The probability of exercise of such options is defined on the basis of the Group's internal procedures.

The sensitivity of variable payments due for leases is mainly correlated to the variability of the Istat consumer prices index for families of blue and white collar workers on which the lease payments of some lease contracts are indexed. The Bank has not been exposed to other risks deriving from leases.

Cash outflows, to which the Bank is exposed as lessee and which are not included in the lease liability measurement, consists of variable payments due for Value Added Tax.

There are no other forms of contractual variable quotes provided which are not included in the liability measurement. Expenses for ordinary maintenance of offices, for water supply, lighting and cleaning are chargeable to the Group and are not included in the financial flows subject to lease liabilities pursuant to IFRS 16.

The Bank has evaluated the assets consisting in the right of use by using the initial value adjusted by amortisation, depreciation and impairment as well as any recalculations. In the 2019 financial year, the Parent Company exercised the right of withdrawal from a contract with the simultaneous signature of a new contract in the same town, and has renegotiated the contractual conditions relative to a branch office.

As at 31 December 2019, operations for the renegotiation of contractual conditions relating to some branches of Santander Consumer Bank SpA were under way, which will result in the signature of new agreements with the same lessors and will come into effect in the next financial year.

As at 31 December 2019, the Group was not involved in any sale and leaseback operations, and at the date of these financial statements it was exclusively involved in leases of modest value linked to rental of hardware and short-term leased assets (duration of less than 12 months) relative to the hire of motor vehicles.

Quantitative information

The following table reports the main quantitative information related to leasing activity:

	ROU	ROU provisions for depreciation	Depreciation	Leasing low-value	Short term leasing	Proceeds sub-leasing
Total	23,002	4,248	4,319	566	100	13
- of which real estate	20,915	2,683	2,754			
- of which vehicle	2,087	1,565	1,565			

Details of the information relative to rights of use acquired through leasing is in Part B, Assets - paragraph 9.1 "Property and equipment used for business purposes: breakdown".

With regard to the Parent Company, during 2019 assets consisting of the rights of use recorded a net change of Euro 267 thousand, mainly deriving from the exercise of the right of withdrawal from a contract relative to the branch office in Palermo, the opening of a new contract in the same town and the renegotiation of an existing contract.

Details of the information relative to lease liabilities is included in Part B, Liabilities - paragraph 1.2 "Financial liabilities measured at amortised cost: due to customers, breakdown by type". In relation to the details of maturities of lease liabilities, please refer to Part B - Liabilities 1.6 "Lease payables".

The information relative to interest expense on lease liabilities is included in Part C - Information on the income statement.

Section 2 – Lessor

Qualitative information

Financing transactions in the form of leasing offered by the Group (lessor) consist of granting the use for an agreed period of time, upon payment of periodic lease charges (lease payment), of motor vehicles, motorcycles, camper vans, commercial vehicles purchased or constructed by the lessor by a third party supplier, as chosen and indicated by the customer, who 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. The sale provides for specific guarantee forms (Buy back by the Dealer) in the case of motor vehicles in ordinary leases to private entities, juridical or physical persons, and a limit instead on a financed product (Commercial vehicles of more than 35 tons) in the case of a commercial vehicle. Further specific product guarantees or restrictions may be defined at the sale stage by the sales management.

However, with regard to the customer profile, the rules applied are common and valid without distinction for all products and sales channels, therefore no diversified valuations are required for lease customers.

Quantitative information

1. Balance sheet and Income statement information

Details of the information relative to lease financing is included in Part B, Information on the Consolidated Balance Sheet, Section 4 “Financial assets measured at amortised cost”.

Details of the information relative to interest income on lease financing and on other revenues from financial leases are included in Part C, Section 1 “Interest” and in Section 16 “Other operating costs and income”.

2. Finance leases

2.1 Classification by time bands of payments to be received and reconciliation with lease financing recognised under assets

Maturity ranges	Total 12/31/2019 Lease payments receivables
Up to one year	211,474
Over one year up to 2 years	146,446
Over 2 years up to 3 years	161,510
Over 3 years up to 4 years	46,245
Over 4 years up to 5 years	15,774
For over 5 years	-
Amount of the lease payments receivables	**581,450**
Reconciliation of the undiscounted lease payments	18,967
Not accrued gains (-)	18,967
Not guarantee residual value (-)	-
Lease payments	**562,484**

2.2 Other information

For information on the management of the risk associated to the lease product, please refer to Part E “Information on risks and related hedging policies”.

3. Operating leases

The company has no operating leases.

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 2020

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

1) **Customers.** Offer a wider range of products, enriched by dedicated services, seizing the opportunities offered by digital technology.
2) **Partner.** Maintain and strengthen the relationship with the current partners, supporting their commercial activities and search new cooperation opportunities on different channels.
3) **Shareholders.** Ensure a solid, adequate and sustainable growth with value creation.
4) **Actively managed funds and capital.** Increase the diversification of funding sources with a limitation of financial risks. Maintain capitalization levels in line with current regulations, with constraints imposed by the Supervisory Authorities, or with the objectives of the Santander Group.
5) **Control/optimisation of operating costs**, ensuring their growth is lower than the growth in revenue.
6) **Digitalisation.** Achieve full digitalisation of the sales process in order to create competitive advantages and to automate procedures and improve the Bank's visibility and customer experience.
7) **Effective risk management.** Constantly monitor the quality of the managed portfolio and the level of disputes using an effective strategy of acceptance and recovery.
8) **Internal culture.** Update, develop and optimise corporate professionals, promote talent and encourage internal mobility.
9) **Community and environment.** Support the communities in which the Bank operates with experience/internship programmes, financial education and active participation in academic events; support voluntary associations and sustain eco-sustainability initiatives.

As part of this mission and strategic direction, the expectations for 2020 take into consideration:

10) Total loans granted by the Bank stable, with a product mix aimed at growth in the personal loans sector, thanks to cross-selling activities and the expected developments on digital channels.
11) A gradual stabilisation of the managed portfolio, with an increasing focus on the Car sector and special-purpose loans.
12) Maintain high levels of profitability thanks to the growth trend in margins, contain operating expenses and constantly monitor the cost of risk.

Business outlook

As regards consumer credit, Santander Consumer Bank recorded an increase in volumes compared to the previous year (+7.7%), with a good performance in the Automotive sector, in special-purpose and personal loans, while it recorded a drop in salary assignment loans.

The Automotive sector recorded an increase of 8.5%, with a significant impact by brands relating to Captive Agreements, which reflect the efforts made by the Bank to strengthen such partnerships.

In terms of special-purpose loans, the Bank closed the year with an increase of 23.8% compared to the previous year, while for personal loans volumes increased by 7.1%.

In 2019, sales of the salary assignment product were down compared with the previous year (-9.6%), mainly due to a very competitive market linked to the presence of competitors with more aggressive financial positions.

Santander Consumer Bank	dec '19	dec '18	Δ	Δ %
(Million euros)				
TOTAL New Business *	**2,065.2**	**1,916.8**	**148.3**	**7.7%**
Total Vehicle	1,376.7	1,268.5	108.2	8.5%
New Vehicle	*1,102.1*	*1,012.3*	*89.8*	*8.9%*
Used Vehicle	*274.5*	*256.2*	*18.3*	*7.1%*
Special Purpose Loan	270.2	218.2	52.0	23.8%
Credit Card	5.0	5.6	-0.6	-11.4%
Personal Loan	190.2	177.6	12.6	7.1%
Salary Assignment	223.1	246.9	-23.8	-9.6%

*without Top Up and Refinancing

Marketing

The approach to innovate and digitalise the processes and the offer, started in 2017, was further developed with the objective of providing the end user (customer and partner) with an increasingly smooth completely digital experience.

In particular, the processes supporting customer self-service activities for the request of a new product and the request for information have been optimised.

Continuous studies and interventions have been implemented to improve the user experience for customers and partners to offer, on the one hand, an increasingly simple access to loans and, on the other, numerous solutions for cost estimation, useful in supporting sales.

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 through the replacement of old vehicles with new, better performing ones, also in terms of CO2 emissions, and establishing greater engagement with dealerships. In-dealer renewal events were run during the week, with excellent results in terms of renewals.

In relation to direct products, personal and salary assignment loans, the optimisation continued of marketing campaigns dedicated to Santander Consumer Bank customers with the use of different contact channels and the proposal of specific promotions, increasing the use of contact modes with low environmental impact (DEM-SMS).

As regards insurance products, there was an upward trend in the placement of insurance services combined with loans. In 2019, insurance proceeds came to approximately Euro 29.3 million, an increase compared to the 2018 figure (Euro 25.8 million).

In general, on the traditional “point of sale” channel, insurance products intermediated by the Bank proved to be particularly appreciated by the customers, in particular the CPI products (Creditor Protection Insurance) and CVT products (in particular Theft & Fire). The Bank’s sales network has dedicated much time to the training of the Sales Network with regard to insurance products and the correct modes for proposing these to the end customers.

The trend in “alternative” channels has been very positive, with a proportion of overall insurance sales of over 20%. The introduction of an entirely digital channel will allow to offer insurance products with an End to End process, so improving Customer Experience.

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, in spite of the context of the private market which has seen a decrease in the sales of some important brands.

More specifically, the volumes financed for Hyundai increased by over 20% compared to the previous year, as did those for Mazda which recorded an increase of over 30%, and Mitsubishi/SsangYong with over 13%. Performance increased also for KIA (+4%), even though more contained due to the contraction in the brand’s sales.

There was a particular focus on "loyalty/TCM" products which recorded an increase both in volumes and in renewals.

As regards the motorcycle sector, despite the difficulties encountered by some Partners on sales volumes, 2019 saw a general growth in volumes financed with particularly interesting performances on the main brands compared to 2018 (Yamaha and KMT +27%, Husqvarna +21%), while Harley-Davidson grew in terms of financed amount by only 4% due to a significant contraction in sales (-8.9%).

The financed portion of sales increased further across all Captive partnerships, reaching 50% with most of the brands and positioning itself at the highest levels on the market.

The quality of the portfolio remains in line with the budget.

Salary assignment

In 2019 the salary assignment market showed a trend generally in line with the entire consumer credit sector.

The volumes generated by the bank are in line with the previous year and the breakdown of the occupation sectors of customers mainly concentrates on public sector employees and pensioners.

The Bank continued to strengthen 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 2019 were: the consolidation of activities for the promotion and placement of loans through its highly specialised network, composed of financial agents, which represent the greater portion of production; the gradual increase of distribution through its 21 branches across the country; the continuation of cooperation with Financial Intermediaries (pursuant to art.s 106 and 107 of the Consolidated Banking Act) for the purchase of non-recourse receivables and contracts.

Personal Loans

2019 confirms the excellent results of the strategic actions on the personal loan portfolio highlighting a growth in volumes of around 20% compared to 2018.

The results obtained were achieved thanks to a significant review of communications and the increasingly effective use of customer segmentation through a highly customised offer.

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 current product line is composed 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 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 2019:

- time deposit funding amounted to Euro 505 million (+25% compared to the previous year);
- demand deposit funding amounted to Euro 673 million (essentially unchanged 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.

As for 2018, during 2019 the commitment continued in terms of minimising impacts on provisions to the income statement, deriving from the introduction of the IFRS 9 accounting standard, intervening directly on the recovery strategies through defined campaigns.
Performance show an improvement in the early stages of management, both over the telephone and at home.

During the financial year, recurring sales of the Cards product continued and a transaction for the extraordinary sale of impaired loans was concluded in May, in which the value of loans sold to third parties represented 50.5% of the stock delinquency and write offs in portfolio at the end of April.

As for 2018, 2019 was characterised by a reduction, tending to stability, in the volume of restructuring.
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 2019, the stock of claims was stable compared to 2018 in terms of the number of open positions; the claim management process is focused on minimising the time needed to open and manage the same.

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 2019 Santander Consumer Bank had net debt of Euro 5,626 million (+3.66% compared to the previous year).

This debt is mainly composed of structured funding, deposits from the Group and deposits from customers.

At 31 December 2019, the amount resulting from participation in ECB auctions rose to Euro 1,022 million (TLTRO-II and TLTRO-III), as a result of the participation in TLTRO-III, in December 2019, for Euro 150 million.

The Bank also finalised a new STS securitisation transaction, pursuant to EU Regulation 2402 of 2017, obtaining Euro 588 million from the sale of part of the Senior class A security and from the sale of Mezzanine class units which have also allowed a benefit on the RWA calculation as it is recognised for prudential purposes as a transaction with a significant transfer of risk.

Finally, in December 2019, the Bank finalised a repurchase transaction, with quarterly duration, for an amount of Euro 79 million with an institutional investor.

Medium- to long-term liabilities include loans granted by the Parent Company, subordinated loans and non-preferred senior notes, subscribed 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 1,103 million at the end of 2018 to approximately Euro 1,211 million at December 2019. Further details on funding results are provided in the Deposit accounts section of the separate financial statements.

The cost of funding decreased in 2019 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 400 million at the end of 2019.

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, the Demand Management office schedules periodical meetings with the bank's management, investigating needs and assessing any requests with a view to common growth. Requests relating to application and infrastructure are redirected, their technical/economic/temporal feasibility is verified.
- **Organisation of the architecture**: it defines the structure and the relationships between the components of the IT architecture. It controls and reports any risk linked to this to the Parent Company and the IT Committee. It has the task to monitor hardware and software with a view to Obsolescence. It closely cooperates with the implementation of new projects and the Cyber Security service.

According to the corporate strategy, during the year in question the following macro development projects continued:

- **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.

Istitutional Relations, Legal e 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 in the 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 2019 consists of 659 persons (including 12 managers, 190 middle managers and 457 office workers). Employees account for 653 permanent contracts. At the end of the year, there are 16 employees on post-graduate internships.

The average age is 42 years, with female workers representing 45.6% of total employees.

The commercial area accounts for 237 resources, with the rest employed in various roles in General Management.

Personnel costs for the year amount to Euro 47.5 million.

In 2019, Santander Consumer Bank was certified for the second consecutive 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 "Smart Working" Prize and the 2019 Welfare Award for the best company welfare plans according to Easy Welfare.

In September 2019, the 6th edition of the People Survey was conducted, involving all of the Group's employees. 95% of employees took part, demonstrating the employees' trust in this instrument and in the internal improvement process carried out every year following the climate survey.

Furthermore, the HR4Us initiative continued, requiring a voluntary individual meeting between employees and a member of HR.

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 digital, social and meeting tools. In particular, periodical internal events were organised aimed at promoting cooperation and the development of in-house skills: Ideas4Us and Ciok&Finance.

The now traditional Santander Week was organised for employees, which saw particularly high participation in the specific activities organised for the development of the digital skills of colleagues, for their children and for the local communities and environment. In addition, a number of initiatives to promote attention to health were rolled out during Be Healthy Week, with particular attention to the balance between personal and professional life and with ad hoc interventions for employees over 50 with a view to enhance all skills.

The financial education campaign aimed at students also continued, through participation in two training programmes carried out in cooperation with the Foundation for Financial Education and Savings and Risparmio (Feduf): "Che impresa, ragazzi!" (What a business, kids!), focused on the definition of a business plan for an entrepreneurial idea and "#economiascuola - L'economia è (anche) un gioco. Tra competenze di cittadinanza e modelli di sviluppo sostenibile" (The economy is (also) a game. Citizenship skills and models for sustainable development), focused on the importance of enterprise sustainability.

There has been renewed collaboration with the major Italian universities, particularly locally, including internationally renowned business schools: more than 50 undergraduates and recent graduates were able to take part in curricular and extra-curricular training programmes.

We have participated to numerous events/Career Days in order to meet many new talents and promote the excellence of the Santander training programme.

The partnership with the consortium Almalaurea was renewed and the collaboration with ESCP Europe was consolidated for the placement of young participants in the Master in Management program. We participated to the Job Networking Session, a day of meetings with Italian and French engineers with a dual degree. We were present at the Diversity Day in Milan, an event dedicated to meeting resources from protected categories. Lastly, we participated to the Job Fair Federico

II at the Federico II University in Naples, an event with over 100 companies ready to meet the university's undergraduate students.

Overall, over 24,000 hours of training were provided, of which 6,718 hours were included in the "PerFormando in Santander" training programme, co-funded by Fondo Banche e Assicurazioni; over 50% of employees were involved in at least one development training module.

Compulsory training was duly provided to all working staff, via interactive digital modules and meetings dedicated to management, with over 4,000 hours of training.

Important training programs were delivered dedicated to specific corporate groups, starting with updating on TCM and Lease products, CQS and new products for over 3,800 hours.

Induction sessions were delivered for onboarding of newly recruited staff both at the Turin site and the site in Boadilla del Monte in Madrid.

The 1st training game was planned, designed and realised, involving 270 employees, on the issue of "Team Working" to "promote cooperation", one of the 8 key corporate behaviours for the success of the Bank.

To be noted among the most innovative training services is the digital tool dedicated to new parents in partnership with MAAM (Maternity as a Master) to develop parents' soft skills, through interactive modules, interactions in a dedicated Community and a life coach to promote balance at the stage of returning to work.

Over 900 hours of training were delivered for corporate control functions, focused on risk management, payment systems, updates on the regulatory system, financial reporting and PSD2.

The training programme and exchange of best practices between the sales network and the Retail Analysis Service continued.

An interdisciplinary working group was formed, called Santander Creativity Lab and composed of different departments, to plan and develop innovative solutions linked to the development of business.

The process of specialist training on corporate processes and procedures was renewed, for colleagues in the Risk, Collection Business Unit and the Internal Audit Service departments.

The training plan open to all employees for the improvement of the English language also achieved important results, with two specific paths depending on the employees' role: English Gym, dedicated to employees at the head office and delivered in a classroom setting, and English Fitness, realised in full-digital mode for colleagues in the business network.

Three development paths were activated with important Business Schools at national and international level, dedicated to the most talented employees and to managers in new positions.

Furthermore, a multiannual management development course was launched aimed at all Service Managers and Area Managers through specific issue masterclasses and dedicated action plans.

Numerous training sessions were delivered (remotely and in a classroom setting) on SCB Space, the new web-based system for the management of attendances, pay and travel. Extremely flexible, intuitive and easily implemented, it integrates all functionalities into a single portal.

The National Collective Labour Agreement for managerial staff and for personnel in professional areas of the credit sector, still applicable, expired on 31 December 2019. In 2019 the Italian Banking Association (ABI) and the national category trade unions were involved in negotiations for its renewal, without coming to a shared agreement.

For SCB, the big changes that are affecting the business, the company processes and organisation, due to new economic and social dynamics, have imposed the need to define a new model for industrial relations which increasingly focuses on the person, on flexibility and innovation.

On 2 February 2019, after a pilot stage, an agreement was signed on the project "Flexible Spaces and Flexible Working in the context of Smart-Working, aimed at Work-Life Balance" accessible without frequency and space restrictions. To date, 450 employees have been able to access this new operating mode, strongly focused on "trust".

The pilot phase of the agreement relating to colleagues dealing with personal loans in branches is currently under examination, who are already able to access the system for completing mandatory training remotely.

In consideration of the good trading performance and the objectives achieved year after year, to reward the commitment of employees on 22 March 2019 the "Bonuses for the 2018-2019 financial year" agreement was signed in relation to the criteria for the payment of the Additional Quota for 2018 and the definition of new "exceptional" amounts relative to the allocation of the 2019 Basic Quota.

In the light of the Constitution of the "Trading Policies and Company Environment" Commission, the Parties met for the first time on 16 September 2019 according to the National collective labour agreement for this sector signed on 8 February 2019.

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.

On 23 May 2019, 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 2014 and in particular to the determination of the amount of non-deductible interest expense.

Santander Consumer Bank SpA provided, within the terms set out in the questionnaire, the documentation and information requested by the tax office in question.

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 expense, amounting to approximately Euro 79 thousand including interest and sanctions. No further irregularities were noted by the Tax Authorities.

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 already duly submitted a refund request in the course of 2018, on 30 April 2019 the Court of Cassation issued an order dismissing the legal proceeding for the 2006 and 2007 years following the Italian Tax Authority waiving the right to appeal. Following the above event, Santander Consumer Bank SpA received a partial reimbursement on 30 May 2019, for the same years, of Euro 340 thousand as well as interest for Euro 77 thousand. With regard to this an amount of Euro 20 thousand was withheld by the Italian Tax Authorities to offset taxes, sanctions and interest due on assessment files and notices outstanding at the time of the reimbursement. The Bank has already taken steps with the relevant offices in order to obtain payment of the further residual sum after payment of overdue taxes actually outstanding. On the same date the Bank also obtained a reimbursement, relative to the 2008 year, for an amount of Euro 59 thousand, increased by Euro 10 thousand for interest.

During November 2019 the Bank also received a partial reimbursement of "IRAP ninths" relating to the company Santander Consumer Finanzia, for the years 2006, 2007 and 2008, for Euro 109 thousand as well as interest for Euro 23 thousand. With regard to this an amount of Euro 14 thousand was withheld by the Italian Tax Authorities to offset taxes, sanctions and interest due on assessment files and notices outstanding at the time of the reimbursement. The Bank has already taken steps with the relevant offices in order to obtain payment of the further residual sum after payment of overdue taxes actually outstanding.

In relation to the repayment request submitted by the vehicle company Golden Bar (Securitisation) Srl and relative, among others, to withholding tax arising from the securitisation transaction closed in 2013, called "2,500,000,000 Euro Medium Term Asset-Backed Notes Programme", the company received a reimbursement of Euro 670 thousand in November 2019, as well as interest of Euro 54 thousand.

With reference to new tax changes envisaged by the 2020 Budget Law, the following measures, which will have the greatest impact on the Bank, are noted in particular.

The reintroduction of the benefit in support of economic growth called "ACE" took place in 2019, with a fixed percentage rate of 1.3% for the calculation of the notional yield on the increases of own capital which occurred since 2011. This had an impact on 2019 in terms of reduced IRES in the amount of approximately Euro 2.1 million.

The deduction of 12 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 2019, is deferred to the tax period under way at 31 December 2022 and the three following financial years. This has an impact on the capital requirements of the bank for 2019, as a result of an increase in deferred tax assets, amounting to approximately Euro 25.2 million.

The deduction of 10 per cent from the income items arising from the envisaged first application of the IFRS 9 accounting standard, for the purposes of IRES and IRAP, for the tax period under way at 31 December 2019, is deferred to the tax period under way at 31 December 2028. This has an impact on the capital requirements of the bank for 2019, as a result of an increase in non-monetisable deferred tax assets, amounting to approximately Euro 0.3 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 art. 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 art. 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 art. 2497 bis of the Italian Civil Code and art. 23 of Legislative Decree no. 385 of 1 September 1993, as updated to incorporate the amendments introduced by Legislative Decree no. 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 2019, 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 art. 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.

On 7 November 2019 Santander Consumer Bank SpA and TIM SpA signed an agreement to form a joint venture which will offer consumer credit to the TIM's customers in Italy. The initial objective is to offer loans for the purchase of terminals through instalments loans and, at a later stage, other consumer credit and insurance products. The agreement envisages the creation of a joint venture in which Santander Consumer Bank S.p.A. has a 51% interest while TIM has 49%, and which will become operational in 2020.

On 4 December 2019, Bank of Italy has sent a communication to the financial intermediaries indicating the guidelines to which the latter must comply following the recent ruling made by the Court of Justice of the European Union[17], with regard to the interpretation of the art. 16 par.1 of Directive 2008/48/EC, on consumer credit and early repayment of loans. Santander Consumer Bank has activated the necessary actions for the transposition of these guidelines; the Bank has therefore proceeded to estimate the impacts deriving from the new calculation methods to be applied on the existing portfolio when a request of early termination is submitted by the customer and to allocate in the financial statements, in accordance with the provisions of IAS 37, based on the principle of " prudent evaluation of the repayment rule" indicated in the above mentioned communication from Bank of Italy, a provision to hedge any liabilities deriving from the reimbursement of the charges paid by customers on consumer credit loans (including the salary assignment) and, according to the criteria from time to time included in the contract, recognized up-front at the time of the settlement.

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 2019.

