Santander

CONSUMER BANK

Financial Statements at 31 December 2016

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

This is an English translation of the Italian original “Bilancio al 31 dicembre 2016” and has been prepared solely for the convenience of the international readers.
The Italian version takes precedence.

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General information

General information

Head office

Via Nizza 262, 10126 TORINO

Tel: 011/63.19.111 – Fax 011/63.19.119

Shareholder structure

Santander Consumer Finance S.A.

(Grupo Santander) 100%

Directors and officers

Board of Directors

Chairman	Ettore Gotti Tedeschi
Deputy Chairman	Vito Volpe
Chief Executive Officer	Alberto Merchiori
Directors	Francisco Javier Anton San Pablo (until 26/04/2016) Pedro De Elejabeitia Rodriguez (from 27/04/2016) David Turiel Lopez Adelheid Maria Sailer-Schuster

Board of Statutory Auditors

Chairman	Walter Bruno
Acting Auditors	Maurizio Giorgi Stefano Caselli
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. (di seguito anche Santander Consumer Bank o la Banca) nasce nel novembre del 1988 con il nome di Finconsumo S.p.A., a seguito dell'iniziativa di dieci aziende private di credito del nord-ovest, e della loro controllata Leasimpresa S.p.A. di Torino, con la finalità strategica di assicurare alle banche socie il presidio del Santander Consumer Bank S.p.A. (hereinafter also Santander Consumer Bank or the Bank) was founded in November 1988 with the name of Finconsumo S.p.A. on the initiative of ten private banks in the north-west of Italy and their Turin-based subsidiary Leasimpresa S.p.A. with the strategic aim of ensuring its shareholders a presence in the consumer credit market through a specialised entity.

Some key moments in the Company's history:

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

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Corporate Governance

Corporate Governance

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

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

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

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

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

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

The functions and powers of the corporate bodies are governed by law, the articles of association and the resolutions passed by the competent bodies.
The articles of association are available at the Company's head office and on its website (www.santanderconsumer.it).

The Board of Directors

The Board of Directors is appointed by the Shareholders' Meeting for a maximum of three years.
It elects a Chairman, and possibly a Deputy Chairman, from among its members. It can also appoint a Chief Executive Officer, establishing his powers; if appointed, the Chief Executive Officer also holds the position of General Manager.

The Board can also appoint a General Manager and one or more Deputy General Managers.
The current Board of Directors, which was appointed for the period 2015-2017, is made up as follows:

- Ettore Gotti Tedeschi (Chairman)
- Vito Volpe (Deputy Chairman)
- Alberto Merchiori (Chief Executive Officer)
- Pedro De Elejabeitia Rodriguez[1] (Director)
- Adelheid Maria Sailer-Schuster (Independent Director)
- David Turiel Lopez (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.

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[1] appointed by the Board of directors' meeting of 27.04.2016, pursuant to art. 2386 of the Italian Civil Code and confirmed by the Shareholders' meeting on 13.12.2016.

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., Santander Consumer Finance Media S.r.l., in liquidation, and Banca PSA Italia S.p.A. It exercises all of the functions pertaining to overall governance of the Group, dealing effectively with the various different issues that form part of its mandate.

With particular regard to the subsidiary Banca PSA Italia S.p.A., management and coordination activities are ensured not only by the presence of three members of the Board of Directors and two members 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 (i.e. Volcker Rule) and projects developed at Group level.

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

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

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

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

The Board of Directors is also responsible for:

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

During 2016, the Board met twelve times with a participation rate of 92%.

Board Committees

Nominations Committee

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

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

The Nominations Committee is composed as follows:

- Ettore Gotti Tedeschi (Chairman)

- Vito Volpe
- Adelheid Maria Sailer-Schuster

Remuneration Committee

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

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

The Remuneration Committee is composed as follows:
- Adelheid Maria Sailer-Schuster (Chairman)
- Vito Volpe
- David Turiel Lopez

Risk Committee

As required by the Rules, the Bank has set up a Risk Committee, the composition of which, its mandate, its powers (consultative, investigative, advisory) and the resources made available thereto are governed by the Regulations for the functioning of the Risk Committee.
The Risk Committee provides support to the Board of directors concerning risks and the internal control system, with a particular focus on activities that are instrumental and necessary for a correct and effective determination of the RAF (risk appetite framework) and of risk management policies; without prejudice to the sphere of competence of the Remuneration Committee, the Risk Committee also ascertains whether the incentives under the remuneration and incentive scheme of the Bank are consistent with the RAF.

The Risk Committee is composed as follows:
- Adelheid Maria Sailer-Schuster (Chairman)
- Pedro De Elejabeitia Rodriguez
- David Turiel Lopez

The Chairman of the Board of Directors

The Chairman promotes the effective functioning of the system of corporate governance, ensuring a balance of power with respect to the Chief Executive Officer, if appointed, and to the executive directors and acts as the interlocutor for the internal control bodies.
The Chairman also ensures the effectiveness of Board discussions and makes sure that the decisions reached by the Board are the result of adequate debate and contribution by its members.

The Chief Executive Officer

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

General Management

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

At 31 December 2016, the following were members of General Management: the Chief Executive Officer and General Manager Alberto Merchiori, Andrea Prioreschi (Head of Information Technology and Processes), Pier Marco Alciati (Head of Sales and Marketing), Antonella Tornavacca (Head of Collection), Emanuela De Marchi (Head of Risk), Pedro Miguel Aguero Cagigas (Head of Administration and Control), Savino Casamassima (Head of Institutional Relations, Legal and Compliance) and Adolfo Ravasio (Head of Finance).

The members of General Management directly oversee all functional areas of the Bank and ensure complete implementation of the strategic guidelines in the management and operating decisions made by them. The decision-making process is developed in relation to the roles and powers of each member of General Management, under the constant coordination of the Chief Executive Officer/General Manager.

General Management has the following functions, among other things:

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

The Shareholders' Meeting

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

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

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

The Board of Statutory Auditors

The current Board of Statutory Auditors, which was appointed for the period 2015-2017, is made up as follows:

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

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

In particular, their main activities include:

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

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

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

The Internal Standing Committees

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

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

The Management Committee

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

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

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

The Committee meets regularly, on a weekly basis.

The Money Laundering Analysis Committee

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

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

The Committee's main functions are as follows:

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

The Committee meets on a quarterly basis.

The Senior Risk Committee

The activities of the Senior Risk Committee are mainly geared to risk monitoring so as to have a complete overview of business risks (credit, structural and operational).It is made up of the Chief Executive Officer and General Manager, the Head of Risk, the Head of Sales and Marketing, the Head of Information Technology and Processes, the Head of Institutional Relations, Legal and Compliance, the Head of Collection, the Head of Administration and Control, the Head of Finance, the Head of the Risk Control Unit, the Head of Credit Policies and Credit Decision Systems, the Head of Wholesale Analysis, the Head of Retail Analysis, the Head of Planning and Control and the local Head of internal controls over financial reporting systems (Sarbanes-Oxley Act).

It meets every two months.

The Risk Management 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 is made up of the Chief Executive Officer and General Manager, the Head of Risk, the Head of Sales and Marketing, the Head of Credit Policies and Credit Decision Systems, the Head of Wholesale Analysis and the Head of Retail Analysis.

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

If transactions are to be approved, meetings are also attended by a representative of the Information Technology and Processes Department, a representative of the Sales and Marketing Department and a representative of the Collection Unit.

The Committee meets twice a month.

The Financial Risk Management Committee (ALCO)

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

It is made up of the Chief Executive Officer and General Manager, the Head of Finance, the Head of Administration and Control, the Head of Risk, the Head of Planning and Control, the Head of Treasury, the Head of Financial Management and of persons designated by the Finance department of the parent company Santander Consumer Finance S.A.

Meetings are also attended, if invited to do so, by the Head of the Risk Control Unit and the Head of the Parent Company's Structural Risks Department.

It normally meets on a monthly basis.

The Internal Audit Committee

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

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

It is made up of the Chief Executive Officer and General Manager, the Head of Institutional Relations, Legal and Compliance, the Head of Administration and Control, the Head of Risk, the Head of Internal Audit, the Head of Compliance and 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 Legal and Compliance 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 ensuring that the Group activities are compliant with current regulations, evaluating the adequacy of internal policies as well as the existence of potential legal/reputational risk.

The results of its activity are summarised in a report that is submitted quarterly to the Board of Directors; it is also sent to the pertinent structures of the parent company Santander Consumer Finance S.A.

The Committee is composed of the Chief Executive Officer and General Manager, the Head of Sales and Marketing, the Head of Legal and Institutional Relations, the Head of Collection, the Head of Administration and Control, the Head of Car and Special-Purpose Loans, the Head of Insurance, the Head of Legal and Corporate Affairs, the Head of Compliance, the Head of Risk Control and the Head of After-Sales Service.

The Committee meets on a quarterly basis.

Internal Control Coordination Committee (formerly Internal Control Committee)

This body was set up to monitor and control the effectiveness of second-level operating and accounting controls and the correct application of internal controls over financial reporting systems required by the Sarbanes-Oxley Act (SOX).
As part of the process of ensuring compliance with Bank of Italy Circular 263/2006, the composition and objectives of the Committee were revised with the aim of ensuring the coordination of internal control system project initiatives and to align, from an operational and methodological point of view, the approaches used in the execution of second/third-level controls, avoiding overlaps, gaps or duplications of activities.

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, the Head of Compliance.

The Committee meets on a quarterly basis.

The PIF and Cost Monitoring Committee

The 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 Risk, the Head of Institutional Relations, Legal and Compliance, the Head of Administration and Control and the Head of Planning and Control. The specific account managers and/or heads of the other departments can be invited to attend, depending on the need.

It normally meets on a monthly basis.

Collection Committee

The Committee's role is to monitor the Bank's debt collection activities. 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.

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

It normally meets on a monthly basis.

The Operational Risk Committee

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

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

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

It normally meets on a monthly basis.

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

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

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

The Board currently in office - up to the Shareholders' Meeting that will be convened to approve the financial statements at 31 December 2017 - is composed of the Chairman of the Board of Statutory Auditors of Santander Consumer Bank S.p.A., an external member and the Head of Compliance.
The Chairman of the Board of Statutory Auditors also acts as the Chairman of the Supervisory Board.

The Supervisory Board meets at least on a quarterly basis.

Report on corporate governance and the ownership structure

Pursuant to art. 123-bis of Legislative Decree 58 of 24 February 1998, which requires the disclosure of information, as detailed by paragraph 2 b) of the aforementioned article, regarding "the main features of risk management and internal control systems in place for the financial reporting process, inclusive of at consolidation level, where applicable", that issuers of securities admitted to trading on regulated markets must provide the market, it should be noted that the risk management system and the internal control system are designed to ensure the reliability, accuracy, trustworthiness and timeliness of financial reporting.
In addition to the foregoing, for further information concerning the procedures for monitoring and updating the risk management system, reference is made to Part E of the Explanatory Notes.

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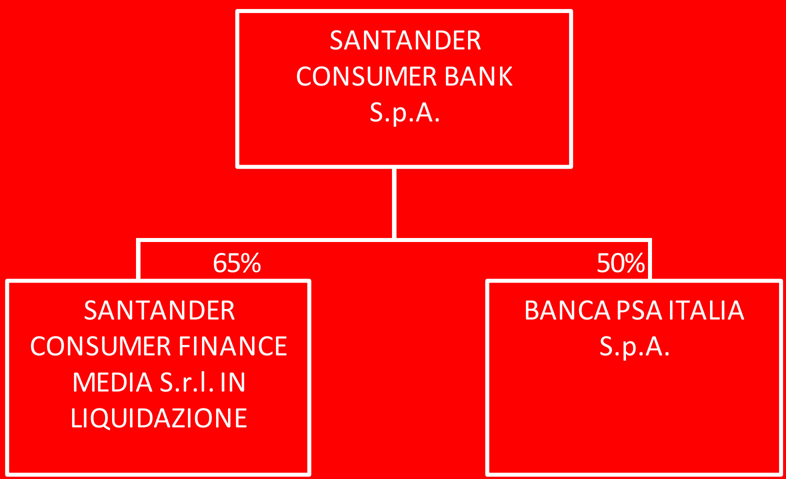
Consolidated financial statements of the Santander Consumer Bank Group



Santander
CONSUMER BANK

Report on Group operations

Report on operations

The macroeconomic scenario

In 2016, the international economy[2] improved slightly compared to the previous year, despite the various factors of uncertainty affecting the outlook. Global growth has been gradually increasing since the summer, but it has not translated into a strong upturn in world trade as expected.
In the third quarter of 2016, total employment stabilised, employees increased and the most up-to-date cyclical indications suggest moderate expansion in employment in the final months of 2016.
According to assessments by the International Monetary Fund (IMF), the global economy will have grown by 3.1% in 2016. In the third quarter of 2016, US GDP growth accelerated above the expected 3.5% yoy (from 1.4% in the previous period), private consumption continued to grow steadily, while investments continued to stagnate. Fourth quarter data point to buoyant economic activity.
In the United Kingdom, growth remained unchanged at 2.4% yoy, a higher-than-expected figure which helped to allay fears of a sudden slowdown in the wake of the Brexit referendum. Uncertainty about the economic repercussions in the interim period before Britain's exit from the European Union still remains high.
Growth continued in emerging countries, albeit with differentiated patterns. Growth remained stable in China, due in part to the effect of the fiscal and monetary stimulus, but there are still risks linked to the high indebtedness of the private sector and local governments. In India, GDP continued to grow apace (+7.3% yoy). In Brazil the recession is severe and the economic situation remains very uncertain, in part due to the confused political situation that persists. In Russia, following the following the upturn in oil prices, the decline in GDP eased (-0.4% yoy), strengthening the prospect of a return to growth.
The advanced economies have subsequently seen a slight increase in consumer inflation, thanks to the easing of the decline in energy prices, while emerging countries have seen a marginal reduction.
Estimates relating to prospects for growth were revised slightly upwards for almost all the main advanced economies, mainly due to the expected benefits from the expansionary budget policies announced in the United States and Japan, while the average for emerging countries, for which growth is expected in the next two years, was revised slightly downwards. The improvement of the outlook for Russia and other countries that produce raw materials was also confirmed.
After the slight recovery recorded in the second quarter, world trade continued to grow in the third quarter, but at modest pace that was lower than expected. In the first nine months of 2016, trade in emerging economies began to increase again compared to the same period in 2015, albeit at rates far below the average for the post-crisis period; trade in advanced economies suffered a sharp slowdown, feeling the effect of further weakening of investments, particularly in Japan and the United States. Compared to last October, the IMF revised world trade growth estimates for 2016 downwards by four tenths of a point (1.9%); the forecasts for 2017 remained unchanged.
The recovery of the global economy is therefore subject to various factors of uncertainty. US outlook will depend on the economic policies implemented by the new administration, the details of which have not yet been specified. According to the assessments of the key observation institutes, the measures announced in relation to budgetary policy could have an expansionary impact which is difficult to quantify at the moment, while restrictions on trade could have a negative impact. The normalisation of monetary policy in the United States and changes in exchange rates could be accompanied by turbulence in emerging countries.
Eurozone[3] GDP continues to grow at a moderate, but gradually strengthening, pace, driven by strong domestic demand. Uncertainty about the performance of the global economy, in part influenced by geopolitical tensions, is the major risk factor for economic activity. Inflation picked up in December, beginning to reflect expansionary monetary conditions, but still remains low.
Eurozone GDP grew by 0.3% in the third quarter of 2016 compared to the previous period, driven by domestic demand. Inflation is gradually rising and the risk of deflation has largely subsided, but core inflation still does not exhibit a stable upward trend.
The Governing Council of the ECB has extended the time horizon for the Eurosystem Expanded Asset Purchase Program (APP) at least until December 2017 or beyond, if necessary, and in any case until it sees a sustained adjustment in the path of inflation consistent with its objective of price stability.
In December, the third of the four new targeted longer-term refinancing operations (TLTRO-II) was carried out; 200 euro-area banks took part, obtaining funds amounting to around Euro 62 billion (Euro 48 billion net of the repayments of outstanding loans obtained under TLTRO-I).
Lending continued to expand: lending to both business and households increased. Having dropped sharply in recent months in response to ECB monetary policy measures, the average cost of new loans to businesses and of loans to households for house purchases stabilised around the lowest levels observed since the start of the Monetary Union (both at 1.8%).
The Bank of Italy's €-coin indicator, which estimates the underlying trend of Eurozone GDP growth, recorded a sharp increase in the autumn months and the PMIs also indicate that GDP continued to grow.
After the presidential elections in the United States, the extraordinary monetary policy measures in force in the Eurozone have mitigated the reaction of European rates, which had been greater on average in the past.