[17] Court of Justice of the European Union, 11 September 2019, lawsuit C-383/18 ("Lexitor")

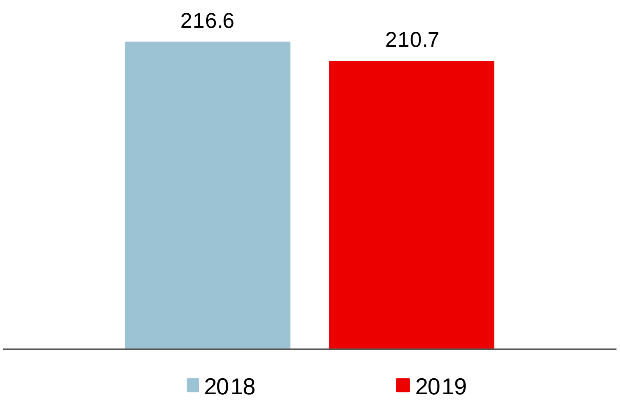
In January 2020 the Covid 19 (hereinafter “Coronavirus”) emergency occurred; with regard to the evaluations carried out by the Bank for the management of this emergency, please refer to Part A - Section 3 “Events occurring after the reference date”.

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 Euro).

In the year in question, there was a decrease in the interest margin of 2.7%, from Euro 216.6 million to Euro 210.7 million: interest income and similar income decreased (-3.9%) due mainly to the change in the portfolio mix and a reduction in interest expense (-9.8%), favoured by the drop in rates and spreads paid to the market which resulted in a lower cost of funding.

Net interest margin



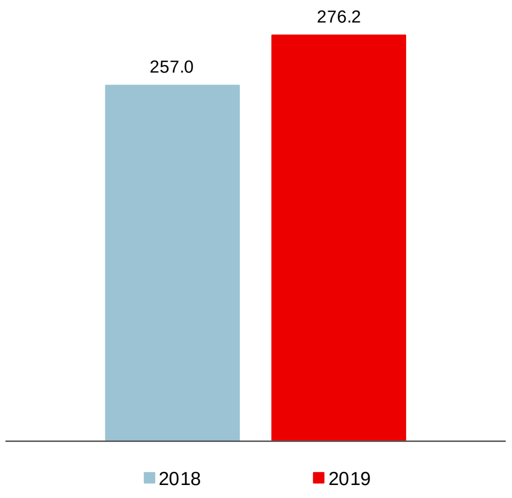
Net commissions increased from Euro 37.7 million to Euro 44.2 million. Commission income linked to insurance products placed with customers financed by the Bank increased (+10.4%), while commission expense increased, even though to a lesser extent (+3.4%), mainly due to higher commissions paid.

Net trading income (loss) and the hedging respectively represent the effect of the decrease in fair value of hedging derivatives on the loans portfolio overall and of structured securitisation derivatives.

The item Gains on disposal or repurchase of loans represents the balance net of receivables sold to third parties without recourse following the sale of loans in the first half of 2019.

The combination of the above mentioned effects leads to an increase of the banking income (+7.5%), which goes from Euro 257.0 to Euro 276.2 million.

Net banking income



Adjustments on loans significantly decreased (-33.2%), from Euro 35.2 to 23.5 million, in part due to the sale of the portfolio, the update in the risk parameters and the gradual change in the mix of the portfolio managed, characterised by an increased focus on the Car sector.

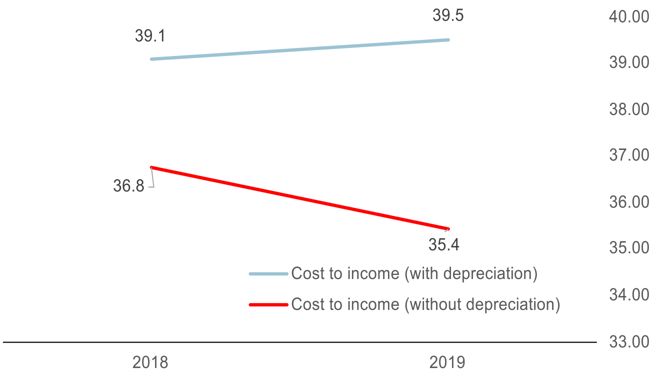
Administrative costs on the whole remained largely stable (+1.1%), increasing from Euro 111.1 million to Euro 112.3 million, which include slightly increased personnel costs (+6.3%), offset in part by lower overheads (-2.4%).

Net provisions for risks and charges record an increase of Euro 25.3 million and include an allocation made with regard to any future reimbursements, in case of early redemption, of charges paid in advance by customers, as indicated in the previous paragraph “Other facts worth mentioning”.

Also to be noted are the effects deriving from the introduction of the IFRS 16 standard, with regard to the items Interest expense, which increase of Euro 307 thousand, and Adjustments to property and equipment which increase of Euro 3,853 thousand for depreciation; conversely, the costs recorded in the item Other administrative expenses decreased.

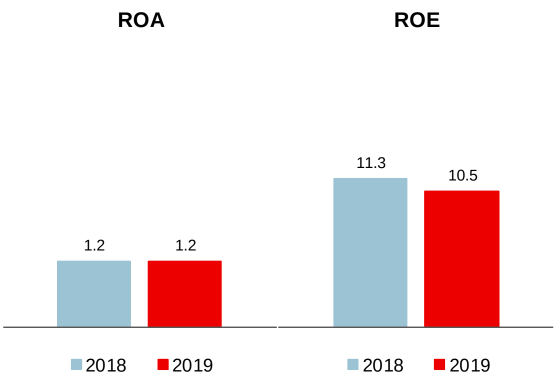
The above aspects led to a result before tax of Euro 114.3 million and a net profit of Euro 81.3 million.

Cost to Income

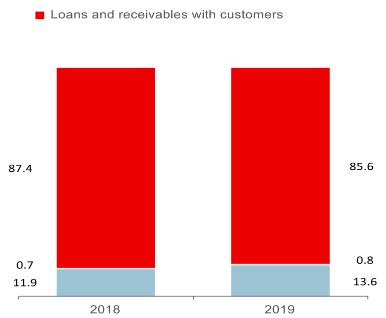


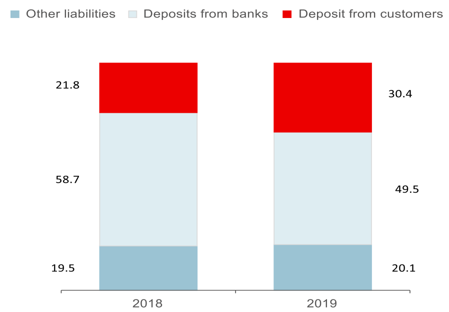
The cost-to-income ratio, calculated as the ratio between the sum of administrative costs and other net operating income records a reduction from 36.8% to 35.4% excluding depreciation and amortisation expense, while recording an increase from 39.1% to 39.5% including depreciation and amortisation.

Profitability indices (ROA and ROE)



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 10.5% due to the effect of the increase in Equity aimed at enhancing capital strength (CET1 equal to 16.69%).





As regards the asset mix, loans to customers increased slightly in absolute value, even though decreasing as a percentage of total assets. Other assets mainly increased due to increases in investments, property and equipment and tax assets. Loans to credit institutions increased, mainly due to higher subordinate loans and cash collateral, in part offset by lower liquidity, even though the percentage of assets remained essentially stable.

Following the application of the IFRS 16 standard, the main effects in terms of Right of Use (ROU) and connected liabilities were approximately Euro 21.2 million, at the date of first application, and relate to the rental of premises used by the Bank to carry out its activities and the hire of cars for employees.

It is also highlighted that during the financial year the Bank finalised its first capital relief securitisation transaction, on the basis of what is permitted by art. 244 of the CRR.

Regarding the structure of sources of funds, on the other hand, amounts due to customers increased and consisted mainly of amounts due to securitisation transactions, as well as demand and time deposit accounts offered by the Bank. The amounts due to credit institutions have reduced thanks to lower borrowings, while other liabilities remain essentially in line with the previous financial year.

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 (+9.9%), special-purpose loans (+21.6%) and leases (+67.8%). Salary assignment (-9.8%), personal loans (-11.5%), credit cards (-18.8%) and stock financing (-17.9%) are down.

The decrease in “Other loans to customers” (-9.7%) 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 and for which the income statement effect is deferred over the expected residual life of the loan.

Amounts in millions of Euro	Amount		Change	
	2019	2018	Absolute	(%)
Car loan	2,784	2,533	251	9.9
Special-purpose loan	355	292	63	21.6
Personnel loan	624	705	(81)	(11.5)
Cards	5	6	(1)	(18.8)
Leasing	115	69	47	67.8
Salary assignment	1,361	1,509	(148)	(9.8)
Stock financing	429	523	(94)	(17.9)
Other loans to customers	221	245	(24)	(9.7)
Other components of amortised cost	107	104	3	2.8
Gross loans to customers	**6,002**	**5,987**	**15**	**0.2**
Provision for loan losses	(178)	(272)	93	(34.4)
Net loans to customers	**5,823**	**5,715**	**108**	**1.9**

Report of the Board of Statutory Auditors on the Financial Statements at 31 December 2019

Report of the Board of Statutory Auditors on the Financial Statements at 31 dicembre 2019

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 SHAREHOLDERS' GENERAL MEETING
PURSUANT TO ART. 2429, PARAGRAPH 2, OF ITALIAN CIVIL CODE

Dear Shareholders,

with this Report, we refer to the supervisory activity carried out by the Board of Statutory Auditors during 2019, in compliance of the mandate received and in accordance with art.s 2403 - 2403 bis of the Italian Civil Code, and the applicable primary and secondary regulations.

During 2019 the Board of Statutory Auditors carried out its institutional duties in compliance with the Italian Civil Code, Italian Legislative Decree no. 385/1993 (Consolidated Banking Act - TUB) as subsequently modified and/or integrated, the statutory regulations and those issued by the Authorities that exercise supervisory and control activities, also taking into account the codes of conduct recommended by the National Board of Accountants.

The outline of this report complies with rule 7.1 "Structure and content of the statutory auditors' report" of the "Codes of conduct of the Board of Statutory Auditors – Principles of conduct for the Board of Statutory Auditors of unlisted companies" (CNDCEC, September 2015) and, in particular, the last model approved (CNDCEC, May 2018).

The Board of Directors made available the following documents approved in the meeting of 19 February 2020, relative to the financial year ended as at 31 December 2019:

- draft financial statements, complete with explanatory notes and cash flow statement;
- report on operations.

This report was approved by the board and in time for it to be deposited at the company's head office 15 days before the shareholders' meeting for the approval of the financial statements in question.

Supervisory activity pursuant to art. 2403 et seq. of the Italian Civil Code

The activities carried out by the Board related, from a temporal point of view, to the entire financial year, and in the course of the same periodical meetings regularly took place as required by the law and the Articles of Association; minutes of these meetings were duly signed by unanimous approval.

In particular, it is attested that the Board of Statutory Auditors:

- has supervised the compliance with the law and with the articles of association, and the respect of principles of correct administration as well as, for what pertains to the board, the adequacy of the organisational structure adopted by the Bank, also through the gathering of data and information from the managers of company functions;
- has participated to Shareholders' Meetings and meetings of the Board of Directors held through the year, continuously following the development of company decisions and the performance of the Bank in its different operational aspects, as well as issues of a contingent and/or extraordinary nature in order to identify their economic and financial impact on the result for the year and on the equity structure, as well as any risks, periodically monitored; the meetings were carried out in the respect of statutory, legal and regulatory rules which govern their operation. In particular, we have not observed any violation of the law or of the articles of association; nor manifestly imprudent, risky transactions, in conflicts of interests or such as to compromise the integrity of corporate assets;
- during the meetings held, it acquired from the Chief Executive Officer information on the general business performance and on its expected development, as well as on the transactions of greater importance, in terms of size or characteristics, carried out by the company and, on the basis of the acquired information, we do not have specific comments to report.
- has carried out checks on the issues subject to supervision and control, also availing itself of the records held by the company's second and third level control functions;
- has monitored the activities carried out by the Bank in compliance with the obligations in terms of anti-money laundering and counter-terrorist financing;

- has supervised the adequacy of the "Internal Control System" and of the "Corporate Governance" regulations established by the law, by the Articles of Association and by the secondary regulations on this issue;
- has proceeded to have periodical meetings with the auditing company PricewaterhouseCoopers S.p.A., finalised at the exchange of information relative to the supervision and control activities of their respective competence from which nothing reprehensible or significant has emerged against the Bank;
- has supervised the independence of the statutory auditor; in particular, the report on the latter's independence issued pursuant to art. 17 of Legislative Decree no. 39/2010 does not highlight situations such as to compromise their independence or causes of incompatibility;
- has supervised the adequacy and correspondence to the regulatory environment of the remuneration policies and normal practice adopted by the Bank.

The Board of Statutory Auditors also attests that:

- during 2019 no complaints pursuant to art. 2408 of the Italian Civil Code were received nor claims of any other kind such as to require mention in this Report. No complaints pursuant to art. 2409, paragraph 7 of the Italian Civil code were made. The Board of Statutory Auditors had not had to intervene due to omissions on the part of the Board of Directors pursuant to art. 2406 of the Italian Civil Code;
- no atypical or unusual transactions with third parties and or related parties were identified; transactions with related parties are illustrated in part H of the Explanatory notes and referred to in the Report on Operations, as required by art. 2428, paragraph 3, of the Italian Civil Code;
- transactions and operations with corporate officers were carried out in accordance with art. 2391 of the Italian Civil Code, by art. 136 of the T.U.B. and by the Provisions relating to risk activities and conflicts of interest with regard to related parties.

Observations on the financial statements

While we note that the financial statements have been audited by PricewaterhouseCoopers S.p.A., the company responsible for the statutory audit, we hereby confirm that, based 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, nothing reprehensible or significant on the Company's part was revealed, as can also be inferred from the Report drawn up by the above mentioned statutory auditor pursuant to art. 14 of Legislative Decree no. 39/2010, which confirmed that no irregularities were found.

The draft financial statements were then examined, with regard to which the following additional information are provided:

- the valuation and presentation criteria followed in the preparation of the Financial Statements for the year ended 31 December 2019, applying Legislative Decree no. 38 of 28 February 2005, compliant with the IAS/IFRS international accounting standards adopted by the European Union and applied in the technical forms prescribed by 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", as subsequently amended by the 6th update of 30 November 2018 "Banks' financial statements: layouts and preparation" issued by the Bank of Italy. We believe that the information complies with the provisions on the matter and provides a faithful analysis of the Bank's situation as well as an indication of the risks to which it is exposed;
- attention was paid to the layout of the draft financial statements, their general compliance with the IAS/IFRS accounting standards and the technical forms prescribed by the above mentioned Circular with regard to preparation and structure and at this regard there are no observations to be highlighted in this report;
- it is highlighted that your company is not subject to the obligation of making a Statement of non-financial information as it is a subsidiary included in the

consolidated statement of non-financial information made by Banco Santander, the European parent company subject to the same regulatory obligations;

- observance to the rules of law inherent to the preparation of the report on operations has been checked, and at this regard we don't have any observations to make;
- the correspondence of the financial statements to the facts and information we have gained knowledge of following the performance of the duties typical of the Board of Statutory Auditors has been checked, and at this regard we have no observations to make;
- tests have been carried out with regard to the recoverability of the credit values in compliance with the IFRS 9 international accounting standard, with the verification of the auditing company, as communicated to us by the same in the context of the due exchange of information.

Conclusions

Taking into account all reported above and considering the content of the reports drawn up by the auditing company mandated to carry out the regulatory audit of the financial statements, the Board of Statutory Auditors has no further observations or proposal to make with reference to the Financial Statements and expresses, for what pertains to its competence, a favourable opinion on the approval of the same and the acceptance of the proposal formulated by the Board of Directors with regard to the allocation of the profit for the year.

Turin, 16 March 2020

The Board of Statutory Auditors

Walter Bruno

Franco Riccomagno

Maurizio Giorgi

Copy in computer readable form of the original document in paper form pursuant to art. 20, paragraph 3, of Presidential Decree no. 445/2000.

Notice of calling of the shareholders' meeting

Notice of calling of the Shareholders' Meeting

The Ordinary Shareholders' Meeting of Santander Consumer Bank S.p.A. has been convened, on first call, for 1 April 2020 at 12.00 in Turin, Corso Massimo D'Azeglio no. 33/E, and, if necessary, on second call for 2 April 2020, at the same place and time, to discuss and vote on the following agenda:

1. The Report on Operations and the Financial Statements at 31 December 2019. Statutory Auditors' Report and Independent Auditors' Report. Related resolutions;

2. Information on the 2019 remuneration and incentives system and the 2020 remuneration and incentive policies; related resolutions.

3. Information on the internal control policies adopted by the Bank (New Rules on Capital Requirements for Banks).

Proposals to the Shareholders' Meeting

Proposal to the Shareholder's Meeting

Proposal of allocation of the net profit

Dear Shareholders,

as we have mentioned already, the year ended with a net profit of Euro 81,270,125.

We propose that profit be allocated as follows:

	euro
Net profit for the period	81,270,125
Legal reserve	4,063,506
Previous losses coverage	115,862
Extraordinary reserve	90,757
Dividends	77,000,000

Indipendent Auditors' report on the Financial Statements at 31 December 2019

Independent Auditors' Report on the financial statements at 31 December 2019

pwc

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 Shareholder 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 (hereinafter, also, "the Company"), which comprise the balance sheet as of 31 December 2019, 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 2019 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 43 of Legislative Decree No. 136/2015.

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.

pwc

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Evaluation of loans and advances to customers for loans measured at amortised cost *Report on operations of Santander Consumer Bank SpA:* *Comments on the results and key figures in the financial statements* *Notes to the financial statements:* *Part A – Accounting policies* *Part B – Information on the balance sheet, Assets - 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 2019 represented a considerable share of item 40 b) *"Financial assets measured at amortised cost – Loans and advances to customers"*, show a balance of Euro 5,823 million, accounting for about 86 per cent of total assets in the financial statements. The net value adjustments to loans and advances to customers for loans, charged during the year, amount to Euro 23 million and represent the best estimate made by the directors in order to reflect the expected credit losses (ECL) 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 book value and the complexity of the estimate criteria, in compliance with IFRS 9 "Financial Instruments"; the evaluation processes and methods are inevitably 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) and portfolio allocation (Staging), for the elaboration and determination of risk parameters, underlying the ECL	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 design of the relevant controls within the monitoring, classification and valuation of loans and advances to customers and we verified the operating efficacy of such controls. Particular attention was paid, also with the support of our network experts, to understand and verify the appropriateness of the policies, procedures and models used to measure the SICR and Staging and to determine the ECL, as well as the methods to determine and estimate the main parameters used within these models with regard also to the methodological improvements brought during the financial year. We performed specific audit procedures regarding the analysis of 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 regarding 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

calculation, which incorporate the use of macro-economic scenarios and prospective information, together with the identification of objective evidence of deterioration.	the above-reported risk parameters.

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 43 of Legislative Decree No. 136/2015 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. 39/2010

The directors of Santander Consumer Bank SpA are responsible for preparing a report on operations of Santander Consumer Bank SpA as of 31 December 2019, including its consistency with the relevant financial statements and its 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 with the financial statements of Santander Consumer Bank SpA as of 31 December 2019 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations is consistent with the financial statements of Santander Consumer Bank SpA as of 31 December 2019 and is prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/2010, 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.

Rome, 16 March 2020

PricewaterhouseCoopers SpA

Signed by

Lorenzo Bellilli
(Partner)

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

Santander Consumer Bank

Financial Statements

Balance Sheet

In Euro

	Balance sheet - Assets	12/31/2019	12/31/2018
10.	Cash and cash balances	8,679	1,144
20.	Financial assets designated at fair value through profit or loss	2,041,386	1,827,515
	a) Financial assets held for trading	2,041,386	1,827,515
40.	Financial assets measured at amortised cost	6,281,249,152	6,115,079,334
	a) Loans and advances to banks	52,128,479	45,691,978
	b) Loans and advances to customers	6,229,120,673	6,069,387,356
60.	Financial assets at FV with effects on P&L	7,877,729	4,013,196
70.	Equity investments	152,939,712	122,939,712
80.	Property, plant and equipment	20,458,083	5,690,536
90.	Intangible assets	16,374,508	11,094,968
100.	Tax assets	247,914,605	226,573,236
	a) current	36,501,369	25,009,942
	b) deferred	211,413,236	201,563,294
110.	Non current assets and disposal groups classified as held for sale	-	1,800
120.	Other assets	72,831,403	53,123,966
	Total Assets	**6,801,695,257**	**6,540,345,407**

	Liabilities and Shareholders' equity	12/31/2019	12/31/2018
10.	Financial liabilities valued at amortised cost	5,552,900,136	5,415,365,635
	a) Deposits from banks	3,366,538,928	3,836,963,711
	b) Deposits from customers	2,066,331,708	1,427,343,143
	c) Debt securities in issue	120,029,500	151,058,781
20.	Financial liabilities held for trading	618,346	-
40.	Hedging derivatives	8,745,106	4,633,265
60.	Tax liabilities	49,598,926	42,712,963
	a) current	49,598,926	42,712,963
80.	Other liabilities	250,646,532	240,614,591
90.	Provision for employee severance pay	3,180,756	3,135,661
100.	Provisions for risks and charges	38,365,059	17,479,734
	a) commitments and guarantees given	46,223	23,747
	c) other	38,318,836	17,455,987
110.	Valuation reserves	(632,393)	(599,106)
140.	Reserves	243,370,078	163,894,176
150.	Share premium	632,586	632,586
160.	Share capital	573,000,000	573,000,000
180.	Net Profit (Loss) for the year (+/-)	81,270,125	79,475,902
	Total liabilities and Shareholders' Equity	**6,801,695,257**	**6,540,345,407**

Income Statement

In Euro

	Items	12/31/2019	12/31/2018
10.	Interest and similar income	247,734,821	257,703,503
	of which: interest income calculated using the effective interest method	244,207,064	253,529,185
20.	Interest expenses and similar charges	(37,049,243)	(41,078,630)
30.	**Net interest margin**	**210,685,578**	**216,624,873**
40.	Fee and commission income	81,812,526	74,114,910
50.	Fee and commission expenses	(37,650,513)	(36,402,881)
60.	**Net fee and commission**	**44,162,013**	**37,712,029**
70.	Dividends and similar revenues	3,676,203	-
80.	Net income financial assets and liabilities held for trading	964,259	2,372,500
90.	Net hedging gains (losses) on hedge accounting	(297,712)	363,179
100.	Gains and losses on disposal of:	17,036,921	(70,743)
	a) Financial assets at amortised cost	17,036,921	(70,743)
120.	**Operating income**	**276,227,262**	**257,001,837**
130.	Net losses / recoveries on credit risk relating to	(23,297,570)	(35,215,597)
	a) financial assets at amortised cost	(23,297,570)	(35,215,597)
150.	**Net profit from financial activities**	**252,929,692**	**221,786,240**
160.	Administrative costs:	(112,269,061)	(111,052,820)
	a) payroll costs	(47,499,266)	(44,685,647)
	b) other administrative costs	(64,769,795)	(66,367,172)
170.	Net provisions for risks and charges	(29,461,834)	(4,142,179)
	a) commitments and financial guarantees given	(22,476)	15,458
	b) other net provisions	(29,439,358)	(4,157,637)
180.	Net adjustments / writebacks on property, plant and equipment	(4,702,679)	(1,083,296)
190.	Net adjustments / writebacks on intangible assets	(6,544,446)	(4,907,988)
200.	Other operating income/expenses	14,376,660	16,568,161
210.	**Operating costs**	**(138,601,360)**	**(104,618,121)**
220.	Gain (Losses) of equity investments	-	(54,912)
260.	**Total profit or loss before tax from continuing operations**	**114,328,332**	**117,113,206**
270.	Tax income of the year from continuing operations	(33,058,207)	(37,637,304)
280.	**Total profit or loss after tax from continuing operation**	**81,270,125**	**79,475,902**
300.	**Profit or loss for the year**	**81,270,125**	**79,475,902**

Statement of comprehensive income

In Euro

	Items	12/31/2019	12/31/2018
10.	**Net Profit (Loss) for the year**	**81,270,125**	**79,475,902**
70.	Defined benefit plans	(33,287)	35,644
170.	**Total other income components after tax**	**(33,287)**	**35,644**
180.	**Overall profitability (Item 10 + 170)**	**81,236,838**	**79,511,546**

Statement of changes in shareholders' equity

In Euro

Financial year 2019

	Balance at 12.31.2018	Changes in opening balances	Balance at 1.1.2019	Allocation of prior year results: Reserves	Allocation of prior year results: Dividends and other allocations	Changes during the year: Changes in reserves	Changes during the year – Shareholders' equity transactions: Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income for 2019	Group shareholders' equity at 12.31.2019
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 reserve	**632,586**		**632,586**											**632,586**
Reserves:	**163,894,176**		**163,894,176**	**79,475,902**										**243,370,078**
a) retained earnings	123,981,489		123,981,489	79,475,902										203,457,391
b) other	39,912,687		39,912,687											39,912,687
Valuation reserves	**(599,106)**		**(599,106)**										**(33,287)**	**(632,393)**
Equity instruments														
Treasury shares														
Net profit (loss) for the period	**79,475,902**		**79,475,902**	**(79,475,902)**									**81,270,125**	**81,270,125**
Shareholders' equity	**816,403,558**		**816,403,558**										**81,236,838**	**897,640,396**

Financial year 2018

	Balance at 12.31.2017	Changes in opening balances	Balance at 1.1.2018	Allocation of prior year results: Reserves	Allocation of prior year results: Dividends and other allocations	Changes during the year: Changes in reserves	Changes during the year – Transactions on shareholders' equity: Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	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 reserve	**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) retained earnings	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**

Cash flow statement (indirect method)

In Euro

A. OPERATING ACTIVITIES	Amount	
	12/31/2019	12/31/2018
1. Liquidity generated from operations	**155,651,754**	**78,929,136**
- net profit for the year (+/-)	81,270,125	79,475,902
- net gains/losses on financial assets held for trading and financial assets designated at fair value through profit or loss (+/-)	462,150	(658,415)
- gains (losses) from hedging activities (+/-)	297,712	(363,179)
- net adjustments for credit risk (+/-)	23,313,669	44,339,330
- impairment/recoveries to property and equipment and intangible assets (+/-)	11,241,244	5,990,083
- net provisions for risks and charges and other costs/income (+/-)	27,048,911	2,503,253
- net premiums not collected (-)		
- other income insurance income/expense not collected (-/+)		
- unsettled taxes and tax credit (+/-)	50,807,049	1,314,997
- impairment/recoveries to disposal groups net of tax effect (-/+)	5,881	1,200
- other adjustments (+/-)	(38,794,987)	(53,674,036)
2. Liquidity generated/absorbed by financial assets	**(212,806,285)**	**(68,494,828)**
- financial assets held for trading	(680,519)	
- financial assets designated at fair value through profit and loss		
- financial assets mandatorily designated at fair value		
- financial assets measured at fair value with an impact on total profitability		
- financial assets measured at amortized cost	(176,652,728)	(60,906,735)
- other assets	(35,473,038)	(7,588,093)
3. Liquidity generated/absorbed by financial liabilities	**94,952,486**	**906,772**
- financial liabilities measured at amortized cost	123,609,946	62,454,847
- financial liabilities held for trading	680,519	
- financial liabilities designated at fair value through profit and loss		
- other liabilities	(29,337,979)	(61,548,075)
Net Liquidity generated/absorbed by operating activities	**37,797,954**	**11,341,080**
B. INVESTING ACTIVITIES		
1. Liquidity generated by	**326,661**	**114,255**
- sale of equity investments		
- dividends collected on equity investments		
- sale of property and equipment	326,661	114,255
- sale of intangible assets		
- sale of lines of business		
2. Liquidity absorbed by	**(38,117,080)**	**(11,456,604)**
- purchase of equity investments	(30,000,000)	
- purchase of property and equipment	(791,515)	(5,362,850)
- purchase of intangible assets	(7,325,565)	(5,739,025)
- purchase of lines of business		(354,729)
Net Liquidity generated/absorbed by investing activities	**(37,790,419)**	**(11,342,349)**
C. FUNDING ACTIVITIES		
- issue/purchase of treasury shares		
- issue/purchase of equity instruments		
- dividends distributed and other allocations		
Net Liquidity generated/absorbed by financing activities		
NET LIQUIDITY GENERATED/ABSORBED IN THE YEAR	**7,536**	**(1,269)**

Key:
(+) generated
(-) absorbed

Reconciliation

Items	Importo	
	12/31/2019	**12/31/2018**
Cash and cash equivalents at beginning of year	**1,144**	**2,414**
Net increase (decrease) in cash and cash equivalents	**7,536**	**(1,269)**
Cash and cash equivalents: effect of change in exchange rates		
Cash and cash equivalents at end of year	**8,679**	**1,144**

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 no. 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 EU Regulation 1606 of 19 July 2002.

The Separate Financial Statements at 31 December 2019 have been prepared in accordance with Circular no. 262/05 as subsequently amended by the 6th update of 30 November 2018 "Banks financial statements: layouts and preparation" 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 2019 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 no. 38/2005, the financial statements have been prepared using the Euro as the functional currency.

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

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 2018.

It is noted that in the context of the application of the First Time Adoption (FTA) of IFRS 16, Santander Consumer Bank has chosen to adopt the modified retrospective approach, which allows the option, indicated in the standard, to recognise the cumulative effect of the application of the standard at the time of first application and not to restate the comparative financial statements data at the first application of IFRS 16. Therefore, the figures in the financial statements relative to the 2019 financial year are not comparable with reference to the valuation of right of use and the correspondent liability for leases.

Annex 1 First Time Adoption IFRS 16 – Criteria for valuation and impact, provides details of the reconciliation between the figures in the balance sheet figures originally published, and used as comparison in the accounting statements section, and the figures reflecting the effects deriving from the application of IFRS 16. More details on the adoption of the accounting standard are reported in the next section, “Transition from IAS 17 to IFRS 16”.

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 for which the use of subjective judgements by management is most required are:

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 financial statements

Balance sheet and 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 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 19 February 2020.

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 2019.

However, it must be highlighted that the Bank is monitoring the evolution of the Covid 19 emergency (hereinafter "Coronavirus") which, in the first weeks of 2020, started to impact economic activities in China and which later spread to other countries. The consequences of this on the economy are difficult to quantify and assess at present.

Therefore, these events are deemed not to require any adjustments to the financial statements balances, pursuant to IAS 10 § 21, given that the Coronavirus emergency at international level was declared only at the end of January, even though it had manifested itself in China before the closing date of the financial statements.

However, if these effects were to be significant, it must be highlighted that these might also have a significant impact on future growth prospects as they have an impact on the economy generally and on financial markets.

At present, having made the necessary assessments, it is not possible to predict the evolution that this event might have, also in Italy, and in consequence the impact it will have on the economy and, therefore, it is not possible to determine any negative economic and financial impacts that might influence the first quarter of 2020.

While awaiting a more complete definition of the scenario also in terms of economic policy interventions on the part of institutions, it is considered that this event is not an element that can be evaluated in our estimates with reference to the financial statements closed as at 31 December 2019.

Section 4 - Other aspects

Complete copies of the last financial statements with the reports on operations of the companies that at 31 December 2019 were subsidiaries or associates, and that their respective Boards of Directors will submit for approval of their shareholders' meeting by 29 April 2020, 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 2019 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 2019:

- **IFRS 16** – Leases – this standard establishes the principles relating to the recognition, evaluation and presentation in financial statements and supplementary information on leases. The objective is to ensure that lessors and lessees provide appropriate information according to procedures that faithfully represents operations. The information provides financial statements users the elements to evaluate the effect of leases on the economic and financial position, the profit and the financial flows of the entity (EU Reg. 2017/1986).
- **Amendments to IFRS 9** – Financial instruments – these changes refer to elements of early repayments with negative compensation and are finalised to clarify the classification of specific pre-payable financial assets when IFRS 9 is applied (EU Reg. 2018/498)
- **IFRIC 23** – Uncertainty over income tax treatments – this clarifies the interpretation on how to reflect the uncertainty of income tax treatment and the relative updates relative to IFRS 1 (EU Reg. 2018/1595).
- **Amendments to IAS 28** – Investments in associates and joint ventures – these amendments relate to long-term interests in associates and joint ventures and aim at clarifying that the provisions with regard to the reduction of values pursuant to IFRS 9 are applied to long-term interests in associates and joint ventures (EU Reg. 2019/237).
- **Amendments to IAS 19** – Employee benefits – these amendments aim to clarify that, after the amendment, reduction or extinction of a defined benefit plan, the entity should apply updated hypotheses to the redetermination of its net liabilities (assets) for defined benefits for the rest of the reference period (EU Reg. 2019/402).

- Yearly cycle of improvements of the 2015-2017 IFRS (Reg. EU 2019/412).

An analysis of the main qualitative/quantitative impacts deriving from the introduction of IFRS 16 in the financial year is provided below.

From IAS 17 to IFRS 16

1) Introduction

In January 2016 the IASB - International Accounting Standards Board - issued the new IFRS 16 accounting standard, which came into force on 1 January 2019.

The new standard replaces all previously applicable IFRS accounting standards for the accounting treatment of leases (IAS 17 and IFRIC 4) and is applied to all contracts which include the right of use of an asset (so-called Right of Use) for a certain period of time, in exchange of a specific payment.

Exceptions, which are therefore excluded from the application of the standard, are: intellectual property licences granted by a lessor, rights held by a lessee in licence agreements (such as cinema films, video recordings, theatre works, manuscripts, patents and copyright), leases for biological assets, agreements for the concession of services and licences for the exploration or exploitation of minerals, oil, natural gas and similar non-regenerative resources.
The following are also excluded:

- Contracts of duration of or less than 12 months (so-called short-term lease);
- Lease agreements for assets of minor value (less than 5,000 USD/€).

IFRS 16 marks the end of the differentiation between classification and accounting treatment, between operating leases (whose information are reported outside of financial statements) and financial leases (which are recognised in the balance sheet).

The right of use of a leased asset and the commitment made towards the lessor are recognised in the balance sheet, independently of the contractual form, i.e. lease, rental or hire.

2) The possible options for the transition to the new accounting standard included in IFRS 16

At the first application of the standard, the lessee may apply the new standard to lease agreements:

- retroactively, applying IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” and restating comparative figures; or
- retroactively, according to the so-called modified approach, accounting for the cumulative effect of the application of the standard as an adjustment to the opening balance of profit brought forward (or, if applicable, to another component of the net equity) without restating comparative figures.

In the case the option referred to in the second point is used, for leases previously classified as operating leases, on the date of initial application the lessee:

- recognises the lease liability as the current value of the residual payments relative to the lease agreement, using the lessee’s marginal financing rate applicable at the date of first application as the discounting rate;
- recognises the asset represented by the right of use of the underlying asset of the lease agreement alternatively:
  - at the accounting value determined as if the standard had been applied from the starting date of the lease, but discounted using the lessee marginal interest rate applicable at the date of first application;
  - at an amount equal to the amount of liability for the lease (adjusted by any accruals and deferrals recognised before the date of first application);
  - evaluate the assets represented by the right of use on the basis of the provisions of IA 36.

In case the so-called modified approach is used, the lessee may also use, for the purposes of the recognition of lease agreements, the following practical expedients:

- apply a single discounting rate to homogenous portfolios of lease agreements;
- rely on previous valuations, carried out on the basis of IAS 37, relative to so-called “onerous contracts” for the recognition of cumulative reductions in value of the asset represented by the right of use at the date of first application;
- recognise lease agreements with a residual duration of no more than 12 months (independently from the original duration of the contract) as a cost directly in the income statement;

- exclude the direct initial costs from the valuation of the asset represented by the right of use at the date of initial application;
- estimate the duration of the lease on the basis of experience acquired/information available at the date of first application with regard to the exercise of extension or early resolution options.

3) Application choices of Santander Consumer Bank

In the context of the process of transitioning to IFRS 16 coordinated by the Spanish Parent Company, the Bank has adopted the following options:

- the choice to recognise the effects of the initial application of the standard according to the so-called modified approach, as previously defined, without therefore retrospectively recognising the effects of the application of the same in compliance with IAS 8;
- the choice to recognise the asset represented by the right of use of the underlying asset of the lease agreement at the date of the first application at an amount equal to the amount of the lease liability. This choice means that the adoption of IFRS 16 does not generate an impact on the Bank's net equity at the date of first application.

Furthermore, on the basis of the options granted by IFRS 16, the following practical expedients have been used in the transition to the new standard:

- recognition of lease agreements with a residual duration of no more than 12 months (independently from the original duration of the contract) as a cost directly in the income statement;
- exclusion of the direct initial costs from the valuation of the asset represented by the right of use;
- estimation of the duration of the lease on the basis of experience acquired/information available at the date of first application with regard to the exercise of extension or early resolution options.

The Bank has also chosen to use the following practical expedients, applicable during the validity of IFRS 16:

- not to subject operating leases with a duration of less than 12 months to the provisions of the standard;
- not to apply the new accounting requirements relative to the recognition and valuation of the right of use and of the lease liability to contracts with underlying assets of a value under the significativity threshold set at Euro 5,000.

Lastly, for the purposes of the determination of the incremental financing rate, the Bank has decided to adopt the determination of the "financial liabilities for leases", discounting curves internally constructed by taking into account average financing rates with similar duration and economic context.

At the level of accounting impacts at the time of first application of the standard, the choices listed above involve the recognition in the balance sheet of the right of use of the asset and the financial liability corresponding to the current value of future payments. The two values coincide at the point of initial recognition. The financial liability includes the current value of payments, discounted at a discount rate determined as described above.

After the first application:

- The value of use is reduced by a depreciation or amortisation charge calculated on the basis of IAS 16t in proportion to the duration of the period of use;
- The financial liability that has been discounted using the discount rate defined at the start of the lease contract is reduced due to the effect of the payment of lease payments required by the contract.

At economic level, the depreciation charge reducing the right of use is recognised on the basis of the contract duration of the lease and the interest on payments. The portion of the lease payment not attributable to the asset, linked to services or administrative expenses of the lease, is recognised under administrative expenses.

4) Transitioning to IFRS 16

In the context of the activities for transitioning to the provisions of the new IFRS 16 standard, the Bank has implemented the following activities for the application of the accounting standard:

- Definition of the scope of application through mapping and census of current leases;
- Identification of the lease characteristics to check the presence of the conditions set by the standards;
- Identification of In Scope and Not in Scope contracts.

Since the valuation of the contracts applicable as at 1 January 2019, the following lease contracts have been added to the scope of application of the standard:

- Leases for properties used as offices and branches;
- Company car hire (company fleet) for the parent company.

The main contracts excluded from the scope of application relate to the hire of computers, printers and scanners, as these contracts relate to hired goods with a value as new lower than the limit set by the standard of Euro 5,000, even though the contracts have a duration of over 12 months.

The Bank has adopted the modified retrospective approach to the transition as described in the paragraphs above.

With reference to the rates used for discounting of contractual lease payments in relation to lease liabilities at the time of first application, the main rates used are the internal rates based on EUR IRS for the lease of property assets.

5) Impact deriving from the first application on 1 January 2019

On the first application on 1 January 2019, the right of use of each asset within the scope of the application of the standard was recognised under property and equipment for an amount corresponding to the lease liabilities; therefore, the FTA reserve relative to the first application of the standard is nil.

The subsequent recognition at the first application provides for the right of use to be recognised using the cost model for which the same is annually deducted by an Amortisation and depreciation Provision and by any losses of value and by increasing the current value of lease payments of the new hired goods, which fall within the scope of application of the standard.

The right of use is then reduced due to the effect of depreciation and amortisation expenses calculated in a linear proportion until the end of the hire contract.

The individual balance sheet item impacted by the application of the standard are highlighted in the following table.

Lastly, it is noted that as at 31 December 2018 there was no commitment in the financial statements relative to operating leases in accordance with IAS 17.

For details of the balance sheet impacts deriving from the first application of IFRS 16, please refer to Annex 1, which reports the reconciliation statements of the Separate financial statements as at 1 January 2019.

A.2 – Main items in the financial statements

This section explains the accounting policies used to prepare the 2019 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 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 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.

This item also includes the loans originated by lease operations, government by IFRS 16 in continuity with the previous IAS 17, as the model of accounting for lease contracts by the lessor remains essentially unchanged.

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 the method of fair value hedging on a portion of its assets at a fixed rate (hereinafter, also FVH).

It is explained that, for the purposes of the valuation of hedging transactions, the Bank 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. Therefore, 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 FVH derivatives, changes in the fair value of the hedging derivative and of the hedged item are recognised in the income statement.

Differentials on FVH hedging derivatives are recognised in the income statement on a pro-rata basis.

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.

Starting from 1 January 2019, this item also includes the rights of use acquired with leases, in accordance with the provisions of IFRS 16.

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.

Starting from 1 January 2019, this item also includes the debts recognised by the company as lessee in the context of leases operations. On the effective date the Bank evaluates the lease payables at the current value of the payments due for leases not yet paid at that date, discounted using the marginal financing rate, determined by the Bank taking into account the average financing rates with similar durations and economic context.

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. Lease payables are amended when there is a lease modification which is not considered as a separate contract; these amendments, as indicated by IFRS 16, involve the use of the updated rate (for example: the change of the lease duration, the change of the amount of payments).

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 financial 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 the provisions of IFRS 9 and IAS 16, 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 income:

- 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 income 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.

Please refer to Part E, Section 2, paragraph “2.3 Methods for the measurement of expected losses”.

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 vehicle held by entities other than the bank, minus the value of the assets of the special purpose vehicle generated by the securitised portfolio.

In self-securitisations, in which there are no liabilities in respect of the special purpose vehicle, the liquidity generated by the securitised portfolio is shown as a receivable from the securitisation, net of any payables of the special purpose vehicle.

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.

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 model 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 48, 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

	12/31/2019			12/31/2018		
	L1	L2	L3	L1	L2	L3
1. Financial assets valued at fair value with impact on income	-	2,041	-	-	1,828	-
a) financial assets held for trading	-	2,041	-	-	1,828	-
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. Hedging derivatives	-	-	-	-	-	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	-	2,041	-	-	1,828	-
1. Financial liabilities held for trading	-	618	-	-	-	-
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	8,745	-	-	4,633	-
Total	-	9,363	-	-	4,633	-

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

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	12/31/2019				12/31/2018			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets valued at amortised cost	6,281,249	405,253		5,799,376	6,115,079	354,835		5,648,407
2. Available for sale financial assets								
3. Non current assets classified as held for sale					2		2	
Total	**6,281,249**	**405,253**	**-**	**5,799,376**	**6,115,081**	**354,835**	**2**	**5,648,407**
1. Financial liabilities measured at amortised cost	5,552,900		1,089,608	4,462,389	5,415,366			5,409,327
2. Liabilites included in disposal group classified as hfs								
Total	**5,552,900**	**-**	**1,089,608**	**4,462,389**	**5,415,366**	**-**	**-**	**5,409,327**

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

At the financial statements closing date, transfers of liabilities are recognised between level 3 and level 2 following the change in the treatment of inputs used for the valuation of financing received from Bank of Italy (TLTRO-II and TLTRO-III) and reverse repurchase agreements, in compliance with the Group's reporting criteria.

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 12/31/2019	Total 12/31/2018
a) Cash	9	1
b) On demand deposits with Central banks	-	-
Total	**9**	**1**

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

2.1 Financial assets held for trading: breakdown by type

This item has a balance of Euro 2,041 thousand (Euro 1,828 thousand at 31 December 2018) and include the positive fair value of derivatives entered into in connection with securitisation transactions with companies of the Santander Group.

Items/Values	Total 12/31/2019			Total 12/31/2018		
	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. Investment funds unit	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 REPOs	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-
Total (A)	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivative instruments						
1. Financial derivates	-	2,041	-	-	1,828	-
1.1 trading	-	2,041	-	-	1,828	-
1.2 fair value hedges	-	-	-	-	-	-
1.3 others	-	-	-	-	-	-
2. Credit derivates	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-
2.2 fair value hedges	-	-	-	-	-	-
2.3 others	-	-	-	-	-	-
Total (B)	**-**	**2,041**	**-**	**-**	**1,828**	**-**
Total (A+B)	**-**	**2,041**	**-**	**-**	**1,828**	**-**

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 12/31/2019	Total 12/31/2018
A. CASH ASSETS		
1. Debt securities	-	-
a) Central Banks	-	-
b) Public Administrations	-	-
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) Public Administrations	-	-
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	2,041	1,828
Total (B)	**2,041**	**1,828**
Total (A+B)	**2,041**	**1,828**

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 52,128 thousand (Euro 45,692 thousand at 31 December 2018) and are made up as follows:

Type of transaction/Values	Total 12/31/2019						Total 12/31/2018					
	Balance value			Fair value			Balance value			Fair value		
	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3
A. Loans to Central Banks	**3,704**	-	-	-	-	**3,704**	**13,121**	-	-	-	-	**13,121**
1. Time deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Compulsory reserves	3,704	-	-	X	X	X	13,121	-	-	X	X	X
3. Repos	-	-	-	X	X	X	-	-	-	X	X	X
4. Others	-	-	-	X	X	X	-	-	-	X	X	X
B. Loans to banks	**48,425**	-	-	-	-	**48,534**	**32,571**	-	-	-	-	**32,645**
1. Loans	48,425	-	-	-	-	48,534	32,571	-	-	-	-	32,645
1.1 Current accounts and demand deposits	6,953	-	-	X	X	X	7,425	-	-	X	X	X
1.2. Time deposits	-	-	-	X	X	X	-	-	-	X	X	X
1.3 Other loans:	41,471	-	-	X	X	X	25,146	-	-	X	X	X
- Repos	-	-	-	X	X	X	-	-	-	X	X	X
- Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
- Others	41,471	-	-	X	X	X	25,146	-	-	X	X	X
2. Debts securities	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	-	-	-	-	-	-	-	-	-	-	-	-
Total	**52,128**	-	-	-	-	**52,238**	**45,692**	-	-	-	-	**45,765**

Key:
L1= level 1
L2= level 2
L3= level 3

Amounts due from central banks of Euro 3,704 thousand (Euro 13,121 thousand at 31 December 2018) 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 4,112 thousand (Euro 2,585 thousand at 31 December 2018) and to the temporary debit balances on current accounts to affiliates for Euro 2,841 thousand (Euro 4,840 thousand at 31 December 2018).

The item other loans relates mainly to the capital granted as a subordinated loan to the subsidiary Banca PSA Italia in the amount of Euro 33,548 thousand. The item also includes the amounts paid as a guarantee deposit to the other party, Banco Santander, in the amount of Euro 7,900 thousand (Euro 2,550 thousand at 31 December 2018), 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 6,229,121 thousand (Euro 6,069,387 thousand at 31 December 2018) and are made up as follows:

Type of transaction/Values	Total 12/31/2019						Total 12/31/2018					
	Balance value			Fair value			Valore di bilancio			Fair value		
	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3
1. Loans	**5,786,361**	**36,841**	**784**	**-**	**-**	**5,747,138**	**5,658,272**	**56,541**	**1,634**	**-**	**-**	**5,602,641**
1.1. Current accounts	6,877	3	-	X	X	X	8,448	603	-	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	1,894,719	16,199	784	X	X	X	2,052,216	37,559	1,634	X	X	X
1.5 Lease loans	111,470	467	-	X	X	X	63,261	779	-	X	X	X
1.6. Factoring	372,047	-	-	X	X	X	450,699	-	-	X	X	X
1.7. Other loans	3,401,248	20,173	-	X	X	X	3,083,649	17,600	-	X	X	X
2. Debt securities	**405,918**	**-**	**-**	**405,253**	**-**	**-**	**354,574**	**-**	**-**	**354,835**	**-**	**-**
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	405,918	-	-	405,253	-	-	354,574	-	-	354,835	-	-
Total	**6,192,279**	**36,841**	**784**	**405,253**	**-**	**5,747,138**	**6,012,847**	**56,541**	**1,634**	**354,835**	**-**	**5,602,641**

Specifically, the loans include:

- Euro 6,880 thousand (of which, Euro 3 thousand non-performing loans) for current accounts balances to customers and postal current accounts;
- Euro 1,910,918 thousand (of which, Euro 16,199 thousand non-performing loans) for loans to customers arising from financing personal loan transactions, credit cards and loans guaranteed by salary assignment;
- Euro 111,937 thousand (of which, Euro 467 thousand non-performing loans) for loans to customers for finance leases, recorded at amortised cost;
- Euro 372,047 for factoring receivables related to operations with automotive companies;
- Euro 3,421,421 thousand (of which, Euro 20,173 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 217,021 thousand).