[2] Bank of Italy, Economic Bulletin, Issue 1/2017 January 2017
[3] ibidem

According to the projections by the central banks of the Eurosystem released in December, in 2017 GDP will rise by 1.7% (as in 2016), even if a high degree of uncertainty continues to surround the negotiations that will define the new trade relationship between the European Union and the United Kingdom.
In Italy[4], after the acceleration of GDP in the summer quarter, the Italian economy continued to recover in the autumn, albeit at a slightly lower pace compared to the previous period, driven by the increase in investment and the growth in household spending. Leading indicators point to a moderate expansion of economic activity in the first quarter of 2017 as well. Indeed, in the third quarter of 2016, GDP increased by 0.3% compared to the previous year, as in the Eurozone as a whole, and the latest available data suggest that GDP continued to grow at a moderate pace estimated to be around 0.2%.
Inflation shows signs of recovery but still remains weak. In 2016, inflation stood at -0.1%. Household consumption grew at a modest pace in the summer. A marked rise in disposable income was accompanied by a gradual increase in the propensity to save, which had fallen to very low levels in 2015.
In the summer, Italian household debt in relation to disposable income fell further, albeit slightly, remaining well below the Eurozone average. In the same period, interest rates on new mortgage loans continued to fall, confirming the trend that began in 2012.
The unemployment rate in the third quarter remained unchanged at 11.6%; at 64.9%, the participation rate also remained at the same level as in the previous quarter, breaking the expansionary cycle under way for around a year and a half.
According to provisional data, the unemployment rate rose slightly in October and November compared with the previous two months, paralleling the increase in the participation rate.
Projections for the Italian economy for the three-year period 2017-2019 envisage easier credit conditions and no significant adjustments compared with previous estimates, with the exception of consumer price inflation, which is expected to be higher than estimated in 2017.
In a nutshell, the scenario outlined by the latest projections is the following:

- **Monetary policy**. Maintenance of highly expansionary monetary conditions, reflected in the assumptions on long term German rates (less than 0.5% in the current year and moderately increased in subsequent years).
- **GDP**. Estimates anticipate an average increase of GDP in the three-year period 2017-2019 of 1% per year. More specifically, +0.9% in 2017 and +1.1% in the two-year period 2018-2019. Consumption is forecast to grow at a similar rate to output, and economic activity will be driven by domestic demand, as well as by the gradual strengthening of foreign demand.
- **Labour market**. Employment is forecast to grow, although at a slower pace compared to last year, as the social security contribution relief on new permanent hires is phased out. The unemployment rate will fall only gradually, going from 11.9% in 2015 to less than 11% in 2019: increased labour market participation in response to the improved economic outlook and structural factors such as the raising of the retirement age appear to be slowing the fall.
- **Inflation.** Inflation is expected to rise to 1.3% on average this year and the next, from -0.1% in 2016, and to 1.5% in 2019, due primarily to the higher prices of energy imports.

Industry trends

The consumer credit market recorded a good level of growth in 2016[5]. The negative trend that began in 2009 and got stronger in 2013 appears to have finally come to an end.
Car loans recorded a strong increase[6] thanks mainly to the trend in new car registrations, which rose by 16.2% in the 12 months of 2016, representing 1,847,493 cars, driven, above all, by business and car rentals[7] (27.7% and 16.6% respectively). There has also been a positive trend in new vehicle registrations that reached 193,814 units (+13.26%)[8], and in changes of ownership of vehicles excluding transfers to dealers (+4.1%)[9].
As far as car loans are concerned, note that, as seen in prior years, a significant proportion relates to captive companies, which in 2016 reached a weighting of 55% of new vehicle production.
As regards the car leasing market, as of December 2016, there had been a significant increase with respect to prior year (+23.97%), with Euro 8.9 billion of new loans[10]. The increase was mainly driven by segments in which the Group operates, namely, cars (+24.01%) and commercial vehicles (+23.89%)[11].

There has also been a positive trend in products aimed at purchases of household appliances and furniture, salary assignment, direct loans and credit cards[12].
During 2016, credit risk[13] dropped slightly thanks to selectivity in granting credit and prudence shown by households in purchase/investment decisions: as regards the consumer credit market, in September 2016, the default rate (i.e. an

[4] Ibidem
[5] In the first eleven months of 2016, +16.7% compared to the same period of the previous year, with new loans of approximately Euro 56 billion (Assofin data).
[6] +20.6% compared to the same period of the previous year (Assofin data at 31/11/2016).
[7] UNRAE data at 31/12/2016
[8] ANCMA data at 31/12/2016 for vehicles over 50 cc.
[9] ACI data at 31/12/2016
[10] ASSILEA data at 31/12/2016
[11] Ibidem.
[12] Respectively +5.7%, +7.5%, +15.1%, +21.4% compared to the same period of the previous year (Assofin data at 31/11/2016).
[13] Observatory on retail credit – Prometeia (http://www.prometeia.it/media/comunicati-stampa/ocd1612)

indicator of credit risk that measures new non-performing loans and delays of six or more instalments in the last year of data collection) indicated a level of risk that was down from the beginning of the year.

The outlook for the two-year period 2017-2018 is a scenario characterised by:

- consolidation of growth, net of some elements of uncertainty linked to economic prospects and policies and the process of regulatory reform of the financial system;
- better economic conditions for some families who could reconsider purchasing decisions, especially those relating to durable goods and real estate, that had been shelved during the crisis, thus increasing the use of credit.

Strategic guidelines

In accordance with the strategic guidelines of the Santander Group, management of the Santander Consumer Bank Group pursues the objectives of being the best consumer credit bank, gaining the loyalty of its employees, customers, shareholders and the community in which it operates.

As part of this mission and strategic direction, the expectations are listed below:

- **Customers.** To retain, and collaborate long-term with, existing customers/partners, in addition to seeking new opportunities for collaboration, maintaining market share and preserving its position in the reference market.
- **Shareholders.** To ensure steady, adequate and sustainable growth with value creation (RoRWA).
- **Funding management.** Collection activities aimed at supporting customer disbursement activities, with a focus on increasing the diversification of sources of finance.
- **Control/optimisation of operating costs**, ensuring their growth is lower than the growth in revenue.
- **Effective risk management.** Constant monitoring of the quality of the managed portfolio in order to consolidate capital strength and make sure the profitability target is achieved (RoRWA), and maintaining a steady percentage in dispute using an effective strategy of acceptance and recovery.
- **Capital.** Ability to generate capital independently and achieve levels of capitalisation in line with current regulations and with constraints imposed by the Supervisory Authority, as well as with the objectives agreed with the Parent Company.
- **Internal culture.** Developing and updating business skills and know-how, nurturing talent, improving skills.
- **Community and environment.** The aim is to continuously support the community in which the bank operates.

Strategic policy is constantly updated and agreed with Santander Group, with the aim of integrating and implementing best corporate practices.

The Commercial Network

The consumer credit market recorded a good level of growth in 2016. Against this background, the group Santander Consumer Bank Group recorded a significant increase in volumes compared to the previous year, with a good performance in the automotive sector and a slight contraction in salary/pension-backed loans.
In the automotive sector, the Parent Company Santander Consumer Bank recorded an increase of 5.4%, with good performance in brands relating to captive agreements, while in 2016 Banca PSA Italia contributed to the results of the consolidated financial statements in the total amount of Euro 662.3 million.
In 2016, sales of the salary assignment product recorded a decrease compared with the previous year (-20.5%), due to lower production from 106 intermediaries (specialised intermediaries authorised under art. 106 of the Consolidated Banking Act) as a consequence of the new competitive scenario facing them, while special-purpose loans closed the year with strong growth compared to the performance achieved in previous years (+133.2%): this increase is mainly due to the widening of the new agent network.
In terms of personal loans, the Santander Consumer Bank Group closed 2016 with a result 10.3% higher than at end-2015.
As regards credit card products, attention is instead being focused on managing the portfolio, focusing on profitability rather than on volumes. This strategy has led to a decrease on 2015 in terms of volumes financed (-10.8%).

Financial management - The macroeconomic scenario and the financial markets

Economic growth in the Eurozone in 2016 expanded moderately. At the same time, financial markets have been rather volatile, particularly in the wake of political events.

At international level, in June the ‘Leave’ campaign won the Brexit referendum, resulting in the resignation of the British prime minister, who supported the ‘Remain’ campaign. In the summer, the Japanese central bank introduced new monetary policy measures, aimed at stimulating the growth of inflation and the steepness of the country's interest rate curve. In November, in the US, the republican candidate Donald Trump won the presidential elections and the following month the Federal Reserve raised the Fed Funds rate by 25bps bringing it to 0.75%.

The European Central Bank (ECB) continued its growth stimulus efforts while maintaining high levels of liquidity. In March the ECB announced a second TLTRO operation aimed at facilitating access to credit, and reduced the benchmark rate for refinancing transactions, bringing it to 0% from the previous 0.05%.
Against this background, interest rates have remained consistently negative up to medium and long term maturities, showing even lower levels than the previous year. The Euro rate curve only began to show substantial upward movement on maturities over three years towards the end of the year as a result of the adjustment of inflationary expectations following the weakening of Euro against the dollar and the simultaneous increase in oil prices.

In the course of 2016, the EBA and the European Commission put forward a legislative proposal containing a package of amendments to be made to CRR/CRD/BRRD directives in order to harmonise the application of the MREL (minimum requirement for own funds and eligible liabilities) in Member States.

In brief, these amendments aim to integrate into the MREL the requirements already contained in the TLAC (Total loss absorbing capacity) of the Financial Stability Board, thus introducing clarifications aimed at making the loss absorption mechanism applied to systemic banks more efficient.

It is currently difficult to estimate the impact that these requirements will have on the composition of bank financing, and the capacity that the market will have to absorb the debt instruments issued for regulatory purposes.

With regard to the domestic situation, the Italian stock market achieved lower results compared to its European benchmarks due to events related to the banking system and its specific weighting on the index.

Following the reform of the Banks, in January 2016 the Council of Ministers approved the decree law for the reform of the BCC ("Cooperative Credit Banks"), making it obligatory for these banks to be transformed into a joint stock company. In October, in the wake of the reform of the banking structure, the boards of directors of the banks BPM and Banco Popolare approved their merger plan, thus creating the third largest Italian banking group. Banco BPM shares debuted in January 2017.

In December, Monte dei Paschi di Siena, whose stability has been questioned following the results of stress tests, failed to reach the levels established for the capital increase, pushing the Government to adopt an ad-hoc action plan to support the bank's recapitalisation and safeguard customer savings.

In addition to the above, the volatility of the indicators related to the situation in Italy has also been fuelled by expectations of a constitutional referendum, which in turn has affected the stability of the Government that proposed it. As a result of uncertainties about the outcome and aftermath of the referendum, from June 2016 Italian government bond spread got wider with respect to the German Bund and Spanish government bonds.

The financial management of the Group

The financial management of the Santander Consumer Bank Group is based on the sharing of guidelines and objectives set by the Parent Company that reflect the strategy of the Santander Consumer Finance S.A. Group. Banca PSA Italia is also supervised and coordinated by Santander Consumer Bank in terms of financing and enjoys decision-making and operational autonomy in compliance with the assigned limits. There are no intragroup funding transactions between the two Italian banks[14].

The financial management of Santander Consumer Bank

At the end of 2016, the net amount of financial indebtedness of Santander Consumer Bank came to Euro 5,098 million (+3.18% compared with 2015).

In the course of the financial year, the Bank reduced the recourse to loans disbursed by the Santander Group by increasing the weight of external sources of financing. Besides the usual instrument of securitisations, having as collateral loans originated by the Bank itself, the company relied on its EMTN programme and in particular on direct customer deposits through deposit accounts.

One new loan securitisation (GB 2016-1) was concluded during the year, with the issue, on 2 August 2016, of securities by the SPE Golden Bar (Securitisation) S.r.l. amounting to a nominal value of Euro 1,300,000,000. These securities, which were structured as variable funding, were issued for an initial value of Euro 1,100,000,000. The securities consist of Class A, B, C, D and E securities with a fixed coupon rate; Class F securities offer an excess spread. The legal maturity of the transaction is scheduled for 2040 with a period of four years during which the SPEs may purchase subsequent portfolios, financed by an increase in the value of the issued ABS securities up to a nominal value of Euro

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

1,300,000,000. The transaction has an underlying portfolio of loans guaranteed by salary or pension assignment and deductions at source. The Class A securities, which have been given a double rating, are suitable for refinancing operations with the European Central Bank.

The table below summarises ABS issues completed in 2016 with underlying receivables originated from Santander Consumer Bank.

Name	Class	CCY	Nominal Amount	Current Outstanding	Issue Rating	Issue Date	Maturity Date
Golden Bar 2016-1	**A**	Eur	1,066,000,000.00	902,000,000.00	A3 Moody's / A DBRS	08/02/2016	12/27/2040
Golden Bar 2016-1	**B**	Eur	32,500,000.00	27,500,000.00	Baa3 Moody's / BBB DBRS	08/02/2016	12/27/2040
Golden Bar 2016-1	**C**	Eur	45,500,000.00	38,500,000.00	Ba3 Moody's / BB DBRS	08/02/2016	12/27/2040
Golden Bar 2016-1	**D**	Eur	65,000,000.00	55,000,000.00	B2 Moody's / B DBRS	08/02/2016	12/27/2040
Golden Bar 2016-1	**E**	Eur	90,870,000.00	76,890,000.00	Unrated	08/02/2016	12/27/2040
Golden Bar 2016-1	**F**	Eur	130,000.00	110,000.00	Unrated	08/02/2016	12/27/2040

On 28 September 2016, the Golden Bar Stand Alone 2012-1 securitisation transaction was completed ahead of schedule, with the securities having been fully redeemed by Golden Bar (Securitisation) S.r.l. and the loans having been repurchased by Santander Consumer Bank S.p.A.

As of 31 December 2016, the total amount that had arisen from having participated in ECB auctions amounted to Euro 1,373 million, entirely attributable to TLTRO-I and TLTRO-II auctions. The Bank's short-term liabilities mainly consist of loans of variable durations of up to six months provided primarily by the Spanish Parent Company.
Intercompany medium- to long-term liabilities include medium-term loans again with the Spanish Parent Company and subordinated loans provided by Santander Consumer Group companies and by the Santander Group.

In July, the EMTN programme was renewed, taking the maximum amount to Euro 3 billion.
The programme, guaranteed by Santander Consumer Finance S.A., has obtained a rating equal to that of the Parent Company (P2/A3 by Moody's, A2/BBB+ by Standard &Poor's).
In the last quarter of 2016, the Bank issued a total of Euro 113 million over more tranches, mainly with a two-year maturity. As at the reporting date, outstanding issues represented a total of Euro 313 million (approximately 6% of the total).

Retail customer deposits increased significantly, from approximately Euro 370 million at the end of 2015 to approximately Euro 760 million at December 2016 (+ 106%). Further details on collection results are provided in the Deposit accounts section of the individual financial statements of Santander Consumer Bank.