The total of assets assigned and not derecognised, which, net of impairment adjustments, amounts to Euro 2,464,521 thousand, of which Euro 13,898 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.

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

Type of transaction / Values	Total 12/31/2019			Total 12/31/2018		
	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. Debt securities	**405,918**	-	-	**354,574**	-	-
a) Public Administration	405,918	-	-	354,574	-	-
b) Other financial company	-	-	-	-	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non financial companies	-	-	-	-	-	-
2. Loans to:	**5,786,361**	**36,841**	**784**	**5,658,272**	**56,541**	**1,634**
a) Public Administration	6,728	3,838	-	9,613	445	-
b) Other financial company	224,309	13	-	241,024	12	-
of which: insurance companies	4	6	-	30	-	-
c) Non financial companies	627,944	3,959	-	703,798	2,736	-
d) Households	4,927,380	29,031	784	4,703,838	53,347	1,634
Total	**6,192,279**	**36,841**	**784**	**6,012,847**	**56,541**	**1,634**

4.4 Financial assets measured at amortised cost: gross value and total write-downs

		Gross value				Writedown			Write off partial total
		First stage	of which: low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
Debt securities		405,918	-	-	-	-	-	-	-
Loans		5,757,442	-	138,918	157,286	33,378	24,492	120,445	-
Total	**12/31/2019**	**6,163,360**	**-**	**138,918**	**157,286**	**33,378**	**24,492**	**120,445**	**-**
Total	**12/31/2018**	**6,011,708**	**354,574**	**114,151**	**260,996**	**54,399**	**12,922**	**204,455**	**-**
of which: impaired financial assets aquired or created		X	X	603	1,305	X	92	1,031	-

Section 5 – Hedging derivatives – Item 50

The Company does not hold any 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 to hedged assets / Values	Total 12/31/2019	Total 12/31/2018
1. Positive adjustment	**7,878**	**4,013**
1.1 of specific portfolios:	7,878	4,013
a) financial assets at amortised cost	7,878	4,013
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 measured at fair value with an impact on overall profitability	-	-
2.2 overall	-	-
Total	**7,878**	**4,013**

Section 7 – Equity investments – Item 70

7.1 Equity investments: disclosures

Le partecipazioni della Banca al 31 dicembre 2019 presentano la composizione di seguito evidenziata:

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 2019 for Euro 152,940 thousand (Euro 122,940 thousand at 31 December 2018), as shown in the following table:

	Total 12/31/2019	Total 12/31/2018
A. Opening balance	**122,940**	**127,490**
B. Increases	**30,000**	
B.1 Purchases	30,000	
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	152,940	122,940
E. Total revaluations		
F. Total adjustments		

Purchases refers to the change to the equity investment in the subsidiary Banca PSA Italia, following the capital contribution paid in.

7.6 Commitments relating to equity 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 20,458 thousand (Euro 5,691 thousand at 31 December 2018) and are made up as follows, net of accumulated depreciation:

Activities/Values	Total 12/31/2019	Total 12/31/2018
1. Owened assets	**2,838**	**5,691**
a) lands	-	-
b) buildings	-	-
c) furniture	665	603
d) electronic system	1,724	1,716
e) other	449	3,372
2. Leased assets	**17,620**	-
a) lands	-	-
b) buildings	17,098	-
c) furniture	-	-
d) electronic system	-	-
e) other	522	-
Total	**20,458**	**5,691**
of which: obtained by the enforcement of collateral	-	-

The rights of use acquired through leases and relative to the use of property and equipment in application of the new IFRS 16 accounting standard are included under property and equipment assets.

The table below shows the useful life determined for the purposes of calculating the annual depreciation charge of owned assets:

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 AMORTISED	6

8.2 Investment property: breakdown of assets measured at cost

There are no tangible assets held for investment purposes.

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

There are no tangible assets held for investment purposes.

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 property and equipment.

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

	Lands	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balance	-	-	**3,780**	**11,003**	**11,678**	**26,462**
A.1 Total net reduction value	-	-	(3,178)	(9,287)	(8,306)	(20,771)
A.2 Net opening balance	-	-	**603**	**1,716**	**3,372**	**5,691**
B. Increase:	-	**19,687**	**142**	**597**	**2,225**	**22,651**
B.1 Purchasing	-	584	142	597	53	1,375
- of which business combinations	-	-	-	-	-	-
B.2 Capitalised expenditure on improvements	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Positive changes in fair value allocated to	-	-	-	-	-	-
a) net equity	-	-	-	-	-	-
b) profit & loss	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Transfer from investment properties	-	-	X	X	X	-
B.7 Other adjustment	-	19,104	-	-	2,172	21,275
C. Decrease:	-	**2,589**	**79**	**588**	**4,626**	**7,883**
C.1 Sales	-	-	-	-	-	-
- of which business combinations	-	-	-	-	-	-
C.2 Depreciation	-	2,288	79	588	1,741	4,697
C.3 Impairment losses allocated to	-	-	-	-	-	-
a) net equity	-	-	-	-	-	-
b) profit & loss	-	-	-	-	-	-
C.4 Negative chages in fair value allocated to	-	-	-	-	-	-
a) net equity	-	-	-	-	-	-
b) profit & loss	-	-	-	-	-	-
C.5 Negative exchange difference	-	-	-	-	-	-
C.6 Transfer to:	-	-	-	-	-	-
a) held for sale investment	-	-	X	X	X	-
b) non-current assets and group of assets held for sale	-	-	-	-	-	-
C.7 Other adjustment	-	301	-	-	2,885	3,186
D. Net closing balance	-	**17,098**	**665**	**1,724**	**970**	**20,458**
D.1 Total net write-down	-	(2,252)	(3,219)	(9,875)	(9,745)	(25,091)
D.2 Final gross balance	-	**19,350**	**3,884**	**11,600**	**10,715**	**45,549**
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 item C.7 "Other decreases" includes the amount relative to improvements and incremental expenses incurred on third-party assets not separable from the fixed asset itself (Euro 2,800 thousand), initially recognised under item 80 "Property and equipment" and classified in these financial statements under the item 120 "Others".

The table below reports the annual changes in acquired rights of use of property and equipment for operating purposes acquired through financial leases:

	Lands	Buildings	Furniture	Electronic System	Others	Total
A. Gross opening balance	-	-	-	-	-	-
A.1 Total net reduction value	-	-	-	-	-	-
A.2 Opening net balance	-	-	-	-	-	-
B. Increase:	-	**19,687**	-	-	**2,172**	**21,859**
B.1 Purchasing	-	584	-	-	-	584
- 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	-	19,104	-	-	2,172	21,275
C. Decreases:	-	**2,589**	-	-	**1,650**	**4,239**
C.1 Disposal	-	-	-	-	-	-
- of which business combinations	-	-	-	-	-	-
C.2 Depreciation	-	2,288	-	-	1,565	3,853
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	-	301	-	-	85	386
D. Net final balance	-	**17,098**	-	-	**522**	**17,620**
D.1 Total net reduction in value	-	(2,252)	-	-	(1,565)	(3,817)
D.2 Gross closing balance	-	**19,350**	-	-	**2,087**	**21,437**
E. Carried at cost	-	-	-	-	-	-

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 property and equipment 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 16,375 thousand (Euro 11,095 thousand at 31 December 2018) and are made up as follows:

Activities/Values	Total 12/31/2019		Total 12/31/2018	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill		-		-
A.2 Other intangible asset	**16,375**	-	**11,095**	-
A.2.1 Assets valued at cost	16,375	-	11,095	-
a) intangible assets generated internally	-	-	-	-
b) other assets	16,375	-	11,095	-
A.2.2 Assets valued at fair value	-	-	-	-
a) intangible assets generated internally	-	-	-	-
b) other assets	-	-	-	-
Total	**16,375**	**-**	**11,095**	**-**

Other intangible assets refer entirely to the Bank's software.

9.2 Intangible assets: change in the year

	Goodwill	Other intangible assets: internally generated		Other intangible assets: others		Total
		Finite	Indefinite	Finite	Indefinite	
A. Opening balance	-	-	-	**85,880**	-	**85,880**
A.1 Reductions of total net value	-	-	-	(74,785)	-	(74,785)
A.2 Net opening balance	-	-	-	11,095	-	11,095
B. Increases	-	-	-	**12,151**	-	**12,151**
B.1 Purchases	-	-	-	7,326	-	7,326
B.2 Increments of internal intagible assets	X	-	-	-	-	-
B.3 Write-backs	X	-	-	-	-	-
B.4 Positive variations of fair value	-	-	-	-	-	-
- equity	X	-	-	-	-	-
- to P&L statement	X	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Other variations	-	-	-	4,825	-	4,825
C. Decreases	-	-	-	**6,871**	-	**6,871**
C.1 Sales	-	-	-	327	-	327
C.2 Write-downs	-	-	-	6,544	-	6,544
- Amortisations	X	-	-	6,544	-	6,544
- Depreciations	-	-	-	-	-	-
+ equity	X	-	-	-	-	-
+ P&L statement	-	-	-	-	-	-
C.3 Negative variations of fair value	-	-	-	-	-	-
- equity	X	-	-	-	-	-
- to P&L statement	X	-	-	-	-	-
C.4 Transfer to non-current assets	-	-	-	-	-	-
C.5 Negative exchange differrences	-	-	-	-	-	-
C.6 Other variations	-	-	-	-	-	-
D. Net closing balance	-	-	-	**16,375**	-	**16,375**
D.1 Adjustment of net total values	-	-	-	(80,967)	-	(80,967)
E. Gross closing balance	-	-	-	**97,342**	-	**97,342**
F. Evaluation to 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 item B.6 "Other increases" include the amount relative to software under development previously recognised under item 120 "Other assets" and classified in these financial statements under the item 90 "Intangible assets".

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 36,501 thousand (Euro 25,010 thousand in 2018), while current liabilities recognised in liability line item 60 amount to Euro 49,599 thousand (Euro 42,713 thousand in 2018).

10.1 Deferred tax assets: breakdown

	12/31/2019	12/31/2018
- Balancing the income statement	211,101	201,267
- Balancing net equity	312	296
Total	**211,413**	**201,563**

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 211,101 thousand (Euro 201,267 thousand at 31 December 2018) relates mainly:

- for Euro 182,361 thousand, to temporary differences arising from the deferred deductibility for IRES and IRAP purposes of adjustments on loans to customers;
- for Euro 2,692 thousand, to the effects resulting from the first application of IFRS 9 on adjustments to loan to customers;
- for Euro 26,013 thousand to temporary differences generated mainly by provisions for risks and charges;
- for Euro 34 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 312 thousand relate to the tax effect of actuarial gains and losses pertaining to termination indemnities.

10.2 Deferred tax liabilities: breakdown

The Company had not recorded any liabilities for deferred tax liabilities.

10.3 Changes in deferred tax assets (through income statement)

	Total 12/31/2019	Total 12/31/2018
1. Opening balance	**201,267**	**199,403**
2. Increase	**16,637**	**9,901**
2.1 Deferred tax assets of the year	16,637	9,901
a) related to previous fiscal year	-	-
b) due to changes in accountable parameters	-	-
c) write-backs	-	-
d) others	16,637	9,901
2.2 New levies or increases in fiscal rates	-	-
2.3 Other increases	-	-
3. Decreases	**6,803**	**8,036**
3.1 Anticipated levies cancelled in fiscal year	6,803	8,036
a) reversals of temporary differences	6,803	8,036
b) write-downs of non-recoverable items	-	-
c) changes in accountable parameters	-	-
d) others	-	-
3.2 Decreases in fiscal rates	-	-
3.3 Other decreases:	-	-
a) conversion into tax credit under L. 214/2011	-	-
b) others	-	-
4. Closing balance	**211,101**	**201,267**

The increase in the item in “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 16,632 thousand) whose future reabsorption will have an impact on the income statement.

“Reversals” refer mainly to the use and/or release of the provisions allocated for other risks and charges (Euro 6,644 thousand).

10.3bis Changes in deferred tax assets as per Law no. 214/2011

	Total 12/31/2019	Total 12/31/2018
Opening balance	**182,361**	**182,361**
2. Increases	**-**	**-**
3. Decreases	**-**	**-**
3.1 Reversals of temporary differences	-	-
3.2 Transformation into tax credits	-	-
a) Due to loss positions arisen from P&L	-	-
b) Due to 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 no. 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 12/31/2019	Total 12/31/2018
1. Opening balance	**296**	**314**
2. Increases	**16**	**-**
2.1 Deferred tax assets during the year	16	-
b) related to previous fiscal years	-	-
b) due to changes in accountable parameters	-	-
c) others	16	-
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 fiscal rates	-	-
3.3 Other decreases:	-	-
- of which: business combinations	-	-
4. Closing balance	**312**	**296**

The increase in deferred tax assets with a balancing entry in shareholders' equity exclusively refers to the impact of the actuarial result correlated to the Employee termination indemnities.

10.6 Change in deferred tax liabilities (through shareholders' equity)

	Total 12/31/2019	Total 12/31/2018
1. Opening balance	**-**	**41**
2. Increases	**-**	**-**
2.1 Deferred tax liabilities during the year	-	-
a) related to previous fiscal year	-	-
b) due to changes in accountable parameters	-	-
c) others	-	-
2.2 New levies or increases in fiscal 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 parameters	-	41
c) others	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**-**	**-**

There are no changes in deferred tax liabilities through shareholders' equity.

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

	12/31/2019	12/31/2018
A. Assets held for sale		
A.1 Financial assets	-	-
A.2 Equity investments	-	-
A.3 Tangible assets	-	2
of which: inventories of tangible assets arising from the recovery of guarantees received	-	-
A.4 Intangible assets	-	-
A.5 Other non current assets	-	-
Total A	**-**	**2**
of which carried at cost	-	-
of which carried at fair value level 1	-	-
of which carried at fair value level 2	-	2
of which carried at fair value level 3	-	-
B. Discontinued operations		
B.1 Financial assets at fair value with effect on P&L	-	-
- Financial assets held for trading	-	-
- Financial assets designated at fair value	-	-
- Other financial assets mandatorily designated at fair value	-	-
B.2 Financial assets designated at fair value with effects on comprehensive income	-	-
B.3 Financial assets valued at amortised cost	-	-
B.4 Equity investments	-	-
B.5 Tangible assets	-	-
of which: inventories of tangible assets arising from the recovery of guarantees received	-	-
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 valued at amortised cost	-	-
D.2 Financial trading liabilities	-	-
D.3 Financial liabilities designated at fair value	-	-
D.4 Reserves	-	-
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 72,831 thousand (Euro 53,124 thousand at 31 December 2018), is made up as follows:

	12/31/2019	12/31/2018
Advances to suppliers	1,904	11,094
Stamp duties	7,965	3,226
Withholding taxes	99	36
Other tax receivables	8,242	2,163
Due from dealers	4,682	4,798
Due from insurances	38,360	20,326
Accruals and prepaid expenses	546	91
Assets in transit	5,502	8,756
Leasehold improvements	2,672	-
Other items	2,660	2,473
Other intercompany assets	197	161
Total	**72,831**	**53,124**

The item “Due from insurances” mainly relates to receivables due for insurance brokerage commission linked to insurance brokerage activities.

“Assets in transit” include items temporarily in transit relating to instalment collection.

The item “Improvements on third-party assets” includes the amount relating to improvements and incremental expenses incurred on third-party property and equipment not separable from the fixed asset itself, previously classified under item 80 “Property and equipment”.

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 3,366,539 thousand (Euro 3,836,964 thousand at 31 December 2018) and are made up as follows:

Type of transaction/Values	Total 12/31/2019				Total 12/31/2018			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Deposits from central banks	**1,011,370**	X	X	X	**864,937**	X	X	X
2. Deposits from banks	**2,355,169**	X	X	X	**2,972,026**	X	X	X
2.1 Current accounts and demand deposits	-	X	X	X	-	X	X	X
2.2 Time deposits	220,000	X	X	X	595,000	X	X	X
2.3 Loans	2,134,879	X	X	X	2,376,817	X	X	X
2.3.1 Repos	79,114	X	X	X	109,060	X	X	X
2.3.2 Other	2,055,765	X	X	X	2,267,758	X	X	X
2.4 Liabilities relating to commitments	-	X	X	X	-	X	X	X
2.5 Lease payables	-	X	X	X	-	X	X	X
2.6 Other liabilities	289	X	X	X	209	X	X	X
Total	**3,366,539**	**-**	**1,089,608**	**2,285,443**	**3,836,964**	**-**	**-**	**3,841,927**

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

The item "Due to central banks" includes loans received from the Bank of Italy in connection with the TLTRO-II and TLTRO-III operations with the European Central Bank (Euro 1,011,370 thousand).

"Due to banks" consists of:

- Parent Company short-term loans granted (Euro 220,000 thousand);
- two repo transactions with a third party (Euro 79,114 thousand);
- other loans, relating to subordinated loans, inclusive of interest accrued thereon (Euro 125,082 thousand), loans granted by Santander Group companies as part of ordinary funding operations (Euro 1,930,683 thousand);
- accrued amounts due to banks (Euro 289 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 2,066,332 thousand (Euro 1427343 thousand at 31 December 2018) and are made up as follows:

Type of transaction/Value	Total 12/31/2019				Total 12/31/2018			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	708,191	X	X	X	708,237	X	X	X
2. Time deposits	512,833	X	X	X	409,610	X	X	X
3. Loans	-	X	X	X	-	X	X	X
3.1 Repos	-	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. Lease payables	17,711	X	X	X	-	X	X	X
6. Other liabilities	827,597	X	X	X	309,496	X	X	X
Total	**2,066,332**	**-**	**-**	**2,055,208**	**1,427,343**	**-**	**-**	**1,416,371**

The item Current accounts and demand deposits includes demand deposits from customers (Euro 676,841 thousand), the current account held by the Group company Santander Private Banking (Euro 25,624 thousand) and the ordinary current accounts to affiliates (Euro 6,135 thousand).

The item “Other payables” mainly includes the “conventional” debt recorded by the Bank with regard to the vehicle Golden Bar, for the purposes of the recognition in the financial statements of the securitisation transactions according to the supervisory instructions; for further details please refer to part E, Section 1, paragraph C “Securitisations”.

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 12/31/2019				Total 12/31/2018			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Debts securities								
1. bonds	120,030	-	-	121,738	151,059	-	-	151,029
1.1 structured	-	-	-	-	-	-	-	-
1,2 other	120,030	-	-	121,738	151,059	-	-	151,029
2. other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
Total	**120,030**	**-**	**-**	**121,738**	**151,059**	**-**	**-**	**151,029**

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

The balance of the item “Debt securities issued” relates to non-preferred senior bonds entirely subscribed by the Parent Company. This item also includes the relative accrued interest expense.

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 125,000 thousand (Euro 154,000 thousand at 31 December 2018), includes loans granted by Santander Group companies consisting of:

Type	12/31/2019	12/31/2018
TIER II subordinated debt to SCF - Santander Consumer Finance - maturing to 2028	35,000	35,000
TIER II subordinated debt to 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
TIER II subordinated debt to SCF - Santander Consumer Finance - maturing to 2029	10,000	-
LOW TIER II subordinated debt to Santander BENELUX - maturing to 2029	-	4,000
LOW TIER II subordinated debt to BANCO MADESANT - maturing to 2019	-	2,500
UP TIER II subordinated debt to Santander BENELUX - maturing to 2019	-	20,000
UP TIER II subordinated debt to BANCO MADESANT - maturing to 2019	-	12,500
Total	**125,000**	**154,000**

1.5 Details of structured debts

The Bank has no structured debts.

1.6 Lease payables

The composition of financial outflows for leases relative to the 2019 financial year (IFRS 16 paragraph 53) and the analysis of maturity of the relative liabilities (IFRS 16 paragraph 58) is given below.

	Capital	Interest	Variable payments	Total cash flow leasing
	a	b	c	d=a+b+c
cash outflows	**3,741**	**307**	**762**	**4,809**

	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	1 to 5 years	Over 5 years	Unspecified maturity
lease payables	-	843	-	-	262	588	907	5,073	10,038	-

Section 2 – Financial liabilities held for trading – item 20

2.1 Financial liabilities held for trading: breakdown by type

This item represents a balance of Euro 618 thousand and includes the negative fair value of derivatives entered into in connection with securitisation transactions with companies of the Santander Group.

Operation type / Values	Total 12/31/2019					Total 12/31/2018	
	NV	Fair Value			Fair Value *	NV	Fair Value
		L1	L2	L3			L1
A. Financial liabilities							
1. Deposits from banks	-	-	-	-	-	-	-
2. Deposits from customers	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	X	-	-
3.1 Bonds	-	-	-	-	X	-	-
3.1.1 Structured	-	-	-	-	X	-	-
3.1.2 Other bonds	-	-	-	-	X	-	-
3.2 Other securities	-	-	-	-	X	-	-
3.2.1 Structured	-	-	-	-	X	-	-
3.2.2 Other	-	-	-	-	X	-	-
Total A	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivative instruments							
1. Financial derivatives	X	-	618	-	X	X	-
1.1 Trading	X	-	618	-	X	X	-
1.2 Related with fair value option	X	-	-	-	X	X	-
1.3 Other	X	-	-	-	X	X	-
2. Credits derivatives	X	-	-	-	X	X	-
2.1 Trading	X	-	-	-	X	X	-
2.2 Related with fair value option	X	-	-	-	X	X	-
2.3 Other	X	-	-	-	X	X	-
Total B	**X**	**-**	**618**	**-**	**X**	**X**	**-**
Total (A+B)	**X**	**-**	**618**	**-**	**X**	**X**	**-**

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

The Bank has no subordinated liabilities classified under the item "Financial liabilities held for trading".

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

The Bank has no structured debts.

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	12/31/2019		NV	Fair value	12/31/2018	
	12/31/2019	L1	L2	L3	12/31/2018	L1	L2	L3
A) Financial derivatives	**1,196,624**	**-**	**8,745**	**-**	**1,418,130**	**-**	**4,633**	**-**
1) Fair value	1,196,624	-	8,745	-	1,418,130	-	4,633	-
2) Cash flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**1,196,624**	**-**	**8,745**	**-**	**1,418,130**	**-**	**4,633**	**-**

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 2019 (in Euro):

Notional (euro)	Start date	Settlement date	Counterparty	Fair value (euro)
103,750,000	01/30/2017	10/31/2025	Banco Santander	583,251
88,438,000	04/26/2017	07/28/2025	Banco Santander	500,136
99,780,500	04/26/2017	08/26/2025	Banco Santander	600,486
99,477,500	04/26/2017	09/26/2025	Banco Santander	600,042
53,508,000	05/31/2017	06/30/2023	Banco Santander	242,148
68,981,500	05/31/2017	07/31/2023	Banco Santander	353,413
68,579,500	07/31/2017	11/29/2024	Banco Santander	470,109
75,753,500	07/31/2017	12/31/2024	Banco Santander	503,055
67,080,500	07/31/2017	01/31/2025	Banco Santander	497,316
23,703,000	09/29/2017	12/31/2025	Banco Santander	172,222
50,000,000	06/30/2020	12/31/2027	Banco Santander	908,911
82,945,000	06/29/2018	09/30/2024	Banco Santander	564,711
83,897,500	07/31/2018	07/31/2028	Banco Santander	952,438
69,036,500	08/31/2018	08/31/2028	Banco Santander	706,597
95,144,000	12/21/2018	12/21/2028	Banco Santander	949,234
66,548,500	05/31/2019	11/30/2027	Banco Santander	141,039
1,196,623,500				**8,745,106**

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 rates	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 valued to amortised cost	-	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	8,745	X	-	X
4. Other operations	-	-	-	-	-	-	X	-	X	-
Total assets	**-**	**-**	**-**	**-**	**-**	**-**	**8,745**	**-**	**-**	**-**
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 250,647 thousand (Euro 240,615 thousand at the end of 2018) and consist of:

	12/31/2019	12/31/2018
- Due to suppliers	19,933	21,448
- Due to dealers	34,327	35,152
- Payables to employees	6,994	5,599
- Due to Social Security institutions	2,646	2,798
- Tax payables	7,113	2,633
- Other amounts due to customers	14,569	14,696
- Due to insurances	42,228	25,207
- Factoring payables	72,754	70,457
- Accruals and deferred income	128	128
- Items in transit	36,310	47,216
- Other liabilities for commissions	3,343	4,771
- Other payables	10,302	10,510
Total	**250,647**	**240,615**

"Other amounts due to customers" include temporary debt balances with customers for early repayments and the temporary debt 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 12/31/2019	Total 12/31/2018
A. Opening balance	**3,136**	**3,199**
B. Increases	**93**	**201**
B.1 Provision of the year	43	40
B.2 Other increases	50	161
C. Reductions	**(48)**	**(264)**
C.1 Severance payments	(48)	(211)
C.2 Other reductions	-	(53)
D. Closing balance	**3,181**	**3,136**
Total	**3,181**	**3,136**

The provision for employee termination indemnities amounts to Euro 3,181 thousand (Euro 3,136 thousand at 31 December 2018) 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: 0.70%;
- expected inflation rate: 0.90%;
- 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.