On the whole, the cost of collection decreased in 2016 as a result of the use of more economic forms of financing and the reduction of interest rates and spreads paid.

In order to meet the regulatory requirements of short-term liquidity which entered into force in October 2015, the Bank invested in the last year in a portfolio of highly liquid eligible securities issued by the Italian government. The portfolio remained at values higher than Euro 400 million for the whole financial year, allowing the bank to remain at Liquidity Coverage Requirement (LCR) levels well above the regulatory limit fixed at 70% for 2016.

The financial management of Banca PSA

Funding of the Bank began on 1 January 2016 following the start of the Bank's operations.
Intercompany loans are the Bank'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 Parent Company. These sources are mainly attributable to the securitisation transaction in the amount of Euro 500 million, the details for which are shown below.

Name	Class	CCY	Nominal Amount	Current Outstanding	Issue Rating	Issue Date	Maturity Date
AUTO ABS Italian Loans Master	**A1**	Eur	350,000,000.00	249,999,500.00	AA+ Fitch / AA sf DBRS	09/09/2014	12/27/2028
AUTO ABS Italian Loans Master	**A2**	Eur	350,000,000.00	249,999,500.00	AA+ Fitch / AA sf DBRS	09/09/2014	12/27/2028
AUTO ABS Italian Loans Master	**B**	Eur	400,000,000.00	71,428,965.00	Unrated	09/09/2014	12/27/2028

In addition, Banca PSA opened a line of credit collateralised by trade receivables (pro-solvendo assignment) with a leading Italian bank counterparty. During the third quarter of the year, this was increased by Euro 150 million to Euro 200 million.

During the year, Banca PSA Italia took steps to improve its financial stability by lengthening the average term to maturity of its funding and by distributing the maturity dates, thus avoiding the concentration thereof. During the year, the Bank invested in a portfolio of highly liquid eligible securities issued by the Italian government amounting to Euro 80 million at the end of the year.

In 2016, the regulatory liquidity coverage requirement (LCR) was fixed at 70%, and is set to increase up to 100% from January 2018. The actions undertaken by the Bank have allowed this requirement to be met, with values largely above 100%.

Other facts worth mentioning

As regards the main risks and uncertainties to which the Group is exposed, in accordance with the provisions of art. 2428 of the Italian Civil Code, the economic situation and financial position are influenced by various factors that determine the macro-economic situation and the trend in financial markets. In particular, the recession that has continued to affect both the economic and the financial sector, is one of the biggest risks to growth in the capacity to generate income and to consolidate the capital and financial structure of the Company and of the Group.

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 385 of 1 September 1993, as updated to incorporate the amendments introduced by Legislative Decree 223 of 14 November 2016.
Management and coordination activities generally produce positive effects on the business and its results, as they permits 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.

No research and development was carried out during 2016.

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 section 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.

As previously indicated, there was an increase during the year in customer complaints received regarding loans secured by salary and pension assignment. Accordingly, the Group has further increased its provision for the potential liabilities, based on new elements that arose during the course of the year that have significantly influenced the measurement models used for financial statement recognition.

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

Since the end of the year and up to the date of approval of the draft financial statements by the Board of Directors, there have been no events or transactions that could have a significant impact on the results explained in this report. The draft financial statements therefore reflect all events that affected the Group's operations in 2016.

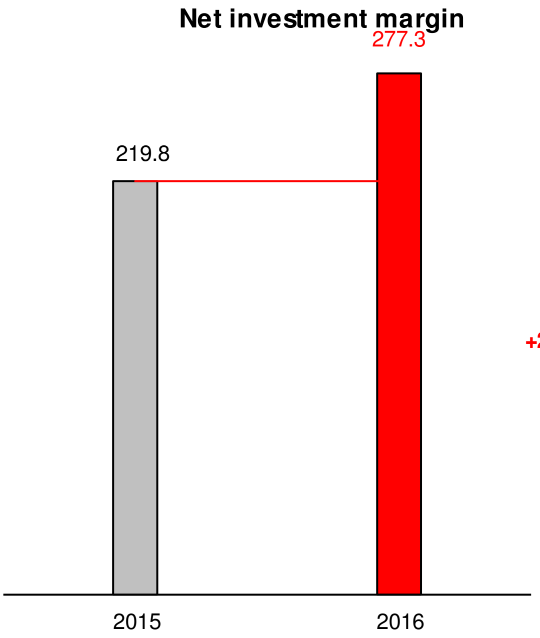
Reconciliation of the Parent Company's shareholders' equity and net income (loss) with the consolidated shareholder's equity and net income (loss)

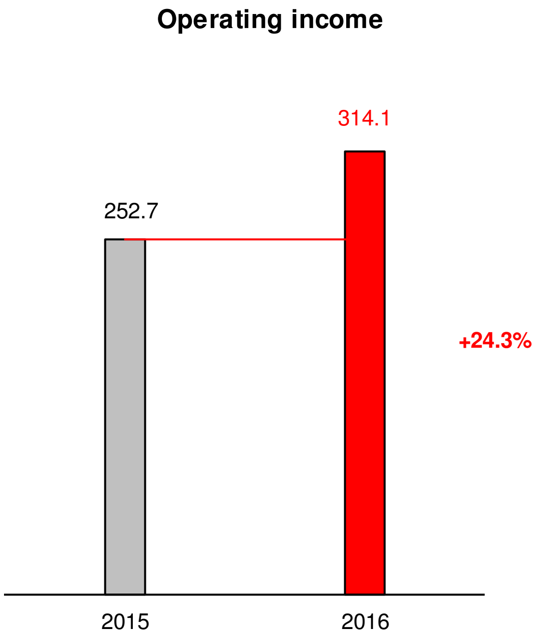
	Shareholders' equity	of which: Result at 12.31.2016
Balances of the Parent Company at 12.31.2016	**679.750.333**	**66.484.076**
Effect of consolidation of subsidiaries	12.996.221	12.686.326
Minority interests	111.821.308	12.742.705
Consolidated balances at 12.31.2016	**804.567.862**	**91.913.107**

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

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

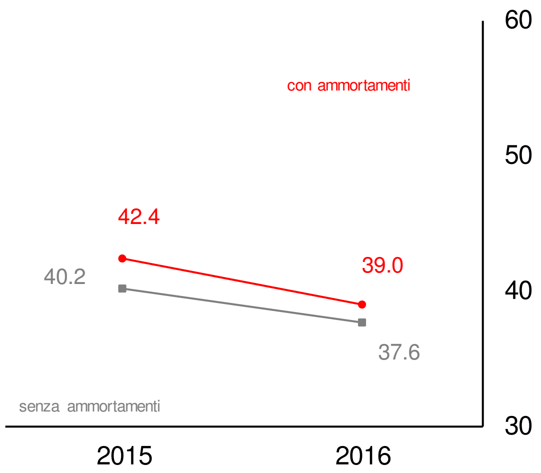
Amounts in millions of Euro	**2016**	**% TAA**	**2015**	**% TAA**	**Change**	
					Amounts	**%**
Net investment margin	**277.3**	**3.9**	**219.8**	**3.6**	**57.5**	**26.2**
Net fee and commission	38.9	0.5	37.1	0.6	1.8	4.9
Commercial margin	**316.2**	**4.4**	**256.9**	**4.2**	**59.3**	**23.1**
Net income (loss) financial assets and liabilities held for trading and FV adjustment in hedge accounting	(2.4)	0	(0.6)	0.0	(1.8)	300.0
Gains and losses on disposal of financial assets and liabilities	0.3	0	(3.6)	(0.1)	3.9	(108.3)
Operating income	**314.1**	**4.4**	**252.7**	**4.2**	**61.4**	**24.3**
other operating income (charges)	27.4	0.4	5.3	0.1	22.1	417.0
Administrative costs:	(145.7)	(2.0)	(106.9)	(1.8)	(38.8)	36.3
payroll costs	(54.2)	(0.8)	(38.8)	(0.6)	(15.4)	39.7
other administrative costs	(91.5)	(1.3)	(68.1)	(1.1)	(23.4)	34.4
Depreciation	(4.2)	(0.1)	(5.6)	(0.1)	1.4	(25.0)
Net operating margin	**191.7**	**2.7**	**145.6**	**2.4**	**46.1**	**31.7**
Impairment losses on financial assets	(46.3)	(0.6)	(83.0)	(1.4)	36.7	(44.2)
Other provisions	(11.6)	(0.2)	(14.3)	(0.2)	2.7	(18.9)
Total profit or loss before tax	**133.8**	**1.9**	**48.3**	**0.8**	**85.5**	**177.0**
Tax	(41.9)	(0.6)	(13.4)	(0.2)	(28.5)	212.7
Net profit or loss	91.9	1.3	34.9	0.6	57.0	163.3
Consolidated income (loss) of the period	**91.9**	**1.3**	**34.9**	**0.6**	**57.0**	**163.3**
Holdings income (loss) of the period	**79.2**	**1.1**	**35.0**	**0.6**	**44.2**	**126.3**





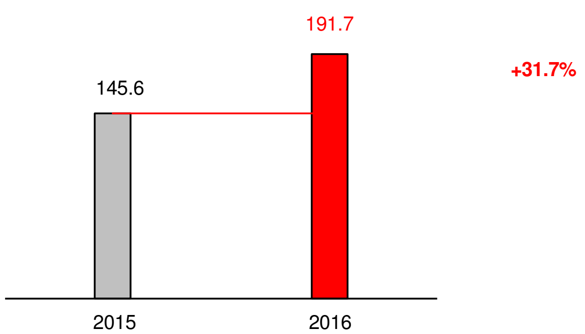
As a preliminary comment, note that the reference year figures include the results of Banca PSA Italia S.p.A., which is part of the Santander Consumer Bank Group and started operating on 1 January 2016.
The interest margin therefore shows a significant increase compared to the previous year: interest income increased (+19.3%) mainly due to the inclusion of Banca PSA Italia’s portfolio, which contributed at consolidated level to the increase in loans to customers (+39.2%). Interest expense remains substantially in line with the previous year since the contraction recorded by the Parent Company, facilitated by the drop in market rates and spreads, is compensated by the interest expense recorded by Banca PSA Italia (+19.7%).
Net fee and commission income increased compared to the comparative prior period, in so far as the higher level of lending, mainly due to production by Banca PSA Italia, amply compensates for the decrease recorded by the Parent Company.
Net interest and other banking income increased by 24.3% compared to the previous year: in addition to the above-mentioned effects, it is noted that the results for the year were positively influenced by the gradual reduction of the negative value of securitisation derivatives.
Administrative costs increased significantly compared to the previous year (+36.3%). This increase is due to an increase in personnel expense for both Santander Consumer Bank (+6.8%) and Banca PSA Italia (+32.7%), as well as an increase in other operating expenses (+34.4%) mainly attributable to Banca PSA Italia (+32.4%), partly offset by a lower depreciation and amortisation charge for the Parent Company (-25.0%).
Impairment losses on loans decreased significantly as a result of the improvement of the quality of the managed portfolio.
“Other provisions” decreased (-18.9%) mainly due to lower provisions for litigation by the Parent Company.
2016 closed with a net profit of Euro 91.9 million (Euro 79.2 million of which attributable to the Parent Company), a significant increase compared to 2015.

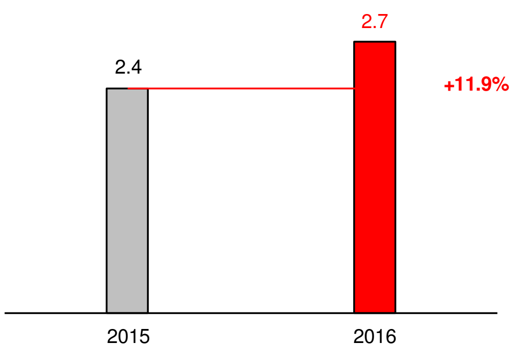
Efficiency Ratio



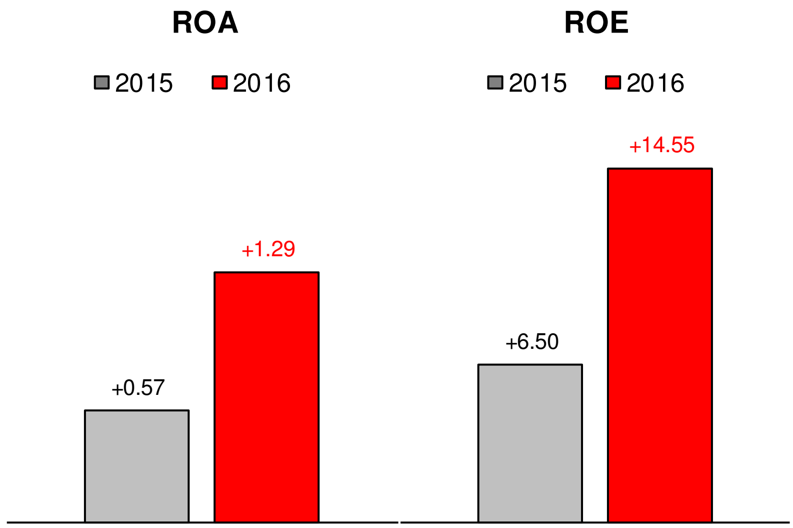
The efficiency ratio, which is the ratio of the sum of administrative expenses and other net operating income (with and without depreciation and amortisation) to net interest and other banking income, improved compared with the previous year.

Net operating margin

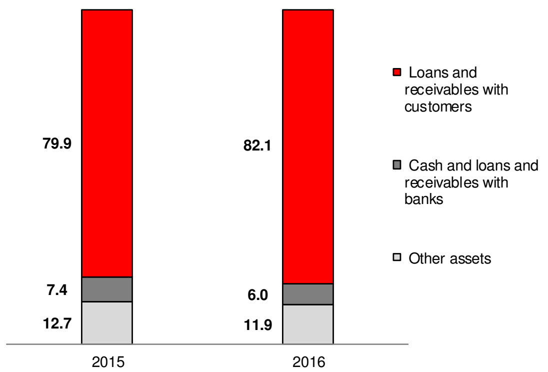


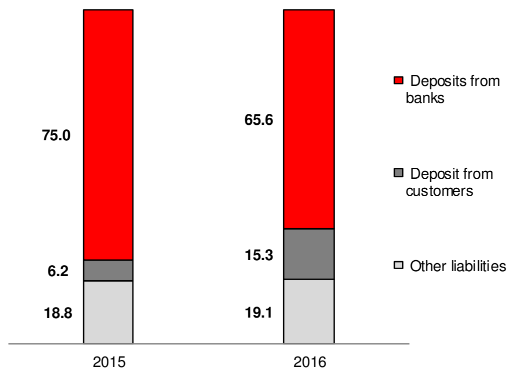


Net operating income (EBIT), calculated as the sum of net interest and other banking income, other income and expenses, administrative costs and depreciation and amortisation, grew by 31.7%. It increased by 11.9% compared to the previous year as a proportion of average total assets.



As a result of these trends, ROA (Return on Assets) shows a significant increase to 1.29% and ROE (Return On Equity) came to 14.55%.