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 3,181 thousand at the reporting date. Excluding the components relating to actuarial gains and losses, the provision amounts to Euro 2,236 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	12/31/2019	12/31/2018
Sensitivity to the discount rate		
a. Assumption (+50 bps)	1.20 %	1.95 %
b. DBO	3,072	3,027
c. Assumption (-50 bps)	0.20 %	0.95 %
d. DBO	3,294	3,248

Section 10 – Provisions for risks and charges – Item 100

10.1 Provisions for risks and charges: breakdown

Items / Values	Total 12/31/2019	Total 12/31/2018
1. Provisions for credit risk on commitments and financial guarantees given	46	24
2. Provisions for other commitments and other guarantees given	-	-
3. Pensions and other post-retirement benefit obligations	-	-
4. Other funds for risks and obligations	38,319	17,456
4.1 legal disputes	5,977	5,443
4.2 staff expenses	-	-
4.3 others	32,342	12,013
Total	**38,365**	**17,480**

10.2 Provisions for risks and charges: change in the year

	Provisions for other off-balance sheet commitments and other guarantees	Pensions and post retirement benefit obligations	Other risk and obligation funds	Total
A. Opening balance	-	-	**17,456**	**17,456**
B. Increases	-	-	**32,103**	**32,103**
B.1 Provision for the year	-	-	32,103	32,103
B.2 Time value change	-	-	-	-
B.3 Difference due to discount-rate changes	-	-	-	-
B.4 Other variations	-	-	-	-
- of which business aggregation operations	-	-	-	-
C. Decreases	-	-	**11,240**	**11,240**
C.1 Use in the exercise	-	-	11,240	11,240
C.2 Difference due to discount-rate changes	-	-	-	-
C.3 Other variations	-	-	-	-
- of which business aggregation operations	-	-	-	-
D. Closing balance	-	-	**38,319**	**38,319**

The main increases in item B.1 “Provision for the year” relate to provisions for legal disputes with customers and dealers, and other allocations to provisions for customer disputes or future reimbursements to customers.

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 2,663 thousand, and to utilisations of provisions set up in prior years as a result of disbursements made for Euro 8,577 thousand.

10.3 Provisions for credit risk on commitments and financial guarantees given

	Provisions for credit risk on commitments and financial guarantees given			
	First stage	Second stage	Third stage	Total
Loan commitments given	46	1	-	46
Financial guarantees given	-	-	-	-
Total	**46**	**1**	**-**	**46**

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 defined-benefit pension plans.

10.6 Provisions for risks and charges - other provisions

Provisions for legal disputes relate to provisions for disputes with customers and dealers.

Other provisions include provisions for legal disputes with customers relating to the salary assignment loan portfolio, the provisions for future reimbursements, in case of early redemption.

For further details please refer to Please refer to Part E, Section 5 - Operational risk.

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 outstanding: closing balance	**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 2019, the share capital of the Bank amounts to Euro 573 million.

	Total	
	12/31/2019	12/31/2018
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 :		
Number of shares under contract		
Total amount		

12.4 Profit reserves: other information

The Bank's profit reserves at 31 December 2019 consist mainly of the legal reserve (Euro 13,489 thousand), the extraordinary reserve (Euro 196,586 thousand), the capital reserve (Euro 39,913 thousand), the negative merger reserve (Euro -182 thousand), the IFRS 9 first-time adoption reserve and the reserve arising from the acquisition of the ISBAN business unit (Euro -632 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 financial instruments repayable on demand (puttable financial instruments).

The paragraph “Proposals to the Shareholders’ Meeting” in the Report on Operations indicates the amount of dividends proposed for distribution of Euro 77 million.

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	**243,370**				
Legal reserve	13,489	A(1), B			
Extraordinary reserve	196,586	A, B, C	196,586		
FTA reserve	(6,081)				
Incorporation reserve	(355)				
Changes in previous period earning		(2)			
Reserve Earning	(182)				
Capital reserve		A, B			
Merger reserve					
Other reserve	39,913				
Revaluation reserves	**(632)**				
Cash flow hedges reserves		(2)			
Actuarial gains(losses) on defined benefit plans	(632)	(2)			
Net income (loss)	**81,270**			**2,122**	**16,600**
Total	**897,640**				

(*) 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 art. 6 of Legislative Decree no. 38/2005

The profit for 2018 has been allocated to the legal reserve (Euro 3,974 thousand), to the extraordinary reserve (Euro 75,261 thousand), and to cover accumulated losses (Euro 242 thousand).

OTHER INFORMATION

1. Commitments and financial guarantees given (other than those designated at fair value)

	Nominal value of commitments and financial guarantees given			Total 12/31/2019	Total 12/31/2018
	First stage	Second stage	Third stage		
Loan commitments given	**448,127**	**27,412**	**1**	**475,540**	**400,199**
a) Central banks	-	-	-	-	-
b) Public Administration	-	-	-	-	-
c) Banks	-	-	-	-	-
d) Other financial companies	-	-	-	-	-
e) Non-financial companies	444,654	27,362	-	472,016	395,516
f) Households	3,473	50	1	3,524	4,683
Financial guarantees issued	-	-	-	-	-
a) Central banks	-	-	-	-	-
b) Public Administration	-	-	-	-	-
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 12/31/2019	Amounts 12/31/2018
1. Financial assets designated at fair value through profit or loss	-	-
2. Financial assets at fair value through other comprehensive income	-	-
3. Financial assets valued to amortised cost	2,173,141	1,486,982
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-II and TLTRO-III operations with the European Central Bank;
- the portfolio of loans subject to securitisation, referred to below in Part E, Section C.1 of the Notes on the Financial Statements;
- the assets underlying the securities involved in the repurchase agreements entered into with Unicredit S.p.A.;
- the amounts paid as guarantee deposit to Santander Group companies as part of derivatives operations.

4. 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.

5. 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)	12/31/2019	12/31/2018
1. Derivatives	2,041	-	2,041	-	2,203	(161)	167
2. Repo's	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-
Total 12/31/2019	**2,041**	**-**	**2,041**	**-**	**2,203**	**(161)**	**X**
Total 12/31/2018	**1,828**	**-**	**1,828**	**-**	**1,661**	**X**	**167**

As required by IFRS 7, it is hereby disclosed that the derivatives outstanding at 31 December 2019 have the following characteristics:

- derivatives with Banco Santander with positive fair value, equal to Euro 2,041 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.

6. 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)	12/31/2019	12/31/2018
1. Derivatives	9,363	-	9,363	-	10,103	(739)	422
2. Repos	79,114	-	79,114	79,114	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-
Total 12/31/2019	**88,477**	**-**	**88,477**	**79,114**	**10,103**	**(739)**	**X**
Total 12/31/2018	**113,693**	**-**	**113,693**	**109,060**	**4,211**	**X**	**422**

The financial liabilities subject to offsetting have the following characteristics:

4) Derivatives with Banco Santander with negative fair value, equal to Euro 9,363 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;

5) Repos include the transactions carried out with a third party. 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.

7. Securities lending

The Bank is not party to any securities lending.

8. 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 and 20

1.1 Interest and similar income: breakdown

Interest and similar income amounts to Euro 247,735 thousand (Euro 257,704 thousand at 31 December 2018) and is made up of:

Items/Technical forms	Debt securities	Loans	Other operations	Total 12/31/2019	Total 12/31/2018
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 fair value	-	-	-	-	-
2. Financial assets at fair value through other comprehensive income	-	-	X	-	-
3. Financial assets at amortised cost	**944**	**243,061**	X	**244,005**	**254,068**
3.1 Loans to banks	104	449	X	554	436
3.2 Loans to customers	840	242,612	X	243,452	253,632
4. Hedging derivatives	X	X	-	-	-
5. Other assets	X	X	**144**	**144**	**97**
6. Financial liabilities	X	X	X	**3,586**	**3,539**
Total	**944**	**243,061**	**144**	**247,735**	**257,704**
of which: interest income on credit impaired financial	-	-	-	-	-
of which: interest income on financial lease	-	3,884	-	3,884	-

The value of interest on loans to customers mainly relates to the economic effects of loans to customers, 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 and TLTRO-III 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

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

1.3 Interest and similar expense: breakdown

Interest and similar expense amounts to Euro 37,049 thousand at 31 December 2019 (Euro 41,079 thousand at 31 December 2018) and is made up of:

Items/Technical forms	Debts	Securities	Other operations	Total 12/31/2019	Total 12/31/2018
1. Financial liabilities valued at amortised cost	31,699	41	X	31,740	33,907
1.1 Deposits from central banks	-	X	X	-	-
1.2 Debts from banks	12,443	X	X	12,443	14,412
1.3 Debts to customers	19,256	X	X	19,256	19,174
1.4 Debt securities in issue	X	41	X	41	321
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and funds	X	X	12	12	3
5. Hedging derivatives	X	X	5,034	5,034	5,956
6. Financial assets	X	X	X	263	1,212
Totale	**31,699**	**41**	**5,046**	**37,049**	**41,079**
of which: interest expense on lease payables	307	-	-	307	-

Interest expense on amounts due to banks mainly derives from loans granted by Santander Group companies as part of ordinary funding operations (Euro 12,236 thousand) and by other banks (Euro 207 thousand).

Interest expense on amounts due to customers consists of the cost of funding provided by customers through current and deposit accounts (Euro 14,063 thousand). Again with reference to amounts due to customers, the income statement components attributable to cash generated by the securitisation portfolio are shown under liabilities.

Interest expense on debt securities issued relates to securities issued under EMTN programmes and the issue of non-preferred Senior bonds.

"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.

1.5 Differentials on hedging transactions

Items	Totale 12/31/2019	Totale 12/31/2018
A. Positive differentials related to hedging operations:	-	-
B. Negative differentials related to hedging operations:	(5,034)	(5,956)
C. Balance (A-B)	**(5,034)**	**(5,956)**

Section 2 – Commissions – Items 40 and 50

2.1 Commission income: breakdown

The commission income generated during the year amounts to Euro 81,813 thousand (Euro 74,115 thousand at 31 December 2018) and is broken down as follows:

Type of service/Values	Total 12/31/2019	Total 12/31/2018
a) guarantees given	-	-
b) credit derivatives	-	-
c) management services, brokerage and consultancy	61,989	57,318
1. Securities trading	-	-
2. Currency trading	-	-
3. portfolio management	-	-
4. stock custody and administration	-	-
5. depositary 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	61,989	57,318
9.1 porfolios management	-	-
9.1.1 individuals	-	-
9.1.2 collectives	-	-
9.2 insurance products	50,126	42,959
9.3 other products	11,863	14,359
d) collection and payment services	14,622	13,633
e) securitisation servicing	-	-
f) factoring services	-	-
g) tax collection services	-	-
h) management of multilateral trading facilities	-	-
i) management of current account	-	-
j) other services	5,201	3,164
Total	**81,813**	**74,115**

Item c) includes commission income on insurance products placed with financed customers of Euro 50,126 thousand and on salary assignments of Euro 11,863 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 1,913 thousand);
- fees and commission income for the management of credit cards (Euro 99 thousand);
- commission income on stock financing (Euro 812 thousand);
- commissions for other services (Euro 2,378 thousand).

2.2 Commission income: distribution channels for products and services

Channels/Values	Total 12/31/2019	Total 12/31/2018
b) through Group bank branches:	**61,989**	**57,318**
1. portfolio management	-	-
2. securities placement	-	-
3. third-party services and products	61,989	57,318
b) off-site:	-	-
1. portfolio management	-	-
2. securities placement	-	-
3. third-party services and products	-	-
c) other distributive channels:	-	-
1. portfolio management	-	-
2. securities placement	-	-
3. third-party services and products	-	-

Of the amount shown in the table, Euro 50,126 thousand relates to income from insurance products placed with customers and Euro 11,863 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 37,651 thousand (Euro 36,403 thousand at 31 December 2018) and is broken down as follows:

	12/31/2019	12/31/2018
a) guarantees received	16	19
b) credit derivatives	-	-
c) management and brokerage services	33,306	33,207
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	65	72
5. financial instruments placement	-	-
6. off-site distribution of financial instruments, products and services	33,241	33,135
d) collection and payment services	3,166	3,012
e) other services	1,163	165
Total	**37,651**	**36,403**

Point 6 in item c) mainly refers to commissions paid on the sale of salary assignment loans (Euro 11,978 thousand) and insurance products (Euro 19,803 thousand), contributions and termination indemnities accrued by the network of agents based on targets for the placement of loans with customers (Euro 1,460 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 12/31/2019		Total 12/31/2018	
	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	3,676	-	-	-
Total	**3,676**	**-**	**-**	**-**

In 2019, dividends were distributed by the subsidiary Banca PSA Italia.

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

4.1 Net trading income (loss): breakdown

Transactions / Income	Capital gain (A)	Realised profits (B)	Capital loss (C)	Realised losses (D)	Net result
1. Financial assets held for trading	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-
1.2 Equity stocks	-	-	-	-	-
1.3 O.I.C.R. shares	-	-	-	-	-
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	(2)
3. Derivatives	**1,808**	-	**(842)**	-	**966**
3.1 Financial derivatives:	1,808	-	(842)	-	966
- On debt securities and interest rates	1,808	-	(842)	-	966
- On capital stocks and stock 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	**1,808**	**-**	**(842)**	**-**	**964**

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 item/Values	Total 12/31/2019	Total 12/31/2018
A. Income from:		
A.1 Fair value hedging instruments	129	1,905
A.2 Financial assets hedged (fair value)	3,865	3,299
A.3 Financial liabilities hedged (fair value)	-	-
A.4 Cash-flow hedging derivatives	-	-
A.5 Foreign currency assets and liabilities	-	-
Total income in hedge accounting (A)	**3,993**	**5,204**
B. Charges on		
B.1 Fair value hedging instruments	(4,291)	(4,841)
B.2 Financial assets hedged (fair value)	-	-
B.3 Financial liabilities hedged (fair value)	-	-
B.4 Cash-flow hedging derivatives	-	-
B.5 Foreign currency assets and liabilities	-	-
Total charges from hedging activity (B)	**(4,291)**	**(4,841)**
C. Net hedging activity (A-B)	**(298)**	**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 12/31/2019			Total 12/31/2018		
	Gain	Losses	Net profit	Gain	Losses	Net profit
A. Financial assets						
1. Financial assets valued at amortised cost	20,606	(3,569)	17,037	-	(71)	(71)
1.1 Loans to banks	-	-	-	-	-	-
1.2 Loans and customers	20,606	(3,569)	17,037	-	(71)	(71)
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-	-
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**20,606**	**(3,569)**	**17,037**	**-**	**(71)**	**(71)**
B. Financial liabilities valued at amortised cost						
1. Deposits with banks	-	-	-	-	-	-
2. Deposits with 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. In particular, the increase in the item is related to the extraordinary sale of non-performing loans in the first half of 2019.

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

Operazioni/Componenti reddituali	Write-downs (1)			Write - backs (2)		Total 12/31/2019	Total 12/31/2018
	First and second stage	Third stage		First and second stage	Third stage		
		Write-off	Others				
A. Loans to banks	-	-	-	-	-	-	-
- Loans	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-
of which: acquired or originated impaired loans	-	-	-	-	-	-	-
B. Loans to customers	**(34,328)**	**(739)**	**(43,218)**	**39,431**	**15,557**	**(23,298)**	**(35,216)**
- Loans	(34,328)	(739)	(43,218)	39,431	15,557	(23,298)	(35,216)
- Debt securities	-	-	-	-	-	-	-
of which: acquired or originated impaired loans	-	-	(855)	43	194	(618)	91
Total	**(34,328)**	**(739)**	**(43,218)**	**39,431**	**15,557**	**(23,298)**	**(35,216)**

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 47,499 thousand (Euro 44,686 thousand at 31 December 2018) and is split as follows:

Type of expense/Amounts	Total 12/31/2019	Total 12/31/2018
1) Employees	**46,913**	**43,704**
a) wages and salaries	33,870	31,085
b) social obligation	8,782	8,386
c) Severance pay	-	-
d) Social security costs	-	-
e) reserve to staff severance indemnity	43	40
f) reserve to retirement fund and similar obligations	-	-
- defined contribution	-	-
- defined benefit	-	-
g) payments to external pension funds:	2,358	2,292
- defined contribution	2,358	2,292
- defined benefit	-	-
h) Expenses resulting from share based payments	-	-
i) other employee benefits	1,859	1,901
2) Other staffs in activity	**580**	**790**
3) Managers and statutory auditors	**426**	**428**
4) Early retirement costs	-	-
5) Recovery of expenses for employees seconded to other companies	**(539)**	**(357)**
6) Refunds of expenses for third party employees seconded to the company	**120**	**120**
Total	**47,499**	**44,686**

"Social security charges" include pension costs incurred by the Bank in 2019.

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 275 thousand, while fees relating to members of the Board of Statutory Auditors amount to Euro 151 thousand.

10.2 Average number of employees, by category

	12/31/2019	12/31/2018
Employees:		
a) Senior managers	11	11
b) Managers	189	180
of which 3rd and 4th level	*74*	*70*
c) Remaining employees staff	450	442
Total	**650**	**633**
Other personnel	**12**	**17**

10.3 Defined-benefit pension plans: costs and revenues

The Bank has not allocated defined-benefit pension plans.

10.4 Other personnel benefits

	12/31/2019	12/31/2018
Ancillary staff expenses (contributions to rent and health insurance, luncheon vouchers and other minor benefits)	1,859	1,897
Incentive plan reserved for managers and middle managers		5
Cost of allocation of share by the parent company to employees		
Total	**1,859**	**1,901**

10.5 Other administrative expenses: breakdown

Other administrative expenses amount to Euro 64,770 thousand (Euro 66,367 thousand at 31 December 2018) and are made up as follows:

Type of service/Amounts	Total 12/31/2019	Total 12/31/2018
Indirect taxes and duties	10,688	8,284
Telephone, broadcasting and postal	3,640	3,601
Maintenance, cleaning and waste disposal	651	994
Property lease, removals and condominium expenses	526	3,608
Professional fees and corporate expenses	8,594	7,524
Travel and accomodation	1,915	3,867
Stamp duty and flat-rate substitute tax	5,033	4,788
Insurance charges	60	67
Forms, stationery and consumables	189	310
Supplies, licences EDP consulting and maintenance	9,306	11,235
Debt recovery charges	10,711	12,366
Legal fees	4,832	3,835
Advertising, promotion and representation	1,901	1,335
Commercial information and searches	3,972	3,507
Other expenses	2,752	1,047
Total	**64,770**	**66,367**

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 12/31/2019	Net provision 12/31/2018
Net provision on commitment and financial guaranties	(22)	-	(22)	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 12/31/2019	Net provision 12/31/2018
Net personnel expense provision	-	-	-	-
Net provision for legal disputes	(5,157)	2,663	(2,494)	(776)
Other provisions	(26,946)	-	(26,946)	(3,382)
Totale	**(32,103)**	**2,663**	**(29,439)**	**(4,158)**

The item “Provisions for legal disputes” mainly include provisions made during the year for litigation with customers and dealers.

The item “Other provision” mainly relates to provisions for legal disputes with customers or future reimbursements to customers. For further details please refer to Section 10 “Provisions for risks and charges”.

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 For operational use	4,697	6	-	(4,703)
- Owned	844	6	-	(850)
- Licenses acquired through lease	3,853	-	-	(3,853)
A.2 Held under finance leases	-	-	-	-
- Owned	-	-	-	-
- Licenses acquired through lease	-	-	-	-
A.3 Inventories	X	-	-	-
Total	**4,697**	**6**	**-**	**(4,703)**

Net adjustments to property and equipment refer to the depreciation of the Bank's fixed assets, classified under item 110 of assets for Euro 4,697 thousand.

Section 13 – Net adjustments to/recoveries on intangible assets – Item 190

13.1 Net adjustments to/recoveries on intangible assets: breakdown

Net adjustments to intangible assets amount to Euro 6,544 thousand and relate to the amortisation of the year.

Asset/Income	Depreciation (a)	Impairment losses (b)	Write-backs (c)	Net risult (a + b - c)
A. Intangible assets				
A.1 Owned	6,544	-	-	(6,544)
- Generated internally by the company	-	-	-	-
- Other	6,544	-	-	(6,544)
A.2 Held under finance leases	-	-	-	-
Total	**6,544**	**-**	**-**	**(6,544)**

Section 14 – Other operating expenses/income – Item 200

14.1 Other operating expenses: breakdown

Other operating expenses amount to Euro 4,911 thousand (Euro 4,457 thousand at 31 December 2018) and are divided as follows:

	Total 12/31/2019	Total 12/31/2018
Amortisation on improvements (not separable) on real estates owned by the Group	341	-
Rebates and discounts	98	49
Losses on disposal	91	17
Miscellaneous expenses	1,667	1,270
Expenses related to leasing activities	205	197
Other expenses	2,509	2,925
Total	**4,911**	**4,457**

14.2 Other operating income: breakdown

Other operating income amounts to Euro 19,287 thousand (Euro 21,025 thousand at 31 December 2018) and can be broken down as follows:

	Total 12/31/2019	Total 12/31/2018
Recovery of taxes	8,408	8,039
Other income for services rendered to Group companies	208	208
Recovery of lease instalments	13	12
Recovery of other expenses	524	642
Recovery of preliminary expenses	9,221	10,703
Rebates and discounts received	4	3
Insurance reimbursements	-	8
Gains on disposal	27	347
Income related to leasing transactions	433	309
Other income	449	755
Total	**19,287**	**21,025**

Section 15 – Profit (loss) from equity investments - Item 220

15.1 Profit (loss) from equity investments: breakdown

Income/Value	Total 12/31/2019	Total 12/31/2018
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)**

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 -33,058 thousand (Euro -37,637 thousand at 31 December 2018) and represents the provision made during the year in accordance with current tax law. It is made up as follows:

Income/Value	Total 12/31/2019	Total 12/31/2018
1. Current tax expense (-)	(42,892)	(36,322)
2. Change of current taxes of previous years (+/-)	-	-
3. Reduction in 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 (+/-)	9,833	(1,315)
5. Change of deferred tax liabilities (+/-)	-	-
6. Tax expenses for the year (-) (-1+/-2+3+3bis+/-4+/-5)	**(33,058)**	**(37,637)**

For further details, see Section 10 of Part B - Information on the balance sheet.