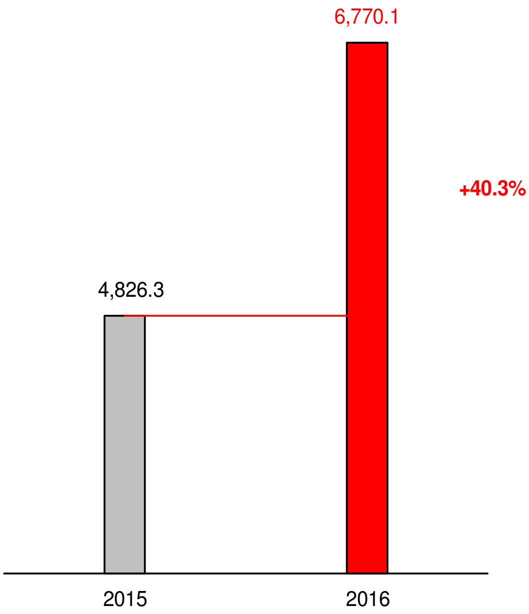


The asset mix is characterised by an increase in “Loans to customers” as a result of the inclusion of Banca PSA Italia’s porfolio, while there was a slight reduction of “Due from credit institutions” and other assets in relation to total assets.
Regarding the structure of sources of funds, on the other hand, there was a significant increase in amounts due to customers, consisting mainly of demand and time deposit accounts offered by the Parent Company and the debt relating to Banca PSA Italia securitisation transactions. The amounts owed to credit institutions have reduced thanks to lower borrowings, while other liabilities remain virtually stable.

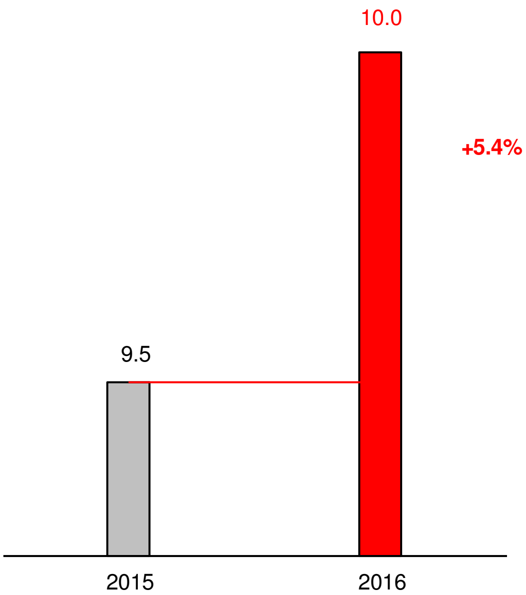
Amounts in millions of Euro			Change	
	2016	2015	Amounts	%
Car loan	3,077	1,896	1,181	62.3
Special-purpose loan	34	33	1	3.0
Personnel loan	1,027	1,218	(191)	(15.7)
Cards	14	21	(7)	(33.3)
Leasing	272	40	232	580.0
Salary assignment	1,685	1,696	(11)	(0.6)
Stock financing	995	190	805	423.7
Other loans to customers	9	3	6	200.0
Other components of amortised cost	45	59	(14)	(23.7)
Gross loans to customers	**7,158**	**5,156**	**2,002**	**38.8**
Provision for loan losses	(388)	(330)	(58)	(17.6)
Net loans to customers	**6,770**	**4,826**	**1,944**	**40.3**

As regards the change in loans to customers, there was a significant increase compared to the previous year (+40.3%) as a consequence of the entry into operation of Banca PSA Italia. Analysing the details by product, there is a substantial increase in both retail car loans (+62.3%, +7.4% of which relates to Santander Consumer Bank and +54.9% to Banca PSA Italia), and wholesale car loans (stock financing), and leasing. The salary/pension-backed loans portfolio remains stable (-0.6%), while personal loans and credit cards are down, respectively, 15.7% and 33.3%.
“Other components of amortised cost” mainly relate to net amounts of contributions and commissions that are paid when a loan is granted but for which the income statement effect thereof is deferred over the expected residual life of the loan.

Loans and receivables with customers



Loans per employee



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

In 2016, the operations of the company, which went into liquidation from 11 December 2014, have continued, in continuity with the previous year, with the management of the remaining loan portfolio until its natural maturity.

Outstanding receivables (net of contributions due of Euro 69 thousand, and related adjustments of Euro 1.1 million) at 31 December 2016 amount to Euro 5.8 million. This item includes due from banks in the amount of Euro 2.0 million and decreased by 37% compared to the previous year. Write-downs of loans adequately cover the credit portfolio per past due time band, which has developed in line with expectations.

Other asset items include deferred tax assets that will be fully convertible into tax credits at the end of the liquidation. Indeed, in July 2016, the Parent Company Santander Consumer Bank, within the scope of the domestic tax consolidation scheme that was renewed in 2015 for the three-year period 2016-2018, exercised the deferred tax asset conversion option as provided for by art. 11 of Decree Law 59/2016 (Law 219/2016).

The liability side indicates the settlement of the outstanding medium/long term loan with the parent Santander Consumer Bank, due to expire in October 2016 and no longer renewed as a result of having more than adequate liquid funds to cover the ordinary cash needs of the company in liquidation.

Changes in the income statement are consistent with the decrease in the aggregate values of the assets and liabilities, mainly as a result of the cessation of new lending in the first half of 2014 at the end of the commercial agreement with Utet Grandi Opere S.p.A. Indeed, in 2016, no new contributions were charged to commercial counterparties, while contributions attributable to the year amounted to Euro 217 thousand (down by 62% compared to prior year) which, net of interest expense of Euro 11 thousand (84% lower than in 2015) led to net interest income of Euro 206 thousand (60% lower than in the previous year).

Commission expense, including the cost of the services provided by the parent company, Santander Consumer Bank, amounted to Euro 121 thousand (51% lower than prior year).

Loss provisions recognised in connection with loans to customers amount to Euro 166 thousand, whereas the sale without recourse of loans in the year did not result in the recognition of any losses in the financial statements, since the loans in question had been fully written down.

2016 closed with a loss of Euro 258 thousand before tax and Euro 188 thousand net of the positive tax balance resulting from the IRES tax recovery generated by domestic tax consolidation.

Banca PSA Italia S.p.A.

Banca PSA Italia S.p.A. began operating on 1 January 2016, through a capital increase of Euro 130,309 thousand and the constitution of a share premium reserve of Euro 23,544 thousand, subscribed 50% by Santander Consumer Bank S.p.A. and 50% by Banque PSA Finance SA through the transfer of the “Retail & Wholesale” business segment.

Operating on the Italian market, the Bank mainly offers financing and leasing on cars from the Peugeot group.

The financial year to which the financial statements refer was spent focusing on the task of settling the consumer credit portfolio received with the transfer of the business unit and, in parallel, continuing, with increased impetus, the activity of managing the Bank and developing the commercial offering, as well as strengthening the corporate structure.

In the course of 2016, the Bank granted financing totalling Euro 662.3 million, improving on its own forecasts.

The financing in question, intended for the purchase of new cars, accounted for 29% of the PSA Group’s car sales in 2016, laying the foundations for the development of the commercial offering.

In terms of breakdown by product, 78% of the year’s lending relates to financing for the purchase of new vehicles, 8% to the purchase of used vehicles and, finally, 14% to lease financing.

A similar breakdown can be seen in the composition of the loan stock at the end of the financial year, which includes the outstanding amount of loans in favour of corporate dealers for stock financing operations (retail instalments 54%, corporate dealers 35% and lease financing 11%).

Against this highly dynamic background, 2016 closed with a net profit of Euro 25,617 thousand.

The Euro 1,889,521 credit portfolio, together with the sale of ancillary services, contributed, with an average profitability of 4.6%, to generating a positive earning margin which, together with a very high quality loan portfolio that generates a particularly moderate cost of risk, covered operating costs totalling Euro 35,048 thousand, partly incurred to support the Company during this transformation phase (consultancy costs constitute 4% of the item Other administrative expenses).

Santander
CONSUMER BANK

Independent Auditors' Report on the consolidated financial statements at 31 December 2016

Independent Auditors' Report on the consolidated financial statements at 31 December 2016

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INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF 27 JANUARY 2010

To the shareholder of
Santander Consumer Bank SpA

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Santander Consumer Bank SpA, which comprise the consolidated balance sheet as of 31 December 2016, the consolidated income statement, the statement of consolidated comprehensive income, the statement of changes in consolidated shareholders' equity, the consolidated statement of cash flows for the year then ended and the related notes, which include a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of Santander Consumer Bank SpA are responsible for the preparation of consolidated financial statements that give a true and fair view in compliance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005 and article 43 of Legislative Decree No. 136/2015.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to article 11 of Legislative Decree No. 39 of 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view, in order to plan and perform audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

PricewaterhouseCoopers SpA

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

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20, paragraph 3, of Presidential Decree 445/2000

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Santander Consumer Bank SpA as of 31 December 2016 and of the result of its operations and cash flows for the year then ended in compliance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005 and article 43 of Legislative Decree No. 136/2015.

Further notice

The consolidated financial statements of Santander Consumer Bank SpA as of 31 December 2015 has been audited by another auditor that, on 11 March 2016, has issued a clean opinion on this consolidated financial statements.

Report on compliance with other laws and regulations

Opinion on the consistency with the consolidated financial statements of the report on operations and of certain information set out in the report on corporate governance and ownership structure

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion, as required by law, on the consistency of the report on operations and of the information set out in the report on corporate governance and ownership structure of Santander Consumer Bank SpA referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, which are the responsibility of the directors of Santander Consumer Bank SpA, with the consolidated financial statements of the Santander Consumer Bank SpA as of 31 December 2016. In our opinion, the report on operations and the information in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of Santander Consumer Bank SpA as of 31 December 2016.

Milan, 13 March 2017

PricewaterhouseCoopers SpA

Signed by

Marco Palumbo
(Partner)

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

Santander
CONSUMER BANK

Consolidated financial statements

Consolidated Balance Sheet

In euros

Balance sheet - Assets	12/31/2016	12/31/2015	Changes	
			absolute	%
10. Cash and cash equivalents	4,491	4,168	323	7.7%
20. Held for trading financial assets	2,991,723	4,576,959	(1,585,236)	-34.6%
40. Available-for-sale financial assets	492,395,147	407,389,431	85,005,716	21.0 %
60. Due from banks	497,864,293	449,018,981	48,845,312	10.9%
70. Loans to customers	6,770,120,523	4,826,256,467	1,943,864,056	40.3%
90. Changes in fair value of portfolio heged items (+/-)	9,372,096	24,246,480	(14,874,384)	-61.3%
120. Property, plant and equipment	1,432,296	1,712,877	(280,581)	-16.4%
130. Intangible assets	8,179,274	9,140,815	(961,541)	-10.5%
140. Tax assets	239,713,087	265,302,023	(25,588,936)	-9.6%
a) current tax assets	27,784,555	42,162,477	(14,377,922)	-34.1%
b) deferred tax assets	211,928,532	223,139,546	(11,211,014)	-5.0 %
of wich Law 214/2011	200,309,370	210,985,347	(10,675,977)	-5.1%
150. Non-current assets held for sale and discontinued operations	4,600		4,600	0.0%
160. Other assets	224,739,631	53,919,390	170,820,241	316.8%
Total Assets	**8,246,817,161**	**6,041,567,591**	**2,205,249,570**	**36.5%**

Liabilities and Shareholders' equity	12/31/2016	12/31/2015	Changes	
			absolute	%
10. Due to banks	5,413,578,551	4,528,988,810	884,589,741	19.5%
20. Due to customers	1,261,269,812	376,113,780	885,156,032	235.3%
30. Debt securities in issue	313,036,718	300,044,578	12,992,140	4.3%
40. Held for trading financial liabilities	3,248,567	5,091,080	(1,842,513)	-36.2%
60. Hedging derivatives	12,920,450	28,642,822	(15,722,372)	-54.9%
80. Tax liabilities	38,957,018	20,597,727	18,359,291	89.1%
a) current tax liabilities	38,824,321	20,491,635	18,332,686	89.5%
b) deferred tax libilities	132,697	106,092	26,605	25.1%
100.Other liabilities	368,664,979	185,906,628	182,758,351	98.3%
110. Provision for employee severance pay	4,355,414	3,638,628	716,786	19.7%
120. Provisions for risks and charges	26,217,793	21,529,716	4,688,077	21.8%
b) Other reserves	26,217,793	21,529,716	4,688,077	21.8%
140. Revaluation reserves	(568,123)	(1,608,310)	1,040,187	-64.7%
170. Reserves	40,511,687	(43,522,393)	84,034,080	-193.1%
180. Share premium	632,586	632,586		0.0%
190. Issued capital	573,000,000	573,000,000		0.0%
210. Minorities (+/-)	111,821,307	7,547,939	104,273,368	1381.5%
220. Net Profit (Loss) for the year (+/-)	79,170,402	34,964,000	44,206,402	126.4%
Total liabilities and Shareholders' Equity	**8,246,817,161**	**6,041,567,591**	**2,205,249,570**	36.5%

Consolidated Income Statement

In euros

Items	12/31/2016	12/31/2015	Changes	
			absolute	%
10. Interest and similar income	352,241,416	295,164,782	57,076,634	19.3%
20. Interest expense and similar charges	(74,892,061)	(75,319,599)	427,538	-0.6%
30. Net interest margin	**277,349,355**	**219,845,183**	**57,504,172**	**26.2%**
40. Commissions income	107,024,453	101,822,989	5,201,464	5.1%
50. Commissions expense	(68,157,526)	(64,751,781)	(3,405,745)	5.3%
60. Net commission income	**38,866,927**	**37,071,208**	**1,795,719**	**4.8%**
80. Net trading income	(859,709)	268,818	(1,128,527)	-419.8%
90. Net hedging gains (losses)	(1,496,860)	(872,160)	(624,700)	71.6%
100. Gains (losses) on disposal or repurchase of:	256,212	(3,567,829)	3,824,041	-107.2%
a) loans	(4,992)	(3,567,829)	3,562,837	-100.0 %
b) available-for-sale financial assets	261,204		261,204	
120. Net banking income	**314,115,925**	**252,745,220**	**61,370,705**	**24.3%**
130. Net losses / recoveries on impairment of:	(46,254,759)	(82,964,962)	36,710,203	-44.2%
a) loans	(46,009,294)	(82,983,585)	36,974,291	-44.6%
b) available-for-sale financial assets	(245,465)		(245,465)	0.0%
d) other financial assets		18,623	(18,623)	-100.0%
140. Net income from financial activities	**267,861,166**	**169,780,258**	**98,080,908**	**57.8%**
170. Net profit from financial and insurance activities	**267,861,166**	**169,780,258**	**98,080,908**	**57.8%**
180. Administrative expenses:	(145,654,883)	(106,872,329)	(38,782,554)	36.3%
a) payroll costs	(54,165,878)	(38,817,694)	(15,348,184)	39.5%
b) other administrative costs	(91,489,005)	(68,054,635)	(23,434,370)	34.4%
190. Net provisions for risks and charges	(11,567,183)	(14,347,811)	2,780,628	-19.4%
200. Net adjutments / writebacks on tangible assets	(694,884)	(1,512,305)	817,421	-54.1%
210. Net adjustments / writebacks on intangible assets	(3,524,328)	(4,050,992)	526,664	-13.0%
220. Other operating expenses / income	27,425,418	5,253,920	22,171,498	422.0%
230. Operating costs	**(134,015,860)**	**(121,529,517)**	**(12,486,343)**	**10.3%**
280. Profit (loss) from continuing operations before tax	**133,845,306**	**48,250,741**	**85,594,565**	**177.4%**
290. Income taxes on continuing operations	(41,932,199)	(13,382,977)	(28,549,222)	213.3%
300. Profit (loss) from continuing operations after tax	**91,913,107**	**34,867,764**	**57,045,343**	**163.6%**
320. Net profit (loss) for the year	**91,913,107**	**34,867,764**	**57,045,343**	**163.6%**
330. Net profit (loss) attributable to minority interests	12,742,705	(96,236)	12,838,941	-13341.1%
340. Net profit (loss) attributable to the parent company	**79,170,402**	**34,964,000**	**44,206,402**	**126.4%**