19.2 Reconciliation between 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

	12/31/2019	12/31/2018
Profit (loss) from continuing operations before tax	114,328	117,113
Profit before tax on discontinuing operations		
Theoretical taxable income	**114,328**	**117,113**
IRES - Theoretical tax charge	(31,440)	(32,206)
- effect of income and expenses that do not contribute to the tax base	3,060	2,094
- effect of expenses that are wholly or partially non-deductible	2,229	(529)
IRES - Effective tax burden	**(26,151)**	**(30,641)**
IRAP - Theoretical tax charge	(6,368)	(6,523)
- portion of non-deductible administrative expenses, depreciation and amortisation	(423)	(403)
- portion of non-deductible interest expense		
- effect of income and expenses that do not contribute to the tax base	2,580	2,489
- effect of income and expenses that are wholly or partially non-deductible	(2,695)	(2,559)
IRAP - Effective tax burden	**(6,907)**	**(6,996)**
Effective tax burden as shown in the financial statements	**(33,058)**	**(37,637)**

Gli effetti delle variazioni temporanee in aumento/diminuzione del reddito imponibile, rilevate contabilmente nell'ambito delle attività/passività fiscali differite sono incorporate nella riconciliazione riportata nella tabella.

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

For information on public funds pursuant to art. 1, paragraph 125 of Law no. 124 of 4 August 2017 ("Annual law for the market and the competition"), please refer to Part C - Section 24 of the Consolidated Financial Statements.

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	12/31/2019	12/31/2018
10.	**Net Profit (Loss) for the year**	**81,270**	**79,476**
	Other comprehensive income after tax not to be recycled to income statement		
20.	Equity securities designated at fair value with an impact on total income:	-	-
	a) changes in fair value	-	-
	b) transfers to other components of equity	-	-
30.	Financial liabilities designated at fair value with impact on the income statement (changes in creditworthiness):	-	-
	a) changes in fair value	-	-
	b) transfers to other components of equity	-	-
40.	Hedges of equity securities designated at fair value with an impact on total profitability:	-	-
	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	(50)	53
	Non current assets classified as held for sale	-	-
90.	Valuation reserves from investments accounted for using the equity method	-	-
100.	Income taxes relating to other income components without reversal to the income statement	16	(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 differrences:	-	-
	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) reclassification through profit or loss	-	-
	c) other changes	-	-
150.	Financial assets (no equity securities) measured at fair value with an impact on total profitability:	-	-
	a) changes in fair value	-	-
	b) reclassification through profit or loss	-	-
	- adjustments to credit risk	-	-
	- gains / losses from realization	-	-
	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 changes	-	-
170.	Valutation reserves from investments accounted for using the equity method;	-	-
	a) changes in fair value	-	-
	b) reclassification through profit or loss	-	-
	- impairment adjustments	-	-
	- gains / losses from realization	-	-
	c) other changes	-	-
180.	Income taxes relating to other income components with reversal to the income statement	-	-
190.	**Total of other comprehensive income**	**(33)**	**36**
200.	**Comprehensive income (Items 10+190)**	**81,237**	**79,512**

Part E – Information on risks and related hedging policies

Introduction

Again in 2019 Santander Consumer Bank (hereinafter the Bank) placed great importance on the governance of risks in accordance with the requirements of the prudential supervision regulations, 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 into account both the macro-economic scenario and the risk profile, stimulating the growth of the risk culture and encouraging a transparent and accurate presentation of the risks associated with the portfolios held, ensuring adequate organisational and methodological procedures consistent with the regulatory and operational context.

The policies that guide the assumption and governance 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, which is entrusted with the task of supporting the Board of Directors in relation to risk, so allowing it to take correct decisions with regard to risk governance. In addition to these, managerial committees have been established. These include the Executive Risk Committee, whose Chairman is the Chief Executive Officer (CEO), with the Chief Risk Officer (CRO), the Head of Administration and Control and the Head of Finance as permanent members.

The CRO's area of governance is Risk Management, in which he/she has the role of Head of Risk (of the Governance Centre). 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 in addition functionally reports to the Chief Risk Officer of the Consumer Finance Department to which Santander Consumer Bank belongs from an operational point of view (specifically, to the "Chief Risk Officer").

As Chief Risk Officer (CRO), the Head of Risk 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, the Risk Control Unit has the task of measuring, controlling and monitoring all actual and potential 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, facilitating their identification, measurement, analysis and definition of measures needed to address them.

The Unit quantifies the overall exposure of the Institution to risk, allowing 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 activities challenging the main exercises of regulatory tasks including the preparation of ICAAP and ILAAP processes.

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 on the one hand to present to the Board of Directors the main risks to which the Company is exposed and on the other, always to allow the Board of Directors, through its approval, to determine 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 Board of Directors, in its capacity as a strategic oversight body, therefore, 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 Risk Appetite Framework, therefore, represents the reference framework for all the Bank's management, in which the risk objectives and limits, the reference processes, the monitoring and control mechanisms and the relevant governance are defined. 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.

The Bank's risk appetite is based on the following requisites and features:

- it reflects an aggregated view and applies to all business units (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, adapting 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, through its link with existing policies and limits.

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.

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 Liquidity Adequacy Assessment Process – ILAAP;
- Internal Capital Adequacy Assessment Process (ICAAP);
- Credit Management Programme;

- The most significant transactions;
- Internal Control System.

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, liquidity and operational risk control management processes and the use of measuring parameters based on risk capital to report corporate performance and assess the adequacy of internal capital, are fundamental steps for the operational application of the 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, the programme continued in 2019 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 and improve 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.

Particular attention has been given to spreading awareness of the concepts underlying the knowledge and conscious management of the risks to which the Bank is exposed, through press releases and news on the local and corporate intranet, but also with a series of targeted meetings with both the sales network and colleagues at head office.
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.

The report prepared with the support of the Spanish parent company for the monitoring of risk culture within the company, which involves Human Resources and other Control functions, highlighted a solid awareness of the issue, also confirmed by the results of the annual survey.

Organisation and risk governance

Credit risk represents the main type of risk to which the Bank is exposed and 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.

In compliance with the applicable provisions relating to the Internal Control System (Circular Letter of Bank of Italy no. 285 of 17 December 2013) the Bank is provided with an organisational and operational structure adequate to the assigned objectives. This structure has also been consolidated and modified also in consideration of the entry into force of the new IFRS 9 accounting standard in order to guarantee an adequate risk management, with particular reference to the definition of the policies for the valuation and classification of loans, the development of second level controls and the monitoring of positions in the assigned stages.

The organisational standards on which the Bank's risk governance system is based 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.

The organisational structure that ensures there is an internal control system that operates on three levels, in line with banking supervisory regulations, consists of:

- line controls (first-level controls): these are performed by the operating units to verify that the processes and tasks within their 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 Conduct 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;
- Marketing Department;
- Sales Network Department;
- Risk Management Department;
- Collection Department;
- 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 board Risk Committee;
- the Executive Risk Committee;
- the Executive Risk Control Committee;
- the Collection Committee;
- the Compliance and Conduct Committee
- the Financial Risk Management Committee (ALCO);
- the Operational Risk Committee
- 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 by assigning a specific score, 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 management and control process of product placed according to corporate strategies is entirely formalised in the bank’s official policies and procedures which define:

- operating processes
- signatory and delegation powers
- methods and regulations for creditworthiness assessment
- control activities on three levels

All the processes developed by the bank guarantee an adequate segregation of duties and roles, also guaranteed by the assignment of specific roles to different functions/resources.

The marketed products are illustrated below:

- <u>Car loans</u>: special-purpose loans for the purchase of vehicles, including motorcycles and motorbikes, 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;
- <u>Special-purpose loans</u>: 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;
- <u>Personal loans</u>: loans granted directly to the customer that have the same repayment / contractual features of car loans and special-purpose loans. It is possible to take out insurance cover for the loan;
- <u>Consumer car leasing</u>: financing transactions offered by the Bank (lessor) consist of granting the use for an agreed period of time, upon payment of periodic lease charges (lease payment), of motor vehicles, motorcycles, camper vans, commercial vehicles 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 accrued 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

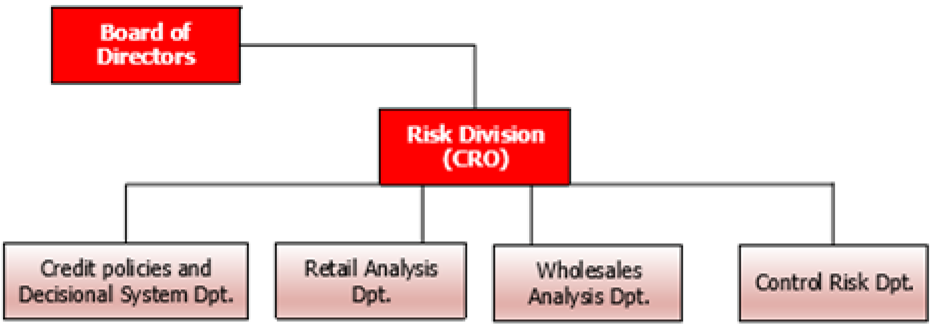
2.1 Organisational aspects

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 in addition functionally reports to the Chief Risk Officer of the Consumer Finance Department to which Santander Consumer Bank belongs for management purposes (specifically, to the "Chief Risk Officer" of the Consumer Finance Department to which SCB belongs to for management purposes).

The Head of Risk also takes on the role of Chief Risk Officer (CRO), is a member of the Board of Directors (BoD) and takes part to meetings of the risk committees providing support to control activities.

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.

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:

- cooperate with Governing Bodies in the definition of the overall risk management system;
- ensure adequate risk management processes through suitable systems and indicators designed to highlight anomalies, in order to identify, measure, control and mitigate major risks;
- support Governing Bodies in the definition of provisions to cover current and future losses in line with corporate strategies;
- calculate and monitor expected losses, in line with corporate strategies;
- provide consultancy to Governing bodies on related matters;
- ensure the reliability and automatic generation of reports;
- ensure monitoring of financial risks periodically, with particular reference to interest rate risk and liquidity risk, using Asset & Liability Management (ALM) techniques;
- ensure monitoring of operational, technological and fraud risks;
- liaise with the internal and external control bodies to verify the level of implementation of company policies.

The main functions of the Unit, coordinated by the Chief Risk Officer (C.R.O.) are carried out through the coordination of six teams whose main activities are reported below (credit risk, operational, cyber risk and fraud risk, market risk, strategic risk, technological risk and governance risk).

Credit risk

This office carries out activities for the assessment of risks relative to credit in terms of strategy, provision, concentration and business. The activity is carried out through the management of current and prospective analysis of the portfolio, construction of vintages, calculation of Expected Losses (EL), comparison with Lon Loss Reserves (LLR) as well as calculation of budget and three-year plan forecasts.

Operational, Cyber and Fraud Risk

This office assesses and monitor operational, reputational, technological, cyber, conduct and compliance risk, and in particular including:

- management and monitoring of the SOX risk indicators
- review and update of the Business Contingency Plan and the Business Impact Analysis
- development of the Heracles project and the AORM approach - Assessing doubtful positions for fraud risk highlighted by offices dealing with preliminary investigations and resolution phases both at head offices and branches
- monitoring customer and dealer fraud risk through targeted actions;
- maintenance of a level of attention and knowledge of fraud risk at admission phase, both through timely notifications (via email, intranet) and through the delivery of specific anti-fraud courses to operators tasked with the investigation and resolution of loan requests;

Market risk

This office monitors and assesses the risks relative to liquidity, interest rate and counterparty, in particular:

- management of regulatory indicators and of the provisional forecasting for LCR, NSF and maturity ladder, mismatch Bank It
- monitoring of group metrics (MLR, MVE, NIM), early warning, Liquidity spread and intraday liquidity
- development of the Deposit behavioural model
- calculation of VAR on securities portfolio

Strategic risk

This office is tasked with the management and monitoring of strategic assessment exercises aimed at the definition of the corporate risk map (RIA) to be used also for regulatory exercises. In particular, it deals with:

- Coordination of scenario stress and analysis exercises
- Quarterly monitoring of the main ICAAP parameters (base case and stressed case)
- Definition and monitoring of the Risk Appetite Framework and of the Statement (dashboard)
- Assessment of coherence with the strategic plan, RAF and ICAAP
- Independent assessment of RWAs and capital ratios (capital planning)
- Management and monitoring of SOX processes
- Risk Assessment Monitoring and Management activities (Conduct/Fraud/Cyber)

Technological risk

This office deals with automation, management and implementation of reports for senior management and the parent company, as well as Data governance and Data Quality processes.

Governance risk

This office ensures the update of the document corpus linked to the risk world, deals with the arrangements of Risk Committees, provides to the preparation of annual reports and working plans.

The **Wholesale Analysis** Unit prepares motions concerning positions of corporate customers that are subsequently submitted for the attention of the decision-making Committees (Executive Risk 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, and the revolving dealer product, 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 periodically manage positions subjected to special monitoring.

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. l 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.

The Risk Control Unit analyses and monthly presents to the members of the Executive Risk Committee the aggregate data relative to the performance of LLP (Loan Loss Provision) and LLR (Loan Loss Reserve), providing details on the components that have influenced the trend in the months under observation; it also provides to carry out and quarterly present to the Executive Risk Control Committee an analysis of the concentration risk.

The bank also provides to carry out half-yearly stress testing finalised at checking and assessing:

- the adequacy of the capital
- the adequacy of provisions
- the sustainability of the business in scenarios of plausible difficulties

The policies applied by the bank, in accordance with the requirements of the regulations, apply different levels of plausibility (base scenario and stressed scenario) and the results are brought to the attention of the Parent Company's Board of Directors and Senior Management.

2.3 Methods for the measurement of expected losses

In accordance with IFRS 9 model, financial assets can be classified into three categories, two main ones and a residual one:

- 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 introduced with IFRS 9 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 income. Specifically, the new model requires that the at the time of analysis an assessment is carried out on whether the credit risk of the instrument or of the position has suffered a significant increase in risk (SICR). To carry out this assessment, portfolios have been classified on the basis of the days of delay and on the basis of other qualitative information (e.g. measurement of forborne, scan, etc.) At the end of the monthly analysis, the positions are classified in stages as required by the regulations:

- Stage 1: classified in this stage are loans defined as performing, for which a SICR has not been recorded. In this case, the expected loss for the calculation of corrections is measured over a 12-month time period (12-month PD), while interest income 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 used 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:

d) LGD Non-Defaulted portfolio;
e) LGD Reversible Defaulted portfolio;
f) 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. With reference to these processes, the bank has internally formalised the guidelines and the procedures of the governance system to support the adequate use of guarantees.

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:

- 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 by the parent companies (captive agreements) and the Bank at the signing of the framework agreement;
- salary assignment: 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 financial assets 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, again regulated in Bank of Italy Circular no. 272 of 30 July 2008, 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 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;
- Corporate Single Name: measures the level of individual exposure towards counterparties, expressed in terms of insolvency with respect to the equity of the Bank;

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:

- Preparation of the annual budget and infra-annual plans, during which the short/medium-term objectives and expectations are developed and defined.
- Preparation of the 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 is exceeded, which varies from 12 to 24 months depending on the product (Car, Personal Loans, Durables, Credit cards). 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.

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.

3.3 Purchased or originated impaired financial assets

Purchased or originated impaired financial assets include loans subject to refinancing measures which at the time of the concession of refinancing were classified as impaired loans; these loans are classified in stage 3.

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 (origination), 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		Bad exposures	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Other not impaired exposures	Total
1. Financial assets valued to amortised cost		4,343	16,839	15,660	44,359	6,200,049	6,281,249
2. Financial assets at fair value through other comprehensive income		-	-	-	-	-	-
3. Financial assets designated to fair value		-	-	-	-	-	-
4. Other financial assets mandatorily valued to fair value		-	-	-	-	-	-
5. Financial instruments classified as held for sale		-	-	-	-	-	-
Total	**12/31/2019**	**4,343**	**16,839**	**15,660**	**44,359**	**6,200,049**	**6,281,249**
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		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 valued to amortised cost		157,286	(120,445)	36,841	-	6,302,278	(57,870)	6,244,408	6,281,249
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	**12/31/2019**	**157,286**	**(120,445)**	**36,841**	**-**	**6,302,278**	**(57,870)**	**6,244,408**	**6,281,249**
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		-	-	2,041
2. Hedging Derivatives		-	-	-
Total	**12/31/2019**	**-**	**-**	**2,041**
Total	**12/31/2018**	**-**	**-**	**1,828**

A.1.3 Distribution of financial assets by past due time bands (book values)

Portfolios / stages of risk		First stage			Second stage			Third stage		
		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		27,128	638	586	2,641	10,115	3,250	675	1,074	22,940
2. Financial assets at fair value through other comprehensive income		-	-	-	-	-	-	-	-	-
3. Financial assets held for sale		-	-	-	-	-	-	-	-	-
Total	**12/31/2019**	**27,128**	**638**	**586**	**2,641**	**10,115**	**3,250**	**675**	**1,074**	**22,940**
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 write-downs and total provisions

Causal / risk stages	Total value adjustments									
	First stage activities					Second stage activities				
	Financial assets measured at amortised cost	Financial assets measured at fair value with an impact on total profitability	Financial assets held for sale	of which: individual impairment	of which: collective impairment	Financial assets measured at amortised cost	Financial assets measured at fair value with an impact on total profitability	Financial assets held for sale	of which: individual impairment	of which: collective impairment
Opening balance	**54,399**	-	-	-	**54,399**	**12,922**	-	-	-	**12,922**
Increases in acquired or originated financial assets	16,402	-	-	-	16,402	6,998	-	-	-	6,998
Reversals different from writeoffs	(4,128)	-	-	-	(4,128)	(443)	-	-	-	(443)
Net value adjustments / write-backs for credit risk (+/-)	(33,171)	-	-	-	(33,171)	5,072	-	-	-	5,072
- Contractual changes without cancellation	-	-	-	-	-	-	-	-	-	-
Changes in the estimation methodology	-	-	-	-	-	-	-	-	-	-
Write-off are not recognised directly in profit or loss	(124)	-	-	-	(124)	(57)	-	-	-	(57)
Other variations	-	-	-	-	-	-	-	-	-	-
Closing balance	**33,378**	-	-	-	**33,378**	**24,492**	-	-	-	**24,492**
Recoveries from financial assets subject to write-off	-	-	-	-	-	-	-	-	-	-
Write-off are recognised directly in profit or loss	(328)	-	-	-	(328)	(31)	-	-	-	(31)

Causal / risk stages	Total value adjustments						Total provisions on commitments to disburse funds and financial guarantees issued			Totale
	Activities included in the third stage					Of which: acquired or originated impaired financial assets				
	Financial assets measured at amortised cost	Financial assets measured at fair value with an impact on total profitability	Financial assets held for sale	of which: individual impairment	of which: collective impairment		First stage	Second stage	Third stage	
Opening balance	**204,455**	-	-	-	**204,455**	**2,722**	**19**	**5**	-	**271,800**
Increases in acquired or originated financial assets	7,414	-	-	-	7,414	97	46	1	-	**30,860**
Reversals different from writeoffs	(116,144)	-	-	-	(116,144)	(1,551)	-	-	-	**(120,714)**
Net value adjustments / write-backs for credit risk (+/-)	28,593	-	-	366	28,227	(118)	(19)	(5)	-	**470**
- Contractual changes without cancellation	-	-	-	-	-	-	-	-	-	-
Changes in the estimation methodology	105	-	-	105	-	-	-	-	-	**105**
Write-off are not recognised directly in profit or loss	(3,979)	-	-	-	(3,979)	(28)	-	-	-	**(4,159)**
Other variations	-	-	-	-	-	-	-	-	-	-
Closing balance	**120,445**	-	-	**471**	**119,974**	**1,123**	**46**	**1**	-	**178,361**
Recoveries from financial assets subject to write-off	-	-	-	-	-	-	-	-	-	-
Write-off are recognised directly in profit or loss	(379)	-	-	-	(379)	-	-	-	-	-

Value adjustments on loans deriving from finance leases amounted, at year end, to Euro 4,603 thousand and showed a net decrease of Euro 807 thousand (the main increases are in acquired financial assets for Euro -385 thousand, Reversals different from write-offs for Euro 370 thousand, Net value adjustments/recoveries for credit risk for Euro 568 thousand, Write-offs not recognised through profit or loss for Euro 253 thousand).

In 2019, the provisions for bad debt decreased 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 risk parameters 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)

Portofolios/risk stages		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	
		From first to second stage	From second stage to first stage	From second to third step	From thirth to second step	From first to thirth step	From thirth to first step
1. Financial assets valued at amortised cost		101,281	34,449	14,300	10,060	36,789	6,057
2. Financial assets at fair value through other comprehensive income		-	-	-	-	-	-
3. Financial assets held for sale		-	-	-	-	-	-
4. Commitments and financial guarantees given		-	-	-	-	-	-
Total	**12/31/2019**	**101,281**	**34,449**	**14,300**	**10,060**	**36,789**	**6,057**
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. Credit exposures for cash					
a) Bad exposures	-	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	4	-	4	-
- of wich: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	52,125	-	52,125	-
- of wich: forborne exposures	X	-	-	-	-
Total (A)	**-**	**52,128**	**-**	**52,128**	**-**
B. Off-balance sheet credit exposures					
a) Non-performing	-	X	-	-	-
b) Performing	X	567	-	567	-
Total (B)	**-**	**567**	**-**	**567**	**-**
Total (A+B)	**-**	**52,696**	**-**	**52,696**	**-**

A.1.7 On- and off-balance sheet exposures to customers: gross and net values

Type of exposure/Amounts Tipologie esposizioni/valori	Gross exposures		Overall Write-Downs and provisions	Net exposure	Total Write-off
	Non-performing	Performing			
A. Credit exposures for cash					
a) Bad exposures	60,596	X	(56,253)	4,343	-
- of which: forborne exposures	7,411	X	(6,834)	577	-
b) Unlikely to pay	58,903	X	(42,064)	16,839	-
- of which: forborne exposures	21,826	X	(16,161)	5,665	-
c) Non-performing past due	37,788	X	(22,128)	15,660	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past due	X	63,198	(18,843)	44,355	-
- of which: forborne exposures	X	3,612	(628)	2,984	-
e) Other performing exposures	X	6,186,952	(39,027)	6,147,925	-
- of which: forborne exposures	X	16,070	(2,596)	13,474	-
Total (A)	**157,286**	**6,250,150**	**(178,315)**	**6,229,121**	**-**
B. Off-balance sheet credit exposures					
a) Non-performing	1	X	-	1	-
b) Performing	X	475,539	(46)	475,493	-
Total (B)	**1**	**475,539**	**(46)**	**475,493**	**-**
TOTAL A+B	**157,287**	**6,725,688**	**(178,361)**	**6,704,614**	**-**

This table gives details of impaired and performing loans to customers, gross and net of specific and portfolio adjustments.

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	Bad exposures	Unlikely to pay	Past due impaired
A. Opening balance (gross amount)	**128,873**	**79,312**	**52,810**
- of which sold non-cancelled exposures	18,243	10,853	21,102
B. Increases	**29,941**	**36,009**	**40,969**
B.1 transfers from performing loans	5,626	25,399	39,320
B.2 transfer from acquired or originated impaired financial assets	2,345	1,646	51
B.3 transfers from other impaired exposures	21,235	7,223	68
B.4 contractual changes without cancellations	-	-	-
B.5 other increases	734	1,742	1,531
C. Decreases	**98,218**	**56,419**	**55,991**
C.1 transfers to perfomorming loans	89	4,106	11,887
C.2 write-offs	879	2,232	1,278
C.3 collections	1,742	8,716	8,653
C.4 sales proceeds	17,324	7,165	1,290
C.5 losses on disposals	76,211	14,942	3,277
C.6 transfers to other non-performing exposures	97	7,798	20,631
C.7 contractual changes without cancellations	-	-	-
C.8 other decreases	1,876	11,460	8,974
D. Closing balance (gross amounts)	**60,596**	**58,903**	**37,788**
- of which sold non-cancelled exposures	7,461	10,518	13,272

A.1.9bis Cash credit exposures to customers: dynamics of gross forborne exposures by credit quality

Description/Quality	Forborne exposures Non-performing	Forborne exposures: performing
A. Opening balance (gross amount)	**60,013**	**26,533**
- of which sold non-cancelled exposures	4,949	1,242
B. Increases	**14,740**	**13,605**
B.1 Transfers from performing not forborne exposures	3,230	7,007
B.2. Transfers from performing forborne exposures	4,025	X
B.3. Transfers from impaired forborne exposures	X	4,561
B.4 Transfers from impaired not forborne exposure	-	-
B.4 other increases	7,484	2,037
C. Decreases	**45,516**	**20,456**
C.1 Transfers to performing not forborne exposures	X	8,101
C.2 Transfers to performing forborne exposures	4,561	X
C.3 transfers to impaired exposures not forborne	X	4,025
C.4 write-offs	439	17
C.5 recoveries	4,837	7,758
C.6 sales proceeds	10,530	5
C.7 losses on disposals	23,643	26
C.8 other decreases	1,505	524
D. Closing balance (gross amounts)	**29,237**	**19,682**
- of which sold non-cancelled exposures	1,544	864

A.1.10 Cash non-performing credit exposures to banks: dynamics of total write-downs

Exposures to banks are not subject to write-downs.