Statement of Consolidated Comprehensive Income

In euros

		12/31/2016	12/31/2015
10.	**Net Profit (Loss) for the year**	**91,913,107**	**34,867,764**
	Other comprehensive income after tax not to be recycled to income statement		
40.	Defined benefit plans	370,012	5,661
	Other comprehensive income after tax to be recycled to income statement		
90.	Cash flow hedges	1,079,003	2,025,853
100.	Available-for-sale financial assets	(387,957)	184,021
110.	Non current assets classified as held for sale		
120.	Valutation reserves from investments accounted for using the equity method		
130.	**Total of other comprehensive income after tax**	**1,061,058**	**2,215,535**
140.	**Comprehensive income (Item 10+130)**	**92,974,165**	**37,083,299**
150.	Consolidated comprehensive income attributable to minorities	12,763,576	(96,236)
160.	**Consolidated comprehensive income attributable to Parent Company**	**80,210,589**	**37,179,535**

Statement of changes in Consolidated Shareholders' Equity

Financial year 2016

In euros

				Allocation of prior year results		Changes during the year						
							Transactions on shareholders' equity					
	Group shareholders' equity at 31.12.15	Changes in opening balances	Balance at 1.1.2016	Reserves	Dividends and other allocations	Changes in reserves	Derivatives on treasury shares	Stock options	Changes of ownership interesrs	Comprehensive income for 2016	Group shareholders' equity at 31.12.2016	Minority interests at 31.12.2016
Share capital:	580,450,000		580,450,000						65,154,500		573,000,000	72,604,500
a) ordinary shares	580,450,000		580,450,000						65,154,500		573,000,000	72,604,500
b) other shares												
Share premium reserve	632,586		632,586						11,772,185		632,586	11,772,185
Reserves:	(43,328,218)		(43,328,218)	3,867,764		80,000,000			14,653,187		40,511,688	14,681,046
a) retained earnings	(84,697,912)		(84,697,912)	3,867,764		81,457,008					528,921	97,939
b) other	41,369,694		41,369,694			(1,457,008)			14,653,187		39,982,768	14,583,107
Valuation reserves	(1,608,310)		(1,608,310)							1,061,059	(568,124)	20,872
Equity instruments												
Treasury shares												
Net profit (loss) for the period	34,867,764		34,867,764	(3,867,764)	(31,000,000)					91,913,108	79,170,403	12,742,705
Shareholders' equity	563,465,883		563,465,883		(31,000,000)	80,000,000			70,080	80,210,590	692,746,553	
Minorities interests	7,547,939		7,547,939						91,509,792	12,763,576		111,821,307

Financial year 2015

In euros

				Allocation of prior year results		Changes during the year						
							Transactions on shareholders' equity					
	Balance at 31.12.2014	Changes in opening balances	Balance at 1.1.2015	Reserves	Dividends and other allocations	Changes in reserves	Derivatives on treasury shares	Stock options	Changes of ownership interesrs	Comprehensive income for 2015	Group shareholders' equity at 31.12.2015	Minority interests at 31.12.2015
Share capital:	580,450,000		580,450,000								573,000,000	7,450,000
a) ordinary shares	580,450,000		580,450,000								573,000,000	7,450,000
b) other shares											-	
Share premium reserve	632,586		632,586								632,586	
Reserves:	(46,106,714)	122,990	(45,983,724)	2,655,506							(43,522,393)	194,175
a) retained earnings	(87,476,408)	122,990	(87,353,418)	2,655,506							(84,892,087)	194,175
b) other	41,369,694		41,369,694								41,369,694	
Valuation reserves	(3,700,854)	(122,990)	(3,823,844)							2,215,534	(1,608,310)	
Equity instruments												
Treasury shares												
Net profit (loss) for the period	2,655,506		2,655,506	(2,655,506)						34,867,764	34,964,000	(96,236)
Shareholders' equity	526,286,349		526,286,349							37,179,534	563,465,883	
Minorities interests	7,644,175		7,644,175							(96,236)		7,547,939

Consolidated Cash Flow Statement (indirect method)

In euros

A. OPERATING ACTIVITIES	Amount 12/31/2016	Amount 12/31/2015
1. Cash generated from operations	**300,731,280**	**66,156,713**
- net profit for the year (+/-)	91,913,108	34,867,764
- net gains/losses on financial assets held for trading and financial assets/liabilities designated at fair value through profit and loss (+/-)		511,071
- gains (losses) from hedging activities (+/-)	1,242,727	666,003
- net adjustments for impairment (+/-)	36,066,102	82,288,115
- impairment/recoveries to property and equipment and intangible assets (+/-)	5,272,372	5,116,082
- net provisions for risks and charges and other costs/income (+/-)	7,800,999	17,072,045
- net premiums not collected (-)		
- other income insurance income/expense not collected (-/+)		
- unsettled taxes (+)	36,982,843	15,557,753
- impairment/recoveries to disposal groups net of tax effect (-/+)		
- other adjustments (+/-)	121,453,128	(89,922,120)
2. Cash generated/absorbed by financial assets	**(2,193,363,460)**	**(44,566,236)**
- financial assets held for trading	(793,659)	(991,377)
- financial assets designated at fair value through profit and loss		
- financial assets available for sale	(83,179,341)	(406,517,019)
- due from banks: on demand	(318,881,446)	110,291,896
- due from banks: other receivables	267,628,615	207,200,678
- loans to customers	(1,977,473,190)	45,261,561
- other assets	(80,664,440)	188,025
3. Cash generated/absorbed by financial liabilities	**1,862,245,860**	**(17,652,164)**
- due to banks: on demand		
- due to banks: other debts	889,542,770	(339,452,449)
- due to customers	880,980,900	164,988,966
- debt securities issued	12,992,140	199,123,071
- financial liabilities held for trading		
- financial liabilities designated at fair value through profit and loss		
- other liabilities	78,730,050	(42,311,752)
Net cash generated/absorbed by operating activities	**(30,386,320)**	**3,938,313**
B. INVESTING ACTIVITIES		
1. Cash generated by	**71,398**	**1,707,796**
- sale of equity investments		
- dividends collected on equity investments		
- sale of financial assets held to maturity		
- sale of property and equipment	71,398	1,707,796
- sale of intangible assets		
- sale of lines of business		
2. Cash absorbed by	**(18,684,754)**	**(5,652,157)**
- purchase of equity investments		
- purchase of financial assets held to maturity		
- purchase of property and equipment	(490,865)	(528,157)
- purchase of intangible assets	(3,610,782)	(5,124,000)
- purchase of lines of business	(14,583,107)	
Net cash generated/absorbed by investing activities	**(18,613,356)**	**(3,944,361)**
C. FINANCING ACTIVITIES		
- issue/purchase of treasury shares		
- issue/purchase of equity instruments	80,000,000	
- dividends distributed and other allocations	(31,000,000)	
Net cash generated/absorbed by financing activities	**49,000,000**	
NET CASH GENERATED/ABSORBED IN THE YEAR	**323**	**(6,048)**

Legend:
(+) generated
(-) absorbed

RECONCILIATION

Items	Amount	Amount
	12/31/2016	12/31/2015
Cash and cash equivalents at beginning of year	4,168	10,216
Net increase (decrease) in cash and cash equivalents	323	(6,048)
Cash and cash equivalents: effect of change in exchange rates		
Cash and cash equivalents at end of year	4,491	4,168

Santander
CONSUMER BANK

Notes to the Consolidated Financial Statements

Part A - Accounting policies

A.1 – General information

Section 1 – Declaration of compliance with International Financial Reporting Standards

Pursuant to Legislative Decree 38 of 28 February 2005, the Consolidated Financial Statements of 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 Regulation no. 1606 of 19 July 2002.
The Consolidated Financial Statements for the year ended 31 December 2016 have been prepared in accordance with Circular 262/05 as subsequently amended by the 4th update of 15 December 2015 "Guidelines for the preparation of the financial statements and the consolidated financial statements of banks and finance companies of banking groups" issued by the Bank of Italy, in the exercise of the powers established by art. 9 of Legislative Decree no. 38/2005 and with the Regulation of 22 December 2005. These Instructions establish binding rules governing the financial statements and how they are to be prepared, including the contents of the notes.
In preparing the Financial Statements the IAS/IFRS in force at 31 December 2016 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 changes in shareholders' equity, statement of comprehensive income, cash flow statement and the notes to the financial statements and are also accompanied by the directors' report on the operations, results and financial position of the Santander Consumer Bank Group.
In accordance with the provisions of art. 5 of Legislative Decree 38/2005, the Financial Statements have been prepared using the euro as the functional currency.
The amounts in the financial statements are expressed in euros, whereas unless otherwise specified, those in the notes and the report on operations are expressed in thousands of euros.
The Financial Statements are prepared in accordance with the general principles laid down in IAS 1 and the specific accounting standards endorsed by the European Commission, as described in Part A.2 of these notes. In particular, these Financial Statements have been prepared on a going concern basis (IAS 1 para. 25 and para. 26), in accordance with the principle of accrual accounting (IAS 1 para. 27 and para. 28) and in compliance with the consistency of presentation and classification of items in the financial statements (IAS 1 para. 29). The assets and liabilities, income and expenses have not been offset unless required or permitted by a standard or interpretation (IAS 1 para. 32).
No exceptions have been made to the application of IAS/IFRS.
In addition to the figures for the reporting period, the financial statements and notes also provide comparatives at 31 December 2015.
The report on operations and the notes provide the information required by International Accounting Standards, by Italian law and by the Bank of Italy, as well as other non-mandatory information considered necessary to give a true and fair view of the Group's situation.
The preparation of financial reports requires the use of estimates and assumptions that may have a significant effect on the amounts recognised in the balance sheet and income statement, and on the disclosure of contingent assets and liabilities reported in the Financial Statements. The development of such estimates involves the use of available information and the adoption of subjective judgements based on past experience, which are used to formulate reasonable assumptions for recording corporate events. By their nature, the estimates and assumptions used can vary from year to year, which means that it cannot be excluded that in future years the figures in the Financial Statements may differ significantly due to changes in the subjective judgements used.
The main situations in which management has to make subjective judgements include the following:

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

Contents of the consolidated financial statements

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

Statement of comprehensive income

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

"Net profit (loss)" is the same amount shown in item 320 of the income statement.

The "other elements of income, net of taxes" include changes in the value of assets recorded during the year with contra-entry to the valuation reserves (net of tax).

Statement of changes in shareholders' equity

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

Cash flow statement

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

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

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

Contents of the notes to the financial statements

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

Section 3 – Scope of consolidation and consolidation method

1. Investments in subsidiaries

Company name	Head office	Type of relationship (1)	Nature of holding		% of votes (2)
			Parent company	% held	
Santander Consumer Finance Media S.r.l. in liquidazione	Turin	1	Santander Consumer Bank S.p.A.	65	
PSA Italia S.p.A.	Milan	3	Santander Consumer Bank S.p.A.	50	

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

7 = joint control

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

Voting rights are only shown if different from the percentage shareholding. There are no potential voting rights.

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

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

The scope of consolidation includes Santander Consumer Finance Media S.r.l. in liquidation, Banca PSA Italia S.p.A. and the segregated funds pertaining to the SPE Golden Bar S.r.l. (Securitisation) and Auto Abs Italian Loans Master 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.

Santander Consumer Bank holds an equity interest of 65% in Santander Consumer Finance Media S.r.l. in liquidation. In the absence of further elements (contractual arrangements) that could be taken into account in determining whether control exists, it is believed that the control assessment requirements of IFRS 10 have been met.

Banca PSA Italia S.p.A. (formerly PSA Italia S.p.A.), which was set up on 30 October 2014, was granted a banking licence by the European Central Bank on 6 October 2015.
The Parent Company, Santander Consumer Bank, and Banque PSA Finance each hold 50% of the share capital and the existence of control by Santander Consumer Bank was determined based on the following assumptions.
The company was set up under a framework agreement entered into between Santander Consumer Finance Group and Peugeot Group, through its subsidiary Banque PSA Finance.
The subsidiary offers a wide range of consumer financial services focused on the automotive sector.
As previously stated, based on IFRS 10, a company controls an investee if it has the ability, by means of a legal or substantial right, to significantly impact management decisions that affect the amount of the investor's returns and where it is exposed to variable returns.
In assessing the existence of control, identification was made of the relevant activities, that is, the activities that significantly affect the investee's returns, and the manner in which decisions are made in relation to these activities.
Activities identified as relevant, in a company that operates in the investee's sector, are financing activities, inclusive of ALM, risk management and commercial management.
Under the framework agreement executed by both Groups, by means of a casting vote, Santander Consumer Bank has the power to direct two of the three strategic areas; financing activities and risk management.
The above factors have led the two shareholders to conclude that Santander Consumer Bank exercises control over PSA Italia S.p.A. and that Banque PSA Finance exercises a significant influence thereover.
As regards the analysis performed of the impact of IFRS 10 on securitisations transactions, on account of the contractual structure thereof and of the role played by both Santander Consumer Bank and Banca PSA as originator and servicer of the transactions, who have the power, under the related contracts, to direct the relevant activities that impact the results of the securitised portfolios, and, as subscribers of the respective Junior securities, are exposed to the returns on the portfolios, it has been concluded that the portfolios need to be consolidated.
It has been deemed that there are no such requirements for the respective SPEs Golden Bar S.r.l and Auto Abs Italian Loans Master S.r.l, given that they are not subject, either from an equity interest or a contractual point of view, to control by the Group.
The following is a list of the owners of the segregated funds included in the consolidation:

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

3. Investments in subsidiaries with significant minority interests

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

Company name	Minorities interests %	Minorities votes availability % (1)	Dividends paid to minorities
Santander Consumer Finance Media S.r.l. in liquidazione	35%	35%	35%
PSA 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)
Santander Consumer Finance Media S.r.l. in liquidazione	7,476		5,648			7,215	206	85	(176)	(258)	(188)		(188)		(188)
Banca PSA Italia S.p.A.	2,229,822	1	2,070,562	60	1,880,802	218,550	61,936	67,090	(22,674)	39,295	25,617		25,617		25,617

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

There is no further information to be disclosed.

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. With regard to the initial consolidation of Auto Abs Italian Loans Master, a summary method was applied, in order to maintain visual alignment.
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 17 February 2017.
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 2016.

Section 5 - Other aspects

Listed below are changes to international accounting standards or related interpretations, approved by the European Commission, that have become effective as from 1 January 2016:

- Amendments to IAS 1 - Presentation of Financial Statements;

The changes are intended to improve the effectiveness of reporting and to encourage companies to determine, with professional judgement, the information to be entered in the financial statements.

- Amendments to IAS 27 - Separate financial statements:

The changes relate to the possibility of accounting for investments in subsidiaries, joint ventures and associated companies according to the equity method.

- Amendments to IFRS 10 - Consolidated financial statements;
- Amendments to IFRS 12 - Disclosure of interests in other entities;
- Amendments to IAS 28 - Investments in associates and joint ventures;

The changes to these three standards are intended to clarify the requirements for entry into the accounts of investments and to provide for exemptions in special situations.

- Amendments to IAS 16 - Property, plant and equipment
- Amendments to IAS 41 - Agriculture
- Amendments to IAS 38 - Intangible assets
- Amendments to IFRS 11 - Joint arrangements
- Amendments to IFRS 5 - Non current assets held for sale and discontinued operations.
- Amendments to IFRS 7 - Financial instruments: disclosures
- Amendments to IAS 19 - Employee benefits
- Amendments to IAS 34 - Interim financial reporting

These changes are not of particular significance to the Group's financial statements.

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

- IFRS 15 - Revenue, in force since 1 January 2018 in replacement of IAS 18 - Revenues, establishes the criteria and timing for the recognition of revenue from contracts to customers;
- IFRS 9 - Financial Instruments, in force since 1 January 2018 in replacement of IAS 39 - Financial Instruments: recognition and measurement, establishes the new criteria for the recognition and measurement of financial instruments, as well as the transition from an incurred losses to an expected losses impairment model.
- Amendments to IFRS 2 - Share-based payments, in force from 1 January 2018

Listed below are the international accounting standards issued or modified by the IASB not yet approved by the European Commission:

- IAS 7 - Statement of cash flows: the amendment, in force since 1 January 2017, lays down new disclosures on the changes in liabilities related to financial activities;
- IAS 12 - Income Taxes: the amendment, in force since 1 January 2017, clarifies methods of recognising deferred taxes on unrealised losses;
- IFRS 12 - Disclosure of interests in other entities: in force from 1 January 2017, amends the disclosures provided for investments held for sale;
- IFRS 16 - Leasing, in force from 1 January 2019.