A.1.11 Cash non-performing credit exposures to customers: dynamics of total write-downs

Description/Category	Bad exposures		Unlikely to pay		Non-Performing Past due	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Opening balance	**120,291**	**23,542**	**60,002**	**27,246**	**24,163**	-
- of which sold non-cancelled exposures	16,971	2,183	7,034	2,431	6,114	-
B. Increases	**29,867**	**4,599**	**23,039**	**8,290**	**20,855**	-
B.1 write-downs of acquired or originated impaired financial assets	110	X	186	X	-	X
B. 2 other write-downs	12,252	2,597	17,857	7,434	20,466	-
B.3 losses on disposal	2,677	94	313	97	386	-
B.4 transfer from other impaired exposure	14,806	1,886	3,928	7	3	-
B. 5 contractual changes without cancellations	-	-	-	-	-	-
B.6 other increases	22	22	755	752	-	-
C. Reductions	**93,905**	**21,306**	**40,977**	**19,376**	**22,890**	-
C.1 write-backs from assessments	147	40	6,732	3,064	4,692	-
C.2 write-backs from recoveries	871	506	1,939	860	777	-
C.3 gains on disposal	14,692	5,029	5,446	4,247	445	-
C.4 write-offs	868	171	2,233	267	1,258	-
C.5 transfers to other categories of non-performing exposures	8	7	6,696	1,886	12,033	-
C. 6 contractual changes without cancellations	-	-	-	-	-	-
C.7 other decreases	77,319	15,553	17,931	9,051	3,686	-
D. Closing overall amount of writedowns	**56,253**	**6,834**	**42,064**	**16,161**	**22,128**	-
- of which sold non-cancelled exposures	6,630	439	5,133	912	5,591	-

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	-	-	-	-	-	-	**6,459,564**	**6,459,564**
- First stage	-	-	-	-	-	-	6,163,360	6,163,360
- Second stage	-	-	-	-	-	-	138,918	138,918
- Third stage	-	-	-	-	-	-	157,286	157,286
B. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-
- First stage	-	-	-	-	-	-	-	-
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-	-
C. Financial assets held for sale	-	-	-	-	-	-	-	-
- First stage	-	-	-	-	-	-	-	-
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-	-
Total (A+B+C)	-	-	-	-	-	-	**6,459,564**	**6,459,564**
of which: acquired or originated impaired financial assets	-	-	-	-	-	-	1,907	1,907
D. Loan commitments and financial guarantees given								
- First stage	-	-	-	-	-	-	448,695	448,695
- Second stage	-	-	-	-	-	-	27,412	27,412
- Third stage	-	-	-	-	-	-	1	1
Total (D)	-	-	-	-	-	-	**476,107**	**476,107**
Total (A+B+C+D)	-	-	-	-	-	-	**6,935,671**	**6,935,671**

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

			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	public administrations	Banks	Other financial companies	Other entities	
1. Guaranteed cash loans:	**107,204**	**103,044**	-	-	-	**1,901**	-	-	-	-	-	-	**4,188**	-	**75,984**	**82,074**
1.1 totally secured	73,512	69,618	-	-	-	-	-	-	-	-	-	-	149	-	69,468	69,618
- of which: non-	3,727	615	-	-	-	-	-	-	-	-	-	-	-	-	615	615
1.2 partially secured	33,692	33,426	-	-	-	1,901	-	-	-	-	-	-	4,039	-	6,516	12,456
- of which: non-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	36	36
2. Off-balance-sheet credit exposures guaranteed:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1 totally secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which: non-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2. partially guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which: non-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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	Public administration		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 Bad exposures	-	-	1	31	-	-	224	17,556	4,118	38,666
- of wich: forborne exposures	-	-	-	-	-	-	13	214	563	6,621
A.2 Unlikely to pay	961	236	9	14	6	-	2,398	3,255	13,471	38,558
- of wich: forborne exposures	-	-	-	-	-	-	95	220	5,570	15,941
A.3 Non-performing past-due	2,877	301	3	4	-	-	1,337	2,650	11,443	19,173
- of wich: forborne exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	412,647	2,911	224,309	53	4	-	627,944	2,522	4,927,380	52,384
- of wich: forborne exposures	-	-	-	-	-	-	145	27	16,313	3,197
Total (A)	**416,484**	**3,448**	**224,322**	**103**	**9**	**-**	**631,903**	**25,983**	**4,956,411**	**148,781**
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	1	-
B.2 Performing exposures	-	-	-	-	-	-	471,969	46	3,523	-
Total (B)	-	-	-	-	-	-	**471,969**	**46**	**3,524**	-
Total (A+B) 12/31/2019	**416,484**	**3,448**	**224,322**	**103**	**9**	**-**	**1,103,872**	**26,029**	**4,959,935**	**148,781**
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 Bad exposures		851	8,080	447	3,973	864	8,801	2,181	35,398
A.2 Unlikely to pay		3,085	7,106	1,369	3,148	3,495	8,275	8,889	23,535
A.3 Non-performing past-due due		3,282	4,358	1,337	2,035	3,259	4,524	7,781	11,211
A.4 Performing exposures		1,849,906	12,855	893,022	7,973	1,549,246	10,842	1,900,077	26,199
TOTAL A		**1,857,125**	**32,400**	**896,175**	**17,129**	**1,556,863**	**32,443**	**1,918,928**	**96,343**
B. Off-balance sheet credit									
B. 1 Non-performing exposures		1	-	-	-	-	-	-	-
B. 2 Performing exposures		152,687	10	122,957	9	93,981	12	105,869	15
TOTAL B		**152,687**	**10**	**122,957**	**9**	**93,981**	**12**	**105,869**	**15**
Total (A+B)	**12/31/2019**	**2,009,812**	**32,410**	**1,019,132**	**17,138**	**1,650,844**	**32,455**	**2,024,796**	**96,358**
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		United States		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 Bad exposures		-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay		-	-	-	-	-	-	-	-	-	-
A.3 Non-Performing past due		-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures		44,228	-	7,900	-	-	-	-	-	-	-
'Totale (A)		**44,228**	**-**	**7,900**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Off-balance sheet credit exposures											
B.1 Non-performing exposures		-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures		-	-	567	-	-	-	-	-	-	-
'Totale (B)		**-**	**-**	**567**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL A+B	**12/31/2019**	**44,228**	**-**	**8,467**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
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 S.A.

B.4 Large exposures

	12/31/2019
Number	4
Weighted value	497,322
Book value	1,463,983

At the balance sheet date there were four counterparties that could be classified as large exposures: Ministry of Economy and Finance (MEF), Banco Santander S.A., Hyundai Motor Company Italy S.r.l, and Mazda Motor Italia S.r.l.

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 vehicle (SPV) 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 2019 the Company finalised a new securitisation transaction, GB 2019-1.

The transaction in question, with a value of Euro 600.5 million and legal maturity in 2039, was concluded through the sale at par value of a portfolio of performing loans, made up of car 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 four classes of securities, Senior Class A securities in the amount of Euro 525.4 million, quoted on the Luxembourg Stock Exchange, mezzanine bonds in the amount of Euro 18 million (Class B) and Euro 45.1 million of Class C wholly subscribed by investors. Junior securities in the amount of Euro 12 million, without ratings, were 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 67 bps (with a zero-coupon floor).

Within the scope of the same transaction, the special purpose entity also concluded two Interest Rate Swaps to hedge the interest rate risk of the Senior class and of the B Class.

The GB 2019-1 securitisation, which has a revolving 1-year structure, was structured in compliance with the requirements for STS securitisations on the basis of the provisions of the Securitisation Regulation which came into effect on 1 January 2019. Class A also obtained eligibility with the ECB.

	Class A	Class B	Class C	JN
Issuer	Golden Bar (Securitisation) S.r.l			
ISIN	IT0005374076	IT0005374084	IT0005374092	IT0005374100
Amount (K€)	525400	18000	45100	12000
Tranching	87,5%	3,0%	7,5%	2,0%
Rating	AA-	A-	NR	NR
Coupon (floor 0%)	EUR3M +67 bps	EUR3M +175 bps	8,25%	1+Excess Spread
Listing	Luxembourg	Luxembourg	Luxembourg	Unlisted
Law	Italian and English			

The table below shows the main information relating to GB 2019-1.

	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 Stand Alone	459,287	395,700	82,750	3,957	5,823,202	n.a.	n.a.	n.a.	n.a.
Golden Bar 2019-1	538,381	588,500	12,000	5,434		n.a.	n.a.	n.a.	n.a.

Breakdown of the excess spread accrued during the year	12/31/2019	
	Golden Bar Stand Alone 2018-1	Golden Bar 2019-1
Interessi passivi su titoli emessi	(14,214)	(12,279)
Commissioni e provvigioni a carico dell'operazione	(568)	(373)
- per il servizio di servicing	(547)	(354)
- per altri servizi	(21)	(19)
Altri oneri	(8,143)	(3,828)
Interessi generati dalle attività cartolarizzate	25,675	21,920
Altri ricavi	2,146	1,372
Totale	**4,896**	**6,812**

As at 31 December 2019 the GB 2018-1 transaction was still outstanding for the countervalue of securities issued as it was still in the revolving period.

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	57,219	(269)			72,068	(351)												
Golden Bar Stand Alone 2018-1	57,219	(269)			72,068	(351)												

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	Head office	Consolidation	Assets			Liabilities		
			Credits	Debt securities	Others	Senior	Mezzanine	Junior
Golden Bar 2018-1	Torino (TO)	NO	459,287		24,731	395,700		82,750
Golden Bar 2019-1	Torino (TO)	NO	538,381		71,125	525,400	63,100	12,000

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 79 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 as a whole				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	-	-	-	X	-	-	-
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equities	-	-	-	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	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost	**1,085,912**	**997,669**	**88,243**	**1,848**	**997,614**	**918,500**	**79,114**
1. Debt securities	-	-	-	-	-	-	-
2. Loans	1,085,912	997,669	88,243	1,848	997,614	918,500	79,114
Total 12/31/2019	**1,085,912**	**997,669**	**88,243**	**1,848**	**997,614**	**918,500**	**79,114**
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

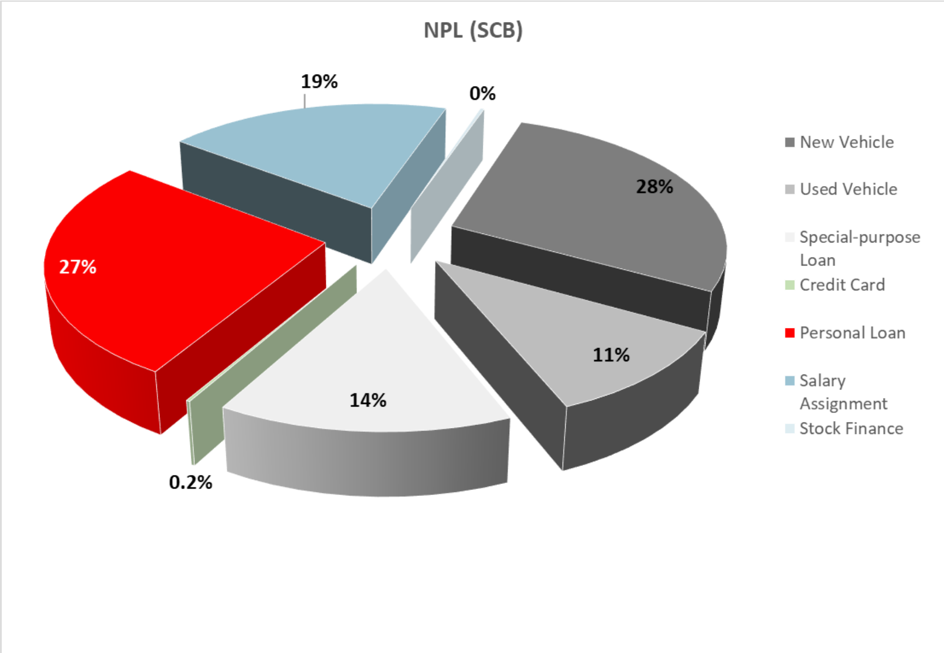
			12/31/2019	12/31/2018
A. Financial assets held for trading	-	-	-	-
1. Debt securities	-	-	-	-
2. Equities	-	-	-	-
3. Loans	-	-	-	-
4. Derivatives	-	-	-	-
B. Other financial assets mandatorily at fair value	-	-	-	-
1. Debt securities	-	-	-	-
2. Equities	-	-	-	-
3. Loans	-	-	-	-
C. Financial assets designated at fair value	-	-	-	-
1. Debt securities	-	-	-	-
2. Loans	-	-	-	-
D. Financial assets at fair value through other comprehensive income	-	-	-	-
1. Debt securities	-	-	-	-
2. Equities	-	-	-	-
3. Loans	-	-	-	-
E. Financial assets measured at amortised cost (fair value)	**1,075,249**	-	**1,075,249**	**568,932**
1. Debt securities	-	-	-	-
2. Loans	1,075,249	-	1,075,249	568,932
Total financial assets	**1,075,249**	-	**1,075,249**	**568,932**
Total associated financial liabilities	**997,614**	-	**X**	**X**
Valore netto AD/12/Tuesday	**77,635**	-	**77,635**	**X**
Valore netto AD/12/Monday	**129,872**	-	**X**	**129,872**

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

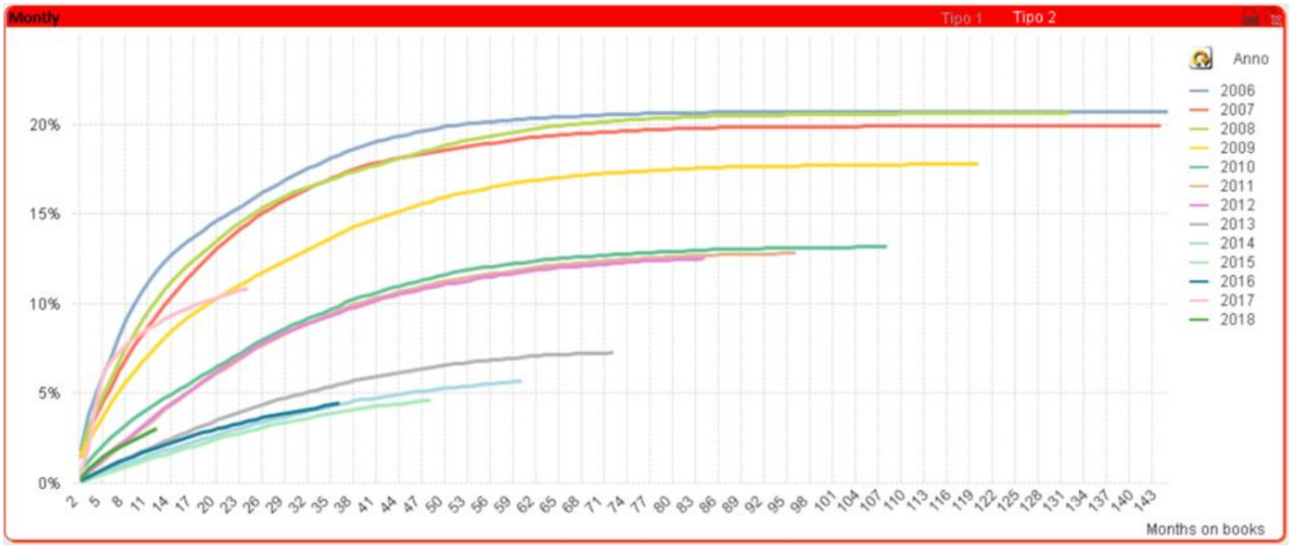
The balance at risk by product of the “dossiers in delinquency” (i.e. that have amounts past due by more than ninety days) is monitored on a monthly basis. The following chart summarises the breakdown of the variable just described at December 2019.



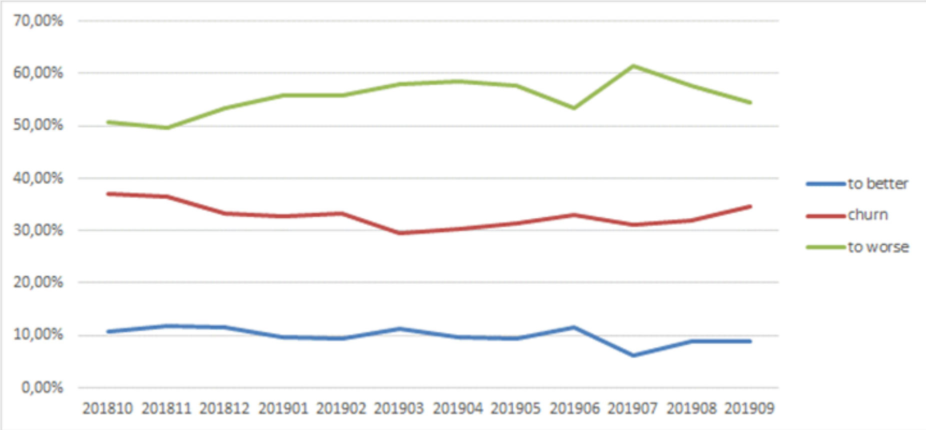
The stress tests carried out for ICAAP purposes, calculated on the basis of the PD and LGD parameters, both in the baseline and stress scenario, confirmed the soundness of the strategies adopted.

Credit risk is assessed, among other things, by means of:

- 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 risk

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 adopt derivatives in accordance with the methods described below.

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 Risk Control Unit of Santander Consumer Bank is responsible for preparing and maintaining adequate, uniform and timely reporting for the monitoring of interest rate risk, formalised through specific indicators.

"Market Value of Equity" (MVE) sensitivity indicator

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 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 2019, the MVE calculated with a parallel and immediate shift of +100 basis points was Euro -30.64 million. The indicator remained within the thresholds approved by the Board of Directors.

"Net Interest Margin" (NIM) sensitivity indicator

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 margin (analysis period: 12 months). As regards interest rate shift scenarios, please see the information provided in the paragraph above.

At 31 December 2019, the NIM was Euro -4.91 (with a parallel and immediate shift of +100 basis points).

+100 bps MM	MVE	NIM
December 2019	-30.64	-4.91
Limit	51	14

-100 bps MM	MVE	NIM
December 2019	13.55	1.56
Limit	51	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 12/31/2019				Totale 12/31/2018			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central Counterparts	without central counterparties			Central Counterparts	without central counterparties		
		with clearing arrangements	without clearing arrangements			with clearing arrangements	without clearing arrangements	
1. Debt securities and interest rate	-	-	939,100	-	-	-	417,154	-
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	939,100	-	-	-	417,154	-
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	**-**	**-**	**939,100**	**-**	**-**	**-**	**417,154**	**-**

A.2 Financial derivatives held for trading: positive and negative gross fair value – breakdown by product

Types of derivatives	Totale 12/31/2019				Totale 12/31/2018			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central Counterparts	Without central counterparties			Central Counterparts	Without central counterparties		
		With clearing arrangements	Without clearing arrangements			With clearing arrangements	Without clearing arrangements	
1. Positive fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swap	-	-	2,041	-	-	-	1,828	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-
Total	**-**	**-**	**2,041**	**-**	**-**	**-**	**1,828**	**-**
2. Negative fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swap	-	-	618	-	-	-	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-
Total	**-**	**-**	**618**	**-**	**-**	**-**	**-**	**-**

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	939,100	-	-
- positive fair value	X	2,041	-	-
- negative fair value	X	618	-	-
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) 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 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		175,751	742,258	21,091	939,100
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	**12/31/2019**	**175,751**	**742,258**	**21,091**	**939,100**
Total	**12/31/2018**	**-**	**395,700**	**21,454**	**417,154**

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 at 31 December 2019, there were no cash flow hedging derivatives.

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 12/31/2019				Totale 12/31/2018			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central Counterparts	without central counterparties			Central Counterparts	without central counterparties		
		with clearing arrangements	without clearing arrangements			with clearing arrangements	without clearing arrangements	
1. Debt securities and interest rate	-	-	1,196,624	-	-	-	1,418,130	-
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	1,196,624	-	-	-	1,418,130	-
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	**-**	**-**	**1,196,624**	**-**	**-**	**-**	**1,418,130**	**-**

A.2 Hedging derivatives: positive and negative gross fair value – breakdown by product

	Total 12/31/2019				Total 12/31/2018				Total	Total
	Over the counter				Over the counter				12/31/2019	12/31/2018
		Without central counterparties				Without central counterparties				
	Central Counterparts	With clearing arrangements	Without clearing arrangements	Organized markets	Central Counterparts	With clearing arrangements	Without clearing arrangements	Organized markets		
Positive fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swap	-	-	-	-	-	-	-	-	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	-	-
Negative fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swap	-	-	8,745	-	-	-	4,633	-	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-	-	-
Total	-	-	**8,745**	-	-	-	**4,633**	-	-	-

A.3 OTC financial 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	1,196,624	-	-
- positive fair value	X	-	-	-
- negative fair value	X	8,745	-	-
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) 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 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		391,391	757,030	48,203	1,196,624
A.2 Financial derivative contracts on equity securities and stock indexes		-	-	-	-
A.3 Financial derivative contracts on currency and gold		-	-	-	-
A.3 Financial derivative on commodities		-	-	-	-
A.5 Other financial derivatives		-	-	-	-
Total	**12/31/2019**	**391,391**	**757,030**	**48,203**	**1,196,624**
Total	**12/31/2018**	**288,055**	**1,024,274**	**105,802**	**1,418,130**

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 counterparty	Banks	Other financial companies	Other entities
A. Financial derivatives				
1) Debt securities and interest rates				
- notional amount	-	2,135,724	-	-
- positive fair value	-	2,041	-	-
- negative fair value	-	9,363	-	-
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 by means of maturity ladder methodology 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:

$$\text{LCR} = \frac{\text{Stock* of high quality liquid assets}}{\text{Total expected** net cash flow in the subsequent 30 calendar days}}$$

(*) The stock of liquid assets is weighted on the basis of the quality of the same
(**) expected in a hypothetical scenario of stress defined by the regulator through the assignment of standard weighting coefficients for the various categories of inflows and outflows

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 satisfies this liquidity ratio and during the year it also implemented daily management of the ratio. At 31 December 2019, the LCR was 184.16%.
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 net 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	**299,026**	**1,444**	**78,041**	**51,705**	**522,647**	**761,460**	**1,015,919**	**3,066,038**	**617,905**	**3,704**
A.1 Government securities	-	-	-	-	153,388	150,438	101,000	-	-	-
A.2 Other debt	-	-	-	-	-	-	-	-	-	-
A.3 Units in	-	-	-	-	-	-	-	-	-	-
A.4 Loans	299,026	1,444	78,041	51,705	369,259	611,023	914,919	3,066,038	617,905	3,704
- Banks	14,788	-	-	20	166	164	326	-	33,500	3,704
- Customers	284,238	1,444	78,041	51,686	369,093	610,859	914,592	3,066,038	584,405	-
B. On-balance sheet liabilities	**711,200**	**6,841**	**7,754**	**159,799**	**496,993**	**578,877**	**1,156,998**	**2,308,488**	**135,038**	-
B.1 Deposits and	709,585	5,901	7,754	19,157	166,394	83,962	288,478	986,055	-	-
- Banks	-	-	-	-	90,000	-	130,000	-	-	-
- Customers	709,585	5,901	7,754	19,157	76,394	83,962	158,478	986,055	-	-
B.2 Debt securities	-	-	-	-	-	-	1,200	120,000	-	-
B.3 Other liabilities	1,615	941	-	140,642	330,599	494,914	867,320	1,202,433	135,038	-
C. Off-balance sheet transactions										
C.1 Physically settled financial derivatives										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.2 Cash settled financial derivatives										
- Long positions	-	-	-	79	342	-	-	-	-	-
- Short positions	-	-	-	381	792	2,057	4,019	-	-	-
C.3 Deposit to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Commitments to										
- Long positions	-	-	-	-	-	-	-	-	-	80,326
- Short positions	80,326	-	-	-	-	-	-	-	-	-
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 2019, the Bank was involved in two securitisations of performing loans for which it had subscribed all of the securities issued: Golden Bar 2015-1 and Golden Bar 2016-1.