Complete copies of the last Financial Statements with the Reports on Operations of the companies that at 31 December 2016 were subsidiaries or associates, and that their respective Boards of Directors will submit for approval of their shareholders' meeting by 30 April 2017, 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 2016 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.

A.2 – Main captions in the financial statements

This section explains the accounting policies used to prepare the 2016 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 held for trading

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
Derivatives traded in connection with securitisations are classified within this category. Derivatives are recognised as an asset if the fair value is positive and as a liability if the fair value is negative. These contracts are not subject to net settlement by either counterparty.
Reclassifications to other categories of financial assets are not allowed unless rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Measurement and recognition of components affecting the income statement
Subsequent to initial recognition, assets available for sale 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.

2. Available-for-sale financial assets

Recognition
Financial assets represented by debt or equity instruments are initially recognised on the settlement date, while loans are recognised on the payout date.
Upon initial recognition, financial assets are measured at fair value, including transaction costs and income directly attributable to the instrument. If, when permitted by the accounting standards, recognition occurs as a result of reclassification from "Financial assets held to maturity", the carrying amount is the fair value at the time of the transfer.

Classification
This category includes financial assets that are not otherwise classified as Loans, Assets held for trading, Assets held to maturity, or Assets designated at fair value through profit and loss.
In particular, this category comprises debt securities that are not held for trading and that are not classified as Assets held to maturity or designated at fair value through profit and loss or which are classified as Loans.

Measurement
Subsequent to initial recognition, "Financial assets available for sale" are measured at fair value, with recognition in the income statement of the corresponding value at amortised cost, while gains or losses arising from changes in fair value are recorded in a specific equity reserve until the financial asset is derecognised or an impairment loss is recognised. Upon disposal, in whole or in part, or on recognition of impairment, the accumulated gains or losses are recognised in profit or loss.
For the determination of fair value, estimates and valuation models are used based on prices quoted on an active market.
"Financial assets available for sale" are subject to impairment testing to determine whether there is objective evidence of impairment. If such evidence exists, the amount of the loss is measured as the difference between the carrying amount of the assets and their fair value.
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. The amount of the reversal shall not in any case exceed the amortised cost that the instrument would have had in the absence of previous adjustments.

Derecognition
Financial assets are only derecognised if their disposal 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 legally ownership of the assets has effectively been transferred.
Even if the transfer of essentially all the risks and benefits cannot be demonstrated, financial assets are derecognised if no form of control over them has been retained. Otherwise, even if only part of this control has been retained, the assets

have to be kept in the balance sheet at an amount that reflects the residual involvement, measured by the exposure to changes in the value of assets sold and to variations in their cash flows.
Lastly, financial assets that have been sold are derecognised if the company retains the contractual rights to receive the cash flows, with a simultaneous obligation to pay such cash flows, and only them, to third parties.

3. Loans and receivables

Recognition
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 including costs/revenues that are both directly attributable to the individual loans and identifiable from the start of the transaction, even if they are settled at a later time.

Classification
Loans include loans to customers and to banks, whether granted directly or acquired from third parties, with fixed or determinable payments, that are not quoted in an active market and which were not originally classified as “Financial assets available for sale”. Loans also include lease receivables, salary assignment and delegation of payment, as well as loans sold in connection with securitisations that do not satisfy the conditions laid down by IFRS 10.

Measurement and recognition of components affecting the income statement
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 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. These include loans classified as non-performing in compliance with current Bank of Italy regulations. These loans are collectively assessed and the adjustment made for the loans equates to the difference between their carrying amount at the time of measurement (amortised cost) and the present value of expected cash flows, discounted using the original effective interest rate. Adjustments are booked to the income statement. The original value of loans 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 such adjustments. The writeback is recorded in the income statement. Loans for which there is no objective evidence of impairment, i.e. those usually classified as performing loans, are periodically assessed and adjusted if they are deemed to be impaired. This assessment takes place by homogeneous loan categories in terms of their credit risk and the relative loss percentages are estimated taking into account past experience, based on observable elements at the measurement date, which make it possible to estimate the value of the loss for each category of loans. Adjustments that are calculated on a collective basis are charged to the income statement.

Derecognition
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.

4. Hedging derivatives

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

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

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

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

Recognition of components affecting the income statement
In the case of CFH derivatives, as long as the effectiveness of the hedge remains, changes in the fair value of the hedging derivative are recorded in a specific cash flow hedging reserve with these reserves merely being released on expiry of the derivative or the ineffective portion being transferred to the income statement on failing the effectiveness test. In the case of FVH derivatives, changes in the fair value of the hedging derivative and of the hedged item are recognised in the income statement.
Differentials on hedging derivatives, whether FVH or CFH, are recognised in the income statement on a pro-rata basis.

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. Tangible assets

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

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

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

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

7. Intangible assets

Classification
This category includes non-monetary, identifiable intangible assets with a useful life of several years, represented 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 value 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 and liabilities associated with groups of assets held for sale

Recognition
In this category are recognised non-current assets whose carrying value 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 value 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 value 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. Financial liabilities held for trading

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

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

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

11. 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.

Provisions for risks and charges include the provisions for risks and charges dealt with in IAS 37.

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.

12. Debts and debt securities issued

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, debt securities issued and financial liabilities held for trading represent the various forms of interbank and customer funding.

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

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

13. 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.
On the basis of IAS 19 - Employee Benefits, the accounting treatment of the various components are as follows: personnel charges include interest costs (which correspond to the change in the current value of 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). Actuarial gains and losses (reflecting any variation in the present value caused by changes in the macroeconomic scenario or in interest rate estimates) have been posted to shareholders' equity.

Provisions for commitments and guarantees given
There are no guarantees given or commitments.

Share-based payments
There are no share-based payments.

Revenue recognition
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. The characteristics include the following:

- the condition and location of the asset;
- any restrictions on the sale and use of the asset.

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.

For the criteria used for the determination of the fair value of financial assets and liabilities, please see Part A Accounting policies – A.4 Information on fair value.

Method of determining amortised cost

The amortised cost of a financial asset or liability 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 of a financial asset or a liability 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 of the financial asset or liability, 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.
On the cost side, 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 mentioned in the sections on the measurement of loans and debts and debt securities issued, measurement at amortised cost 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

At each reporting date, financial assets classified as “held for trading” are subjected to an impairment test to verify whether there is objective evidence that their carrying amount may not be fully recoverable.
There is impairment if there is objective evidence of a reduction in future cash flows compared with those originally estimated, as a result of specific events; the loss must be quantified in a reliable manner and associated with actual events rather than just expected events.
The assessment of impairment is carried out on an individual basis for financial assets that present specific evidence of impairment and collectively for financial assets for which no analytical assessment is required or for which analytical assessment did not result in an impairment.
Loans to customers and banks are subject to analytical assessment if they have been classified as doubtful, unlikely to pay or past due according to the definitions of the Bank of Italy, which are consistent with IAS/IFRS.
These non-performing loans are assessed analytically and the adjustment made to each position represents the difference between their carrying amount at the time of measurement (amortised cost) and the present value of expected cash flows, discounted using the original effective interest rate.
Expected cash flows take account of the likely recovery period, the estimated realisable value of any guarantees obtained and the probable costs to be incurred to recover the outstanding loan. Cash flows relating to loans whose recovery is expected in the short term are not discounted, as the financial factor is not significant.
Loans for which there is no objective evidence of loss are assessed for impairment on a collective basis.

Intercompany transactions

Banking and commercial transactions with the shareholder, the parent company and its subsidiary Santander Consumer Finance Media S.r.l. in liquidation and Banca PSA Italia S.p.A. 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.
With reference to the Financial Stability Forum’s recommendations on transparency and in accordance with the Supervisory Authority’s instructions regarding the disclosure requirements relating to exposures to certain financial instruments, such as asset-backed securities (ABS), please refer to Part E, paragraph C. “Securitisations”.

A.3 – INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

A.3.1 Reclassified financial assets: carrying value, fair value and effects on comprehensive income

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

A.3.1 Reclassified financial assets: effects on comprehensive income before transfer

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

A.3.3 Transfer of financial assets held for trading

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

A.3.4 Effective interest rate and cash flows expected from reclassified assets

The Group 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 Group are:

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

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

A.4.2 Valuation processes and sensitivity

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

- Cash, bank accounts, demand loans and current amounts due from banks. For these items, it is assumed that their fair value corresponds to their carrying amount.
- Short term amounts due from banks. The fair value is calculated by discounting expected cash flows.
- Derivatives: Fair value is determined by means of daily measurement based on expected cash flows.
- Securities portfolio: fair value is based on quoted market prices of financial instruments in active markets, or, if not available, on those for comparable assets.
- Loans to customers:
    - Demand loans. It is assumed that their fair value corresponds to their carrying amount.
    - Other assets. The fair value of the portfolio is calculated by discounting expected cash flows, net of impairment adjustments, using the average interest rate on loans granted in the month on which the valuation is based for each type of product.

With respect to balance sheet liabilities:

- Due to banks: on demand. It is assumed that their fair value corresponds to their carrying amount.
- Short and medium-to-long term amounts due to banks and debt securities issued: the fair value is calculated by discounting expected cash flows based on an interest rate curve observed directly in the market plus the intercompany spread applicable at the measurement date. For floating rate transactions, expected cash flows do not take account of the variable component that is not capable of being determined at the measurement date.
- Due to customers:

- Time deposit accounts. Fair value is determined by discounting expected cash flows using the interest rate actually applied to the customer at the measurement date for the same maturities.
  - Current accounts and deposits. For these items, it is assumed that their fair value corresponds to their carrying amount.
- Derivatives: please see the assumptions given for hedging derivatives under balance sheet assets.

A.4.3 Fair value hierarchy

To increase consistency and comparability in fair value measurements, IFRS 13 establishes a hierarchy based on inputs used for the various valuation techniques.
The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. More in detail, the inputs used to measure fair value are categorised as follows:

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

A.4.4 Other information

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

Quantitative information

A.4.5 Fair value hierarchy

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

Financial assets/liabilities designated at fair value	12/31/2016			12/31/2015		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading		2,992			4,577	
2. Financial assets at fair value through P&L						
3. Available for sale financial assets	492,395			407,389		
4. Hedging derivative assets						
5. Property, plant and equipment						
6. Intangible assets						
Total	**492,395**	**2,992**		**407,389**	**4,577**	
1. Financial liabilities held for trading		3,249			5,091	
2. Financial liabilities at fair value through P&L						
3. Hedging derivative liabilities		12,920			28,643	
Total		**16,169**			**33,734**	

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 valued at fair value or valued at fair value on non-recurring basis: distribution by levels of fair value

Assets/liabilities not valued at fair value or valued at fair value on non-recurring basis	12/31/2016				12/31/2015			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Held to maturity financial assets								
2. Due from banks	497,864			497,864	449,019			449,054
3. Loans to customers	6,770,121			6,677,846	4,826,256			4,817,854
4. Investment property								
5. Non-current assets held for sale and discontinued operations	5		5					
Total	**7,267,989**		**5**	**7,175,710**	**5,275,275**			**5,266,909**
1. Due to banks	5,413,579			5,422,521	4,528,989			4,544,466
2. Due to customers	1,261,270			1,257,764	376,114			374,667
3. Debt securities in issue	313,037			311,919	300,045			298,032
4. Liabilities associated with non-current assets held for sale								
Total	**6,987,885**			**6,992,204**	**5,205,147**			**5,217,165**

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

A.5 – Information on day one profit/loss

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

Part B - Information on the consolidated balance sheet

ASSETS

Section 1 – Cash and cash equivalents – item 10

1.1 Cash and cash equivalents: breakdown

	12/31/2016	12/31/2015
a) Cash	4	4
b) Demand deposits with Central banks		
Total	**4**	**4**

Section 2 – Financial assets held for trading – item 20

2.1 Financial assets held for trading: breakdown by type

These amount to Euro 2,992 thousand (Euro 4,577 thousand at 31 December 2015) and include the positive fair value of derivatives entered into in connection with securitisations with the Parent Company Banco Santander.

Items/Values	12/31/2016			12/31/2015		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities						
1.1 Structured securities						
1.2 Other						
2. Equity securities						
3. Units in investment funds						
4. Loans						
4.1 Repos						
4.2 Other						
Total (A)						
B. Derivatives						
1. Financial derivatives:						
1.1 Trading		2,992			4,577	
1.2 Related to fair value option assets						
1.3 Other						
2. Credit derivatives:						
2.1 Trading						
2.2 Related to fair value option assets						
2.3 Other						
Total (B)		**2,992**			**4,577**	
Total (A+B)		**2,992**			**4,577**	

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

Items/Values	12/31/2016	12/31/2015
A. Cash assets		
1. Debt securities		
a) Governments and Central Banks		
b) Other public-sector entities		
c) Banks		
d) Other issuers		
2. Equity securities		
a) Banks		
b) Other issuers:		
- Insurance companies		
- Financial companies		
- Non-financial companies		
- Other		
3. Units investment funds		
4. Loans		
a) Governments and Central Banks		
b) Other public-sector entities		
c) Banks		
d) Other issuers		
Total A		
B. Derivatives		
a) Banks		
- Fair value	2,992	4,577
b) Customers		
- Fair value		
Total B	**2,992**	**4,577**
Total (A+B)	**2,992**	**4,577**

Section 3 – Financial assets designated at fair value through profit and loss – item 30

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

Section 4 – Financial assets available for sale – item 40

4.1 Financial assets available for sale: breakdown by type

Items/Values	12/31/2016			12/31/2015		
	L1	L2	L3	L1	L2	L3
1. Debt securities	492,395			407,389		
1.1 Structured securities						
1.2 Other	492,395			407,389		
2. Equty instruments						
2.1 Designated at fair value						
2.2 Recognised at cost						
3. Units investment funds						
4. Loans						
Total	**492,395**			**407,389**		

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

4.2 Financial assets available for sale: breakdown by borrower/issuer

Items/Values	12/31/2016	12/31/2015
1. Debt securities	**492,395**	**407,389**
a) Governments and central banks	492,395	407,389
b) Other public-sector entities		
c) Banks		
d) Other issuers		
2. Equity instruments		
a) Banks		
b) Other issuers:		
- insurance companies		
- financial companies		
- non-financial companies		
- other		
3. Units in investment funds (including		
4. Loans		
a) Governments and Central Banks		
b) Other public-sector entities		
c) Banks		
d) Other entities		
Total	**492,395**	**407,389**

4.3 Financial assets with specific hedges available for sale

As at the reporting date, there were no specific impairments on financial assets available for sale.

Section 5 – Financial assets held to maturity – item 50

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

Section 6 – Due from banks – item 60

6.1 Due from banks: breakdown by type

Amounts due from banks come to Euro 497,864 thousand (Euro 449,019 thousand at 31 December 2015) and are made up as follows:

Type of transaction / Values	12/31/2016				12/31/2015			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Loans to Central Banks	**19,365**			**19,365**	**4,698**			**4,698**
1. Time deposits		X	X	X		X	X	X
2. Compulsory reserves	19,365	X	X	X	4,698	X	X	X
3. Repurchase agreements		X	X	X		X	X	X
4. Other		X	X	X		X	X	X
B. Loans to banks	**478,499**			**478,499**	**444,321**			**444,356**
1. Loans	478,499			478,499	444,321			444,356
1.1 Current accounts and demand deposits	463,826	X	X	X	161,982	X	X	X
1.2 Time deposits	137	X	X	X		X	X	X
1.3 Other loans:		X	X	X		X	X	X
- Repos		X	X	X		X	X	X
- Finance leases		X	X	X		X	X	X
- Other	14,536	X	X	X	282,339	X	X	X
2. Debts securities								
2.1 Structured		X	X	X		X	X	X
2.2 Other		X	X	X		X	X	X
Total	**497,864**			**497,864**	**449,019**			**449,054**

Key:
FV = Fair value
BV = Book value

Amounts due from central banks of Euro 19,365 thousand (Euro 4,698 thousand at 31 December 2015) consist of receivables due from the Bank of Italy relating to the compulsory reserve of the Parent Company, while for Banca PSA Italia S.p.A. the compulsory reserve was attributed to term deposits as it was performed indirectly (Euro 137 thousand).
Amounts due from banks refer to:

- credit balances on bank current accounts for Euro 463,826 thousand (Euro 161,982 thousand at 31 December 2015), consisting of cash deposits belonging to the segregated funds of the securitisations (Euro 355,503 thousand) and liquidity of other Group companies (Euro 96,245 thousand);
- other loans, mainly related to the amounts paid as a guarantee deposit and the related accruals of interest, to the other party, Banco Santander, corresponding to the negative fair value of the derivative contracts entered into with it (Euro 12,024 thousand).

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.

6.2 Due from banks with specific-hedges

As at the reporting date, there were no amounts due from banks with specific hedges.

6.3 Finance leases

As at the reporting date, there were no receivables under finance leases with banks.

Section 7 – Loans to customers – item 70

7.1 Loans to customers: breakdown by type

Loans to customers amount to Euro 6,770,121 thousand (Euro 4,826,256 thousand at 31 December 2015) and are made up as follows:

Type of transaction / Values	12/31/2016						12/31/2015					
	Book Value			Fair Value			Book Value			Fair Value		
	Not impaired	Non - performing loans		L1	L2	L3	Not impaired	Non - performing loans		L1	L2	L3
		Purchased	Other					Purchased	Other			
Loans	**6,699,870**		**70,250**			**6,677,846**	**4,688,087**		**138,169**			**4,817,854**
1. Current accounts	29,136		1,007	X	X	X	8,736		35	X	X	X
2. Repos				X	X	X				X	X	X
3. Mortgages				X	X	X				X	X	X
4. Credit cards, personal loans and wage assignment	3,224,735		50,222	X	X	X	2,577,446		128,638	X	X	X
5. Financial leasing	253,799		4,653	X	X	X	33,986		99	X	X	X
6. Factoring	262,710			X	X	X	151,884			X	X	X
7. Other loans	2,929,490		14,369	X	X	X	1,916,034		9,397	X	X	X
Debts securities												
8. Structured				X	X	X				X	X	X
9. Other				X	X	X				X	X	X
Total	**6,699,870**		**70,250**			**6,677,846**	**4,688,087**		**138,169**			**4,817,854**

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

In particular, loans to customers include:

- Euro 30,143 thousand (of which, Euro 1,007 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 3,274,957 thousand (of which, Euro 50,222 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 810,138 thousand of which relating to the portfolio of the subsidiary PSA;
- Euro 258,452 thousand (of which, Euro 4,653 thousand non-performing loans) for loans to customers for finance leases, recorded at amortised cost, Euro 210,181 thousand of which relating to the portfolio of the subsidiary PSA;
- Euro 262,710 thousand of loans relating to factoring transactions with car manufacturers;
- Euro 2,091,893 thousand (of which, Euro 6,315 thousand non-performing loans) for loans to customers resulting from financing for car loans and other special-purpose loans, Euro 851,966 thousand of which relating to the portfolio of the subsidiary PSA.

The total of assets assigned and not derecognised, which, net of impairment adjustments, amounts to Euro 3,557,343 thousand, of which Euro 19,326 thousand is non-performing, was allocated to the various forms of financing, as required by the instructions for preparation of the financial statements.

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

7.2 Loans to customers: breakdown by borrower/issuer

Type of transaction / Values	12/31/2016			12/31/2015		
	Not impaired	Non - performing loans		Not impaired	Non - performing	
		Purchased	Other		Purchased	Other
1. Debt securities issued by						
a) Governments						
b) Other public-sector entities						
c) Other issuers						
- non-financial companies						
- financial companies						
- insurance companies						
- other						
2. Loans to:						
a) Governments						
b) Other public-sector entities	10,464		21	25		
c) Other entities						
- non-financial companies	1,420,057		14,405	415,761		2,224
- financial companies	220,379		15	1,215		5
- insurance companies	12					
- other	5,048,959		55,810	4,271,086		135,940
Total	**6,699,870**		**70,250**	**4,688,087**		**138,169**

7.3 Loans to customers with specific hedges

There are no loans to customers with specific hedges.

7.4 Finance leases

INFORMATION BY LESSOR	Amounts at 12/31/2016	
	Minimum lease payments	Present value of minimum lease payments
Finance lease instalments due		
Up to 12 months	91.682	87.119
1 to 5 years	181.686	168.925
Beyond 5 years		
Total	**273.368**	**256.044**
of which:		
Unguaranteed residual values accruing to the lessor		
Less: unearned finance income	17.324	x
Present value of minimum lease payments	**256.044**	**48.044**

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

Section 8 – Hedging derivatives – item 80

8.1 Hedging derivatives: breakdown by type of hedge and level

As at the reporting date, there were no hedging derivatives.

8.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge (book value)

As at the reporting date, there were no hedging derivatives.

Section 9 – Fair value change of financial assets in hedged portfolios – item 90

9.1 Remeasurement of hedged assets: breakdown by hedged portfolio

Remeasurement of hedged assets / Group components	12/31/2016	12/31/2015
1. Positive fair value changes		
1.1 of specific portfolios:		
a) loans and receivables	9,741	24,246
b) available for sale financial instruments		
1.2 overall		
2. Negative fair value changes		
2.1 of specific portfolios:		
a) loans and receivables	(369)	
b) available for sale financial instruments		
2.2 overall		
Total	**9,372**	**24,246**

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.

9.2 Assets subject to general hedging of interest rate risk

Hedged assets	12/31/2016	12/31/2015
1. Loans	1,103,318	1,391,653,404
Total	**1,103,318**	**1,391,653,404**

Section 10 – Equity investments – item 100

Following the line-by-line consolidation of the subsidiaries Santander Consumer Finance Media S.r.l. in liquidation and Banca PSA Italia S.p.A., no equity investments have been recognised in the financial statements.

Section 11 – Technical reserves carried by reinsurers – item 110

No Group company carries on insurance business.

Section 12 – Property and equipment – item 120

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

Property and equipment amount to Euro 1,432 thousand (Euro 1,713 thousand at 31 December 2015) and are made up as follows:

Activities/Values	12/31/2016	12/31/2015
1.1 Own assets		
a) lands		
b) buildings		
c) office furniture and fitting	187	169
d) electronic system	1,031	1,189
e) other	213	355
1.2 Leased assets		
a) lands		
b) buildings		
c) office furniture and fitting		
d) electronic system		
e) other		
Total	**1,432**	**1,713**

The item "Other" mainly includes telephone systems, appliances and equipment.

The Group's fixed assets have been given the following useful lives for the purpose of calculating the annual depreciation charge:

Category of assets	Useful life (years)
OFFICE FURNITURE AND FURNISHINGS	9
ORDINARY OFFICE MACHINES	9
DATA PROCESSING MACHINES	5
TELEPHONE SYSTEMS	4
VEHICLES	4
MISCELLANEOUS EQUIPMENT	4
DEFERRED CHARGES TO BE AMORTIZED	6

12.2 Investment property: breakdown of assets measured at cost

No investment property is held.

12.3 Property and equipment used for business purposes: breakdown revalued assets

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

12.4 Investment property: breakdown of assets measured at fair value

No investment property is held.

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

Assets/Values	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Opening gross balance			**3,534**	**9,197**	**8,236**	**20,966**
A.1 Total net reduction value			(3,365)	(8,009)	(7,880)	(19,254)
A.2 Opening net balance			**169**	**1,189**	**355**	**1,713**
B. Increase			**124**	**284**	**139**	**547**
B.1 Purchases			24	255	110	390
B.2 Capitalized improvement costs						
B.3 Write-backs				28	12	40
B.4 Posit. changes in fair value allocated to:						
- a) net equity						
- b) profit & loss						
B.5 exchange difference (+)						
B.6 Transfer from investment properties						
B.7 Other adjustment			100		17	117
C. Decreases			**105**	**441**	**281**	**827**
C.1 Sales					71	71
C.2 Depreciation			64	423	189	676
C.3 Impairment losses allocated to:			42		17	59
- a) net equity						
- b) profit & loss			42		17	59
C.4 Negat.changes in fair value allocated to:						
- a) net equity						
- b) profit & loss						
C.5 exchange difference (-)						
C.6 Trasfers to:						
- a) held-for-sales investments						
- b) assets classified as held-for-sales						
C.7 Other adjustment				18	3	21
D. Closing net balance			**187**	**1,031**	**213**	**1,432**
D.1 Total net write-down			(3,517)	(8,421)	(7,768)	(19,706)
D.2 Final gross balance			**3,705**	**9,453**	**7,981**	**21,138**
E. Carried at cost						

Each class of assets is measured at cost. Sub-item E (Measurement at cost) shows a zero balance because, in accordance with Bank of Italy's Circular 262/2005, it is only for tangible assets that are carried in the balance sheet at fair value.
The main increases for the year relate to upgrades to data processing equipment (Euro 255 thousand).
Item C.2 Depreciation relates, in particular, to data processing equipment (Euro 423 thousand).
Item B.7 Other changes includes assets obtained through the transfer of assets other than cash of the business segment from the subsidiary Banca PSA.

12.6 Investment property: change in the year

No investment property has been recognised in the financial statements.

12.7 Commitments to purchase property and equipment

There are no commitments to repurchase property and equipment.

Section 13 – Intangible assets – item 130

13.1 Intangible assets: breakdown by type

Intangible assets amount to Euro 8,179 thousand (Euro 9,141 thousand at 31 December 2015).

Assets/Values	12/31/2016		12/31/2015	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	X		X	
A.1.1 Attributable to the Group	X		X	
A.1.2 Attributable to minorities	X		X	
A.2 Other intangible assets				
A.2.1 Assets valued at cost:				
a) Internally generated Intangible assets				
b) Other assets	8,179		9,141	
A.2.2 Assets valued at fair value:				
a) Internally generated Intangible assets				
b) Other assets				
Total	**8,179**		**9,141**	

“Other intangible assets” refer to the software supplied to the Group companies.
The amortisation of software into production is calculated on the basis of a useful life of three years.

13.2 Intangible assets: change in the year

	Goodwill	Other internally generated intangible assets		Other intangible assets: other		Total
		Finite	indefinite	Finite	indefinite	
A. Opening gross balance				**71,871**		**71,871**
A.1 Total net reduction in value				(62,730)		(62,730)
A.2 Opening net balance				**9,141**		**9,141**
B. Increases				**3,630**		**3,630**
B.1 Puchases				3,611		3,611
B.2 Increases in internally generated intagible assets	X					
B.3 Write-backs	X					
B.4 Increases in fair value:						
- net equity	X					
- profit & loss	X					
B.5 Positive exchange differences						
B.6 Other changes				19		19
C. Reductions				**4,591**		**4,591**
C.1 Disposals						
C.2 Write-downs				3,524		3,524
- Amortization	X			3,524		3,524
- Write-downs						
+ in equity	X					
+ profit & loss						
C.3 Reduction in fair value						
- in equity	X					
- through profit or loss	X					
C.4 Transfers to non-current assets held for sale						
C.5 Negative exchange differences						
C.6 Other changes				1,067		1,067
D. Closing net balance				**8,179**		**8,179**
D.1 Total net reduction in value				(66,269)		(66,269)
E. Closing balance				**74,448**		**74,448**
F. Carried at cost						

Each class of assets is measured at cost. Sub-item F (Measurement at cost) shows a zero balance because, in accordance with Bank of Italy's Circular 262/2005, it is only for intangible assets that are carried in the balance sheet at fair value.
The additions in item B.1 relate to the capitalisation of costs incurred for the implementation of EDP application packages and the development of new computer programmes. Amortisation is calculated on the basis of a useful life of three years.

13.3 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 14 – Tax assets and liabilities – asset item 140 and liability item 80

Current tax assets recognised in asset line item 140 amount to Euro 27,785 thousand (Euro 42,162 thousand in 2015), while current liabilities recognised in liability line item 80 amount to Euro 38,824 thousand (Euro 20,492 thousand in 2015).

14.1 Deferred tax assets: breakdown

	12/31/2016	12/31/2015
Deffered tax assets balancing the income statement	211,492	222,254
Deffered tax assets balancing net equity	436	886
Total	**211,929**	**223,140**

Deferred tax assets are accounted for with reference to deductible temporary differences, based on the probability that the Company will be able to generate sufficient taxable income in the future for the deferred tax asset to meet the criteria for accounting recognition, as required by IAS 12.
The balance of Euro 211,929 thousand (Euro 223,140 thousand at 31 December 2015) consists of deferred tax assets recognised through the income statement in the amount of Euro 211,492 thousand, mainly attributable to temporary differences arising from the deferred deductibility for IRES and IRAP purposes of loan adjustments, and deferred tax assets recognised through shareholders' equity in the amount of Euro 436 thousand attributable to the tax effect on actuarial gains and losses pertaining to termination indemnities of Santander Consumer Bank for Euro 313 thousand and changes in fair value of the available-for-sale securities portfolio of the subsidiary Banca PSA Italia for Euro 123 thousand.

14.2 Deferred tax liabilities: breakdown

The Group has recognised deferred tax liabilities at 31 December 2016 of Euro 133 thousand, of which Euro 22 thousand relates to changes in fair value of the available-for-sale securities portfolio of Santander Consumer Bank and Euro 111 thousand relates to the tax effect on actuarial gains and losses pertaining to termination indemnities of the subsidiary PSA Italia.

	12/31/2016	12/31/2015
Deffered tax liabilities recognised to the income statement		15
Deffered tax liabilities recognised to the net equity	133	91
Total	**133**	**106**

14.3 Changes in deferred tax assets (through the income statement)

	12/31/2016	12/31/2015
1. Opening balance	**222,254**	**220,375**
2. Increases	**7,105**	**15,145**
2.1 Deferred tax assets of the year		
a) relating to previous years		
b) due to change in accounting policies		
c) write-backs		
d) other (creation of temporary differences, use of TLCF)	7,105	15,145
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	**17,867**	**13,267**
3.1 Deferred tax assets derecognised in the year		
a) reversals of temporary differences	17,867	13,265
b) write-downs of non-recoverable items		
c) change in accounting policies		
d) other		2
3.2 Reduction in tax rates		
3.3 Other decreases		
a) conversion into tax credit under L. 214/2011		
b) others		
4. Closing balance	**211,492**	**222,254**

The increase in deferred tax assets included in “Deferred tax assets recognised during the year - other” mainly reflects the temporary IRES and IRAP differences deriving mainly from the provisions for risks and charges made in the year.

“Reversals” refer to the portion deducted in the year of temporary differences from value adjustments on loans allocated in previous years in the amount of Euro 10,675 thousand, to the use of the provisions allocated for other risks and charges in the amount of Euro 6,351 thousand, to the reversal in the income statement of the portion for the year, equal to Euro 637 thousand, of deferred taxation arising from the merger of the subsidiary Santander Consumer Unifin, as well as to repayments of deferred tax assets arising in 2015 from the subsidiary Banca PSA in the amount of Euro 203 thousand.