The securitisations are stand-alone.

On 29 May 2019, the unwinding of the Golden Bar 2014-1 transaction was completed, with the subsequent repayment of the securities.

Again at 31 December 2019, Golden Bar 2018-1 and Golden Bar 2019-1 are both partially subscribed by third party investors.

Below is a summary of the main features of the transactions originated by Santander Consumer Bank in 2019:

Transaction	12/31/2019				
	Class	ISIN Code	Rating Moody's / DBRS	Activities	Outstanding al 31/12
Golden Bar 2014-1	A	IT0005026163		Car loan	0
	B	IT0005026189			0
	C	IT0005026197			0
Golden Bar 2015-1	A	IT0005137580	Aa3/ AAL	Car loan and Personnel loan	253,276,727
	B	IT0005137598	A2 / A		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 table below shows the details of the changes in securities during financial year 2019:

Transaction	Notional value			
	Opening balance	Increases	Expenses	Closing balance
Golden Bar 2014-1	126,654,356	- -	126,654,356	-
Golden Bar 2015-1	797,961,196	- -	369,684,469	428,276,727
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	Subordinate loans				
	Distribute	Opening balance	Increases	Expenses	Closing balance
Golden Bar 2014-1	18,830,000	-	-	-	-
Golden Bar 2015-1	25,030,000	-	-	-	-
Golden Bar 2016-1	49,500,000	-	-	-	-

Transaction	Cash Reserve				
	Composed	Opening balance	Increases	Expenses	Closing balance
Golden Bar 2014-1	18,800,000	6,332,718	- -	6,332,718	-
Golden Bar 2015-1	25,000,000	25,000,000	-	3,586,164	21,413,836
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 2014-1	-	-	-	-	-
Golden Bar 2015-1	-	-	-	-	-
Golden Bar 2016-1	22,000,000	22,000,000	-	-	22,000,000

	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 Stand Alone 2014-1						n.a.	n.a.	n.a.	n.a.
Golden Bar VFN 2015-1	407	318	110	21	5,823	n.a.	n.a.	n.a.	n.a.
Golden Bar VFN 2016-1	1,060	1,100		28		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 2019

Breakdown of the excess spread accrued during the year	12/31/2019			
	Golden Bar Stand Alone 2014-1	Golden Bar VFN 2015-1	Golden Bar VFN 2016-1	Auto ABS Balloon 2019-1
Interest expense on securities issued	(181)	(7,724)	(21,162)	(3,903)
Commisions and fees for the operation	(260)	(862)	(2,011)	(249)
- for servicing	(256)	(840)	(1,993)	(243)
- for other services	(4)	(22)	(18)	(6)
Other charges	(100)	(27,612)	(2,632)	(1,237)
Interest generated by the securitised assets	2,692	40,478	70,729	14,006
Other revenues	313	3,422	8	1,161
Total	**2,464**	**7,702**	**44,932**	**9,779**

Financial year 2018

Breakdown of the excess spread accrued during the year	12/31/2018			
	Golden Bar Whole Loan Note VFN 2013-1	Golden Bar Stand Alone 2014-1	Golden Bar VFN 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**

Section 5 – Operational risk

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 risk, but not strategic or reputation risks. Furthermore, the category of IT and cyber risks defined as the “overall risk level to which the company’s processes and assets in relation to a given IT system” are subject and the outsourcing risk, deriving from the choice of outsource one or more company activities to third party suppliers, are included in operational risk.

Operational risks are, therefore, pure risks, as they are linked only to negative manifestations of events closely linked to the Bank’s operations and its governance. In accordance with the requirements of the parent company, the bank has therefore established a framework for the governance 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 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).

With reference to IT risk, specific indicators are produced and monitored by the local IT function.

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.

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 2019 by risk category:

	2019			
Risk Type	**Net Losses**	**Net provisions**	**Addition and Uses**	**Net Op Risk Impact**
Internal Fraud				
External Fraud	182		(408)	(226)
Employment. Practices & Workplace Safety				
Clients, Products & Business Practices	9,023	3,699	(8,619)	4,102
Damage to Physical Assets				
Business Disruption & System Failures				
Execution, Delivery & Process Management	623	704	(1,937)	(609)
TOTAL	**9,828**	**4,403**	**(10,964)**	**3,267**

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

Captions/Amounts	Amount 12/31/2019	Amount 12/31/2018
1. Share capital	573,000	573,000
2. Share premium reserve	633	633
3. Reserves	243,370	163,894
- useful	203,457	123,981
a) legal	13,489	9,515
b) statutory	-	-
c) treasury shares	-	-
d) other	189,969	114,467
- other	39,913	39,913
4. Equity Instruments	-	-
5. (Treasury shares)	-	-
6. Valuation reserves:	(632)	(599)
- Equity instruments designated at fair value through other comprehensive	-	-
- 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 coverage	-	-
- 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	(632)	(599)
- Units of valuation reserves of investments valued at equity	-	-
- Special revaluation laws	-	-
7. Profit (loss) for the year	81,270	79,476
Total	**897,640**	**816,404**

B.2 Valuation reserves for financial assets measured at fair value through comprehensive income: breakdown

The Bank does not have any financial instruments classified under financial assets designated at fair value through comprehensive income.

B.3 Valuation reserves for financial assets measured at fair value through comprehensive income: change in the year

The Bank does not have any financial instruments classified under financial assets designated at fair value through comprehensive income.

B.4 Valuation reserves related to defined-benefit pension plans: change in the year

During the year there was a decrease in valuation reserves related to defined-benefit pension plans for an amount equal to Euro 33 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.

Quantitative information concerning the composition of own funds and capital adequacy is provided below. The table shows the amount of capital for supervisory purposes and its fundamental components which correspond to those indicated in supervisory reports.

Santander Consumer Bank Own Funds	Total	
	12/31/2019	12/31/2018
A. Capital primary Class 1 (Common Equity Tier 1 - CET1) before application of prudential filters	820,640	816,404
of which CET1 instruments subject to transitional provisions		
B. Prudential filters CET1 (+/-)	(3)	(2)
C. CET1 before items to be deducted and the effects of the transitional arrangements (A +/- B)	820,637	816,402
D. Deductions from CET1	24,736	11,095
E. Transitional regime - Impact on CET1 (+/-)		
F. Total Capital primary Class 1 (Common Equity Tier 1 - CET1) (C - D +/- E)	795,901	805,307
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	125,000	115,000
of which T2 instruments subject to transitional provisions		
N. Deductions from T2		
O. Transitional regime - Impact on T2 (+/-)		
P. Total Share of Class 2 (Tier 2 -T2) (M - N +/- O)	125,000	115,000
Q. Total own funds (F + L + P)	**920,901**	**920,307**

The table shows the amount of risk assets and capital requirements, according to information reported in supervisory reports.

Categories/Values	Non weighted assets		Weighted assets	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
A. RISK ASSETS				
A.1 Credit and counterparty risk	6,810,650	7,047,813	4,425,653	4,662,291
1. Standardized approach	6,810,650	7,047,813	4,425,653	4,662,291
2. IRB approach				
2.1 Foundation				
2.2 Advanced				
3. Securitizations				
B. CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			354,052	372,983
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			27,416	28,971
1. Basic indicator approach (BIA)				
2. Traditional standardized approach (TSA)			27,416	28,971
3. Advanced measurement approach (AMA)				
B.6 Other calculation elements				
B.7 Total capital requirements			381,468	401,955
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Weighted risk assets			4,768,352	5,024,432
C.2 Capital primary class1 / Risk			16.69 %	16.03 %
C.3 Capital Class 1 / Risk-weighted assets (Total capital ratio)			16.69 %	16.03 %
C.4 Total own funds / Risk-weighted assets (Total capital ratio)			19.31 %	18.32 %

Part G – Business combinations

The Bank has not realised any business combinations.

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 2019 to members of the management and control bodies and to managers with strategic responsibilities that fall within the definition of “related party”.

		12/31/2019
Short-term benefits		453
Post-employment benefits		-
Other long-term benefits		-
Termination indemnities		
Share-based payments		143
	Total	**596**

2. Related party disclosures

All transactions with related parties were concluded at arm’s-length conditions. Details are shown below (amounts in thousands of Euro):

	Receivables	Payables	Derivatives	Expenses	Income
Banco Santander	10,027	9,363	2,135,724	11,678	1,970
Santander Consumer Finance	-	2,395,795	-	11,373	-
Banca PSA Italia SpA	33,745	-	-	-	4,873
Altre Società del Gruppo Santander	152	26,608	-	4,189	150

Versus the Spanish Parent Company Banco Santander:

- the receivables mainly 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 accruals;
- 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 the result of hedging and trading activities linked to derivatives entered into as part of securitisation transactions;
- the income relates to the result of hedging and trading activities linked to 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 expense 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 197 thousand) and by the subordinated loan (Euro 33,547 thousand);

- the income relates to dividends (Euro 3,676 thousand), to interest income on the subordinated loan (Euro 449 thousand), to services arising from the internal audit contract (Euro 208 thousand), and the recovery of expenses in relation to seconded staff (Euro 539 thousand).

Relationships are also maintained with other companies of the Santander Group.

Receivables relate mainly to servicing activities provided (Euro 150 thousand).

Payables are determined by current accounts opened by Group companies (Euro 26,608 thousand), whereas the expenses mainly consist of interest expense accrued on loans requested (Euro 893 thousand) and consulting and services received (Euro 3,255 thousand). Income relates mainly to servicing activities provided (Euro 150 thousand).

Finally, it should be noted that there are credits in the amount of Euro 226 thousand and debits in the amount of Euro 756 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.

Part M – Report on leases

Section 1 – Lessee

Qualitative information

The Bank has applied IFRS 16 to lease agreements relative to the rental of offices by the Company for their activities (head office, branches, data centres) and the hire of vehicles for its employees.

The Bank has determined the duration of lease agreements by taking into account the original contract duration as well as the options for extension and resolution, also contractually provided. The probability of exercise of such options is defined on the basis of the Bank's internal procedures.

Cash outflows, to which the Bank is exposed as lessee and which are not included in the lease liability measurement, consists of variable payments due for Value Added Tax.

The sensitivity of variable payments due for leases is mainly correlated to the variability of the Istat consumer prices index for families of blue and white collar workers on which the lease payments of some lease contracts are indexed. The Bank has not been exposed to other risks deriving from leases.

There are no other forms of contractual variable quotes provided which are not included in the liability measurement. Expenses for ordinary maintenance of offices, for water supply, lighting and cleaning are chargeable to the Bank and are not included in the financial flows subject to lease liabilities pursuant to IFRS 16.

The Bank has evaluated the assets consisting in the right of use by using the initial value adjusted by amortisation, depreciation and impairment as well as any recalculations. In the 2019 financial year, the Bank exercised the right of withdrawal from a contract with the simultaneous signature of a new contract in the same town, and has renegotiated the contractual conditions relative to a branch office. No impairment has been recorded in relation to current contracts.

As at 31 December 2019, operations for the renegotiation of contractual conditions relating to some branches were under way, which will result in the signature of new agreements with the same lessors and will come into effect in the next financial year.

As at 31 December 2019, the Bank was not involved in any sale and leaseback operations, and it was exclusively involved in leases of modest value linked to rental of hardware.

Quantitative information

The following table reports the main quantitative information related to lease activity:

	ROU	ROU provisions for depreciation	Depreciation	Leasing low-value	Short term leasing	Proceeds sub-leasing
Total	**21,437**	**3,817**	**3,853**	**566**		**13**
- of which real estate	**19,350**	**2,252**	**2,288**			
- of which vehicles	**2,087**	**1,565**	**1,565**			

During 2019 assets consisting of the rights of use recorded a net change of Euro 267 thousand (value of the FTA of the ROU of Euro 21,169 thousand), mainly deriving from the exercise of the right of withdrawal from a contract relative to the branch office in Palermo, the opening of a new contract in the same town and the renegotiation of an existing contract. For information relating to assets for acquired rights of use, please refer to Part B, Assets - paragraph 8.6 "Property and equipment used for business purposes: change in the year".

Details of the information relative to lease liabilities is included in Part B, Liabilities - paragraph 1.2 "Financial liabilities measured at amortised cost: due to customers, breakdown by type". In relation to the details of maturities of lease liabilities, please refer to Part B - Liabilities 1.6 "Lease payables".

The information relative to interest expense on lease liabilities is included in Part C - Information on the income statement.

Section 2 – Lessor

Qualitative information

Financing transactions in the form of leasing offered by the Bank (lessor) consist of granting the use for an agreed period of time, upon payment of periodic lease charges (lease payment), of motor vehicles, motorcycles, camper vans, commercial vehicles purchased or constructed by the lessor by a third party supplier, as chosen and indicated by the customer, who 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. The sale provides for specific guarantee forms (Buy back by the Dealer) in the case of motor vehicles in ordinary leases to private entities, juridical or physical persons, and a limit instead on a financed product (Commercial vehicles of more than 35 tons) in the case of a commercial vehicle. Further specific product guarantees or restrictions may be defined at the sale stage by the sales management.

However, with regard to the customer profile, the rules applied are common and valid without distinction for all products and sales channels, therefore no diversified valuations are required for lease customers.

Quantitative information

1. Balance sheet and Income statement information

Details of the information relative to lease financing is included in Part B, Assets.

Details of the information relative to interest income on lease financing and on other revenues from financial leases are included in Part C.

2. Finance leases

2.1 Classification by time bands of payments to be received and reconciliation with lease financing recognised under assets

Maturity ranges	Total 12/31/2019 Lease payments receivables
Up to one year	29,561
Over one year up to 2 years	27,274
Over 2 years up to 3 years	27,779
Over 3 years up to 4 years	23,589
Over 4 years up to 5 years	15,774
For over 5 years	-
Amount of the lease payments receivables	**123,978**
Reconciliation of the undiscounted lease payments	12,058
Not accrued gains (-)	12,058
Not guarantee residual value (-)	-
Lease payments	**111,920**

2.2 Other information

There is no further information to be disclosed in this section.

3. Operating leases

The company has no operating leases.

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 (art. 2497-bis, art. 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 2018, 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.

SANTANDER CONSUMER FINANCE, S.A.
CONDENSED BALANCE SHEET AS OF 31 DECEMBER 2018 AND 2017

(EUR Thousands)

ASSETS	2018	2017	LIABILITIES AND EQUITY	2018	2017
Cash and balances at central banks	289,726	77,673	LIABILITIES		
Financial assets held for trading	67	1,625			
Financial assets through other comprehensive income	2,883,847		Financial liabilities held for trading	254	317
Financial assets available-for-sale		1,763,126	Financial liabilities at amortised cost	29,899,396	25,566,534
Financial assets at amortised cost	25,477,016		Derivatives – hedge accounting	35,629	71,276
Loans and receivables		21,987,201	Provisions	40,697	48,449
Derivatives – hedge accounting	115,013	101,156	Tax liabilities	258,479	239,278
Changes of the fair value of hedged items in an interest rate risk hedging portfolio	-	-	Other liabilities	39,452	38,157
Investments in subsidiaries, joint ventures and associates	12,055,896	11,910,467			
Tangible assets	127	206	**TOTAL LIABILITIES**	**30,273,907**	**25,964,011**
Intangible assets	14,048	6,857			
Tax assets	134,958	120,424	Equity	10,729,376	10,038,953
Other assets	11,482	29,435	Other comprehensive income	(15,471)	(2,371)
Assets included in disposal groups classified as held for sale	5,632	2,423			
			TOTAL EQUITY	**10,713,905**	**10,036,582**
TOTAL ASSETS	**40,987,812**	**36,000,593**	**TOTAL LIABILITIES AND EQUITY**	**40,987,812**	**36,000,593**
Memorandum items: off balance sheet items					
Loans commitment granted	1,732,388	1,609,348			
Financial guarantees granted	4,256,464	3,900,695			

SANTANDER CONSUMER FINANCE, S.A.
CONDENSED INCOME STATEMENT AS OF 31 DECEMBER 2018 AND 2017

(EUR Thousands)

	2018	2017
Interest income	268,874	263,529
Interest expenses	(134,485)	(143,373)
NET INTEREST INCOME	**134,389**	**120,156**
Dividend income	565,188	582,119
Income from companies accounted for using the equity method		-
Commissions income	32,163	28,977
Commissions expense	(55,140)	(49,110)
Gains or losses on financial instruments not at fair value through profit or loss, net	14	4,466
Gains or losses on financial instruments held for trading, net	-	474
Gains or losses from hedge accounting, net	-	25
Currency translation differences, net	(3,441)	(3,632)
Other operating income	203	372
Other operating expenses	(13,410)	(9,896)
OPERATING INCOME	**659,966**	**673,951**
Administration and general expenses	(56,292)	(68,120)
Depreciation and amortisation cost	(513)	(2,157)
Provisions or reversal from provisions, net	9,195	(1,194)
Impairment charges and reversals from financial assets not at fair value through profit or loss	(49,027)	(49,646)
NET OPERATING PROFIT	**563,329**	**552,834**
Impairment charges or reversals on investments in joint ventures and associates	-	(41,009)
Impairment charges or reversals on non-financial assets	-	(6,806)
Gains or losses on assets and liabilities included in disposal groups classified as held for sale from discontinued operations	786	1,706
PROFIT OR LOSS BEFORE TAX IN RESPECT OF CONTINUING OPERATIONS	**564,115**	**506,725**
Taxation	(4,578)	(43,848)
Gains or losses after tax in respect of continuing operations	559,537	462,877
PROFIT/(LOSS) AFTER TAX	**559,537**	**462,877**

Annexes

Annex 1 – First Time Adoption IFRS 16 – Valuation criteria and impacts

Reconciliation statements of the Consolidated Financial Statements

	Assets	12/31/2018	FTA SCB	FTA PSA	FTA PSA Renting	post-IFRS 16 01/01/2019
10.	Cash and cash balances	1,769				1,769
20.	Financial assets designated at fair value through profit or loss	4,525,909				4,525,909
	a) Financial assets held for trading	4,525,909				4,525,909
40.	Financial assets measured at amortised cost	9,170,245,650				9,170,245,651
	a) Loans and advances to banks	416,531,709				416,531,709
	b) Loans and advances to customers	8,753,713,940				8,753,713,940
60.	Changes in fair value of portfolio hedged items (+/-)	4,702,567				4,702,567
90.	Property, plant and equipment	5,824,083	21,169,327	1,595,619	114,026	28,703,055
100.	Intangible assets	11,149,356				11,149,356
110.	Tax assets	247,715,250				247,715,250
	a) current	43,570,927				43,570,927
	b) deferred	204,144,323				204,144,323
120.	Non current assets and disposal groups classified as held for sale	1,800				1,800
130.	Other assets	265,543,264				265,543,264
	Total assets	**9,709,709,648**	**21,169,327**	**1,595,619**	**114,026**	**9,732,588,621**

	Liabilities and Shareholders' equity	12/31/2018	FTA SCB	FTA PSA	FTA PSA Renting	post-IFRS 16 01/01/2019
10.	Financial liabilities at amortised cost:	8,172,148,750	21,169,327	1,595,619	114,026	8,195,027,722
	a) Deposits from banks	5,842,003,567				5,842,003,567
	b) Deposits from customers	1,173,866,402	21,169,327	1,595,619	114,026	1,196,745,374
	c) Debt securities in issue	1,156,278,781				1,156,278,781
20.	Financial liabilities held for trading	5,026,915				5,026,915
40.	Hedging derivatives	5,945,034				5,945,034
60.	Tax liabilities:	65,208,284				65,208,284
	a) current	65,152,913				65,152,913
	b) deferred	55,370				55,370
80.	Other liabilities	403,393,450				403,393,450
90.	Provision for employee severance pay	4,252,305				4,252,305
100.	Provisions for risks and charges:	25,292,037				25,292,037
	a) committments and guarantees given	88,765				88,765
	c) other provisions for risks and charges	25,203,272				25,203,272
120.	Redeemable shares -	409,425			-	409,425
150.	Reserves	189,405,596				189,405,596
160.	Share premium	632,586				632,586
170.	Share capital	573,000,000				573,000,000
190.	Minority shareholders' equity (+/-)	167,489,514				167,489,514
200.	Profit (Loss) of the year (+/-)	98,324,602				98,324,602
	Total liabilities and shareholders' equity	**9,709,709,648**	**21,169,327**	**1,595,619**	**114,026**	**9,732,588,620**

Reconciliation statements of the Separate Financial Statements

	Assets	12/31/2018	IFRS 16	post-IFRS 16 01/01/2019
10.	Cash and cash balances	1,144		1,144
20.	Held for trading financial assets	1,827,515		1,827,515
	a) Financial assets held for trading	1,827,515		1,827,515
40.	Financial assets measured at amortised cost	6,115,079,334		6,115,079,334
	a) Loans and advances to banks	45,691,978		45,691,978
	b) Loans and advances to customers	6,069,387,356		6,069,387,356
60.	Changes in fair value of portfolio hedged items (+/-)	4,013,196		4,013,196
70.	Equity investments	122,939,712		122,939,712
80.	Property, plant and equipment	5,690,536	21,169,327	26,859,862
90.	Intangible assets	11,094,968		11,094,968
100.	Tax assets	226,573,236		226,573,236
	a) current	25,009,942		25,009,942
	b) deferred	201,563,294		201,563,294
110.	Non current assets and disposal groups classified as held for sale	1,800		1,800
120.	Other assets	53,123,966		53,123,966
	Total assets	**6,540,345,407**	**21,169,327**	**6,561,514,733**

	Liabilities and Shareholders' equity	12/31/2018	IFRS 16	post-IFRS 16 01/01/2019
10.	Financial liabilities at amortised cost:	5,415,365,635	21,169,327	5,436,534,962
	a) Deposits from banks	3,836,963,711		3,836,963,711
	b) Deposits from customers	1,427,343,143	21,169,327	1,448,512,470
	c) Debt securities in issue	151,058,781		151,058,781
40.	Hedging derivatives	4,633,265		4,633,265
60.	Tax liabilities:	42,712,963		42,712,963
	a) current	42,712,963		42,712,963
80.	Other liabilities	240,614,591		240,614,591
90.	Provision for employee severance pay	3,135,661		3,135,661
100.	Provisions for risks and charges:	17,479,734		17,479,734
	a) committments and guarantees given	23,747		23,747
	c) other provisions for risks and charges	17,455,987		17,455,987
110.	Valuation reserves	- 599,106		- 599,106
140.	Reserves	163,894,176		163,894,176
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		79,475,902
	Total liabilities and shareholders' equity	**6,540,345,407**	**21,169,327**	**6,561,514,733**

Annex 2 Country-by-country-reporting as at 31 December 2019

Following the updating on 17 June 2014 of the Circular Letter of the Bank of Italy no. 285 of 17 December 2013, Chapter III, Section 2, which implements the provisions of art. 89 of Directive 2013/36/EU (CRD IV) on the issue of prudential supervision of credit institutions and investment firms, the following information is provided.

Company Name	Head Office	Activity	Revenue	Number of employees	Total profit or loss before tax	Tax income of the year	Public contributions received.
Santander Consumer Bank S.p.a.	Italy	Banking	276,604	618.5	114,328	- 33,058	-
Banca PSA Italia S.p.a.	Italy	Banking	116,701	158	82,168	- 26,972	-
PSA Renting Italia S.p.a.	Italy	Rental business and operating lease	13,344	3	2,393	286	-

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