14.3.1 Changes in deferred tax assets as per Law 214/2011 (through the income statement)

	12/31/2016	12/31/2015
1. Opening balance	**210,985**	**202,984**
2. Increases		**8,003**
3. Decreases	**10,676**	**2**
3.1 Reversals of temporary differences	10,676	
3.2 Conversion into tax credits		
a) from year losses		
b) from tax losses		
3.3 Other decreases		2
4. Closing balance	**200,309**	**210,985**

The decreases relate to the deductibility in the year of loan adjustments allocated in previous years.

14.4 Changes in deferred tax liabilities (recognised in the income statement)

	12/31/2016	12/31/2015
1. Opening balance	**15**	**15**
2. Increases		
2.1 Deferred tax liabilities of the year		
a) relating to previous years		
b) due to change in accounting policies		
c) other		
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	**15**	
3.1 Deferred tax liabilities derecognised in the year	15	
a) reversals of temporary differences	15	
b) due to change in accounting policies		
c) other		
3.2 Reductions in tax rates		
3.3 Other decreases		
4. Closing balance		**15**

14.5 Changes in deferred tax assets (recognised to shareholders' equity)

	12/31/2016	12/31/2015
1. Opening balance	**886**	**1,890**
2. Increases	**123**	
2.1 Deferred tax assets of the year		
a) relating to previous years		
b) due to change in accounting principles		
c) other (creation of temporary differences)	123	
2.2 New taxes or increase in tax rates		
2.3 Other increases		
3. Decreases	**572**	**1,004**
3.1 Deferred tax assets derecognised in the year		
a) reversals of temporary differences	572	
b) writedowns of non-recoverable items		1,004
c) due to change in accounting principles		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases		
4. Closing balance	**436**	**886**

The increases in deferred tax assets (through shareholders' equity) relate to changes in fair value of securities subscribed by the subsidiary Banca PSA and recorded in available-for-sale assets.

The decrease relates to the tax effect resulting from the cancellation of the reserve for the valuation at fair value of cash flow hedging derivatives (Cash Flow Hedging Model) for Euro 533 thousand and to the actuarial valuation of employee termination indemnities for Euro 39 thousand of the Parent Company.

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

	12/31/2016	12/31/2015
1. Opening balance	**91**	
2. Increases	**110**	**91**
2.1 Deferred tax liabilities of the year	110	91
a) relating to previous years		
b) due to change in accounting principles		
c) Other (creation of temporary differences)	110	91
2.2 New taxes or increase in tax rates		
2.3 Other increases		
3. Decreases	**69**	
3.1 Deferred tax liabilities derecognised in the year	69	
a) reversal of temporary differences	69	
b) due to change in accounting principles		
c) other		
3.2 Reduction in tax rates		
3.3 Other decreases		
4. Final amount	**133**	**91**

The increases in deferred tax liabilities (through shareholders' equity) are a result of the tax effect on the temporary actuarial differences of the valuation of the provision for employee termination indemnities of the subsidiary Banca PSA.

The decreases relate to changes in fair value of securities recorded in available-for-sale assets of the Parent Company.

Section 15 – Non-current assets held for sale and discontinued operations and associated liabilities – asset item 150 and liability item 90

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

	12/31/2016	12/31/2015
A. Individual assets		
A.1 Financial assets		
A.2 Equity investments		
A.3 Property and equipment	5	
A.4 Intangible assets		
A.5 Other non-current assets		
Total A	**5**	
of which carried at cost		
of which carried at fair value level 1		
of which carried at fair value level 2	5	
of which carried at fair value level 3		
B. Groups of assets (discontinued operations)		
B.1 Financial assets held for trading		
B.2 Financial assets designated at fair value		
B.3 Available for sale financial assets		
B.4 Held to maturity investments		
B.5 Loans to banks		
B.6 Loans to customers		
B.7 Equity investments		
B.8 Tangible assets		
B.9 Intangible assets		
B.10 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 included in disposal groups classified as 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 included in disposal groups classified as held for sale		
D.1 Deposits from banks		
D.2 Deposits from customers		
D.3 Debt securities in issue		
D.4 Financial liabilities held for trading		
D.5 Financial liabilties designated at fair value		
D.6 Provisions		
D.7 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		

15.2 Other information

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

15.3 Information on equity investments in companies subject to significant influence not valued at equity

The Group has no equity investments in companies subject to significant influence.

Section 16 – Other assets – item 160

16.1 Other assets: breakdown

The balance of “Other assets”, amounting to Euro 224,740 thousand (Euro 53,919 thousand at 31 December 2015), is made up as follows:

	12/31/2016	12/31/2015
Advances to suppliers	12,119	1,983
VAT receivables	2,202	909
Stamp duties	6,203	1,778
Withholding taxes	3,681	4,616
Other tax receivables	3,582	14,610
Due from dealers	2,168	2,429
Due from insurances	15,238	9,893
Accruals and prepaid expenses	46,265	345
Assets in transit	28,199	15,300
Other items	105,083	2,055
Total	**224,740**	**53,919**

“Due from insurances” relate to receivables relating to insurance brokerage.
“Assets in transit” mainly include items temporarily in transit relating to instalment collection.
“Other items” consists mainly of ancillary services offered by Banca PSA to customers in conjunction with financing.

LIABILITIES AND SHAREHOLDERS' EQUITY

Section 1 – Due to banks – item 10

1.1 Due to banks: breakdown by type

Amounts due to banks amount to Euro 5,413,579 thousand (Euro 4,528,989 thousand at 31 December 2015) and are made up as follows:

Type of transactions/Group components	12/31/2016	12/31/2015
1. Due to central banks	**1,372,438**	**923,417**
2. Due to banks	**4,041,140**	**3,605,572**
2.1 Other current accounts and demand deposits	29,000	35,409
2.2 Time deposits	160,122	647,881
2.3 Loans		
2.3.1 Repos	412,434	412,544
2.3.2 Other	3,439,404	2,509,387
2.4 Payables for commitments to repurchase own equity instruments		
2.5 Other payables	181	352
Total	**5,413,579**	**4,528,989**
Fair value - level 1		
Fair value - level 2		
Fair value - level 3	**5,422,521**	**4,544,466**
Total Fair value	**5,422,521**	**4,544,466**

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

"Due to banks" consists of:

- Parent Company overnight lending operations, reported in the item "current accounts and demand deposits";
- short-term loans granted by Santander Group companies to the Parent Company, reported in the item "term deposits";
- reverse repurchase agreement transactions with other banks by the Parent Company, reported in the item "borrowing - reverse repurchase agreements";
- 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 linked to securitisation transactions and securities subject to reverse repurchase agreements, reported in the item "financing - other";
- accrued amounts due to banks, reported in the item "Other payables".

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 Details of item 10 “Due to banks”: subordinated debts

This item, totalling Euro 147,500 thousand (199,500 thousand at 31 December 2015), includes loans granted by Santander Group companies aimed at strengthening the capital base of the Group, and consists of:

Type	12/31/2016	12/31/2015
UPPER TIER II subordinated debt to Openbank S.A. - maturing in 2018	32,500	32,500
LOWER TIER II subordinated debt to Openbank S.A. - maturing in 2018	13,000	19,500
UPPER TIER II subordinated debt to Openbank S.A. - maturing in 2016		32,500
LOWER TIER II subordinated debt to Openbank S.A. - maturing in 2016		6,500
UPPER TIER II subordinated debt to Banco Madesant S.A. - maturing in 2019	12,500	12,500
LOWER TIER II subordinated debt to Banco Madesant S.A. - maturing in 2019	7,500	10,000
UPPER TIER II subordinated debt to Santander Benelux S.A. - maturing in 2019	20,000	20,000
LOWER TIER II subordinated debt to Santander Benelux S.A. - maturing in 2019	12,000	16,000
TIER II subordinated debt to Santander Consumer Finance - maturing in 2025	50,000	50,000
Total	**147,500**	**199,500**

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

1.3 Details of item 10 “Due to banks”: structured debts

The Group has no structured debts.

1.4 Due to banks with specific hedges

The Group does not have any amounts due to banks with specific hedges.

1.5 Finance lease payables

The Group does not have any finance lease obligations.

Section 2 – Due to customers – item 20

2.1 Due to customers: breakdown by type

Due to customers amount to Euro 1,261,270 thousand (Euro 376,114 thousand at 31 December 2015) and are made up as follows:

Operations type/Group components	12/31/2016	12/31/2015
1. Current accounts and demand deposits	663,060	321,720
2. Time deposits	131,869	52,183
3. Loans		
3.1 Repos		
3.2 Other		
4. Payables for commitments to repurchase own equity instruments		
5. Other payables	466,341	2,210
Total	**1,261,270**	**376,114**
Fair value - level 1		
Fair value - level 2		
Fair value - level 3	**1,257,764**	**374,667**
Fair value	**1,257,764**	**374,667**

“Current accounts and demand deposits” include demand deposits from customers, ordinary current accounts to affiliates and payments in transit to customers.
The item “Other liabilities” includes mainly debts relating to the securitisation transactions of Banca PSA and the debt exposures of nettings accounts to dealers in the Banca PSA network.

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.

2.2 Details of item 20 “Due to customers”: subordinated debts

The Group does not have any subordinated debts with customers.

2.3 Details of item 20 “Due to customers”: structured debts

The Group does not have any structured debts with customers.

2.4 Due to customers with specific hedges

The Group does not have any amounts due to customers with specific hedges.

2.5 Finance lease payables

The Group does not have any finance lease obligations.

Section 3 – Debt securities issued – item 30

3.1 Debt securities issued: breakdown by type

Type of securities/Group components	12/31/2016				12/31/2015			
	Book Value	*Fair Value*			Book Value	*Fair Value*		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities	**313,037**			**311,919**	**300,045**			**298,032**
1. Bonds								
1.1 structured								
1.2 other	313,037			311,919	300,045			298,032
2. Other								
2.1 structured								
2.2 other								
Total	**313,037**			**311,919**	**300,045**			**298,032**

"Debt securities issued" relate to securities underlying a medium-to-long term bond issue programme that have been placed with institutional customers. This item also includes accrued interest.
For further details relating to the issues, please see the information provided on funding in the report on operations.
For further information about the methodology used for the determination of the fair value of this component, please see Part A Accounting policies – A.4 Information on fair value.

3.2 Details of item 30 "Debt securities issued": subordinated securities

The Group has not issued any subordinated securities.

3.3 Details of item 30 "Debt securities issued": securities with specific hedges

The Group has not issued any securities with specific hedges.

Section 4 – Financial liabilities held for trading – item 40

4.1 Financial liabilities held for trading: breakdown by type

Operations type/Group components	12/31/2016					12/31/2015				
	VN	FV			FV*	VN	FV			FV*
		L1	L2	L3			L1	L2	L3	
A. Financial liabilities										
1. Due to banks										
2. Due to customers										
3. Debt securities										
3.2 Bonds										
3.1.1 Structured					X					X
3.1.2 Other bond					X					X
3.2 Other securities										
3.2.1 Structured					X					X
3.2.2 Other					X					X
Total A										
B. Derivatives										
1. Financial derivatives			3,249					5,091		
1.1 Held for trading	X		3,249		X	X		5,091		X
1.2 Related to fair value option	X				X	X				X
1.3 Other	X				X	X				X
2. Credits derivatives										
2.1 Held for trading	X				X	X				X
2.2 Related to fair value option	X				X	X				X
2.3 Other	X				X	X				X
Total B	**X**		**3,249**		**X**	**X**		**5,091**		**X**
Total (A+B)	**X**		**3,249**		**X**	**X**		**5,091**		**X**

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

The derivatives in question relate to interest rate swaps entered into to hedge self-securitisations arranged by the Parent Company.

4.2 Details of item 40 "Financial liabilities held for trading": subordinated liabilities

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

4.3 Details of item 40 "Financial liabilities held for trading": structured debts

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

Section 5 – Financial liabilities designated at fair value through profit and loss - item 50

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

Section 6 – Hedging derivatives – item 60

6.1 Hedging derivatives: breakdown by type of hedge and level

	Fair Value 12/31/2016			NV	Fair Value 12/31/2015			NV
	L1	L2	L3	12/31/2016	L1	L2	L3	12/31/2015
A. Financial								
1) Fair value		12,920		1,101,087		26,642		1,380,887
2) Cash flows						2,000		400,000
3) Net investments								
B. Credit derivatives								
1) Fair value								
2) Cash flows								
Total		**12,920**		**1,101,087**		**28,643**		**1,780,887**

Key:
VN= notional value
L1= level 1
L2= level 2
L3= level 3

The amount shown in the above table refers to the negative fair value of interest rate swaps entered into by the Group with the Spanish Parent Company Banco Santander and with third parties. The derivatives portfolio consists of contracts taken out to hedge changes in the fair value of fixed-rate underlying assets.
As regards checking the effectiveness of the hedge with respect to the underlying, reference should be made to Part E, Section 2 - Market risk, Subsection 2.2 - Interest rate risk and price risk, paragraph A (General aspects, management processes and methods of measuring interest rate risk and price risk).

The following table gives details of hedging derivatives with negative fair values at 31 December 2016 (in euros):

Notional (euro)	Start date	Settlement date	Counterparty	Fair value (euro)
35,000,000	09/29/2010	03/29/2017	Banco Santander	109,407
11,800,000	10/25/2010	07/25/2017	Banco Santander	112,161
11,800,000	10/27/2010	07/27/2017	Banco Santander	112,259
14,250,000	11/17/2010	11/17/2017	Banco Santander	160,912
14,250,000	11/25/2010	11/27/2017	Banco Santander	157,743
31,937,000	12/27/2010	04/27/2018	Banco Santander	542,923
6,000,000	01/07/2011	07/07/2017	Banco Santander	74,859
37,500,000	02/14/2011	03/14/2019	Banco Santander	942,248
18,000,000	03/17/2011	09/18/2017	Banco Santander	270,481
53,000,000	05/27/2011	02/27/2018	Banco Santander	1,434,720
38,000,000	06/21/2011	03/21/2018	Banco Santander	862,226
43,500,000	07/14/2011	01/14/2019	Banco Santander	1,338,656
28,000,000	08/12/2011	08/12/2019	Banco Santander	803,308
23,600,000	07/06/2012	10/08/2018	Banco Santander	331,013
9,000,000	07/12/2012	10/12/2018	Banco Santander	162,654
66,000,000	08/02/2012	11/02/2018	Banco Santander	800,946
59,000,000	09/25/2012	03/25/2019	Banco Santander	681,681
72,250,000	11/09/2012	06/10/2019	Banco Santander	887,017
58,000,000	06/10/2013	04/10/2018	Banco Santander	381,120
61,000,000	06/21/2013	03/21/2019	Banco Santander	714,793
56,500,000	07/01/2013	02/01/2019	Banco Santander	704,167
9,000,000	01/05/2016	08/17/2017	Banco Santander	21,096
3,500,000	01/05/2016	05/23/2018	Banco Santander	17,796
2,400,000	01/05/2016	03/25/2018	Banco Santander	9,668
2,900,000	01/05/2016	06/26/2018	Banco Santander	14,641
4,700,000	01/05/2016	09/18/2017	Banco Santander	10,217
1,500,000	01/05/2016	03/22/2018	Banco Santander	5,820
16,700,000	01/05/2016	04/21/2018	BNP Paribas	78,948
18,000,000	01/05/2016	01/21/2018	BNP Paribas	68,224
11,000,000	01/05/2016	07/21/2018	BNP Paribas	53,443
10,000,000	01/05/2016	08/21/2018	BNP Paribas	66,948
5,600,000	01/05/2016	04/20/2017	BNP Paribas	5,903
3,200,000	01/05/2016	02/20/2017	HSBC	3,788
4,800,000	01/05/2016	01/27/2017	HSBC	2,996
5,200,000	01/05/2016	05/18/2017	HSBC	16,088
2,900,000	01/05/2016	02/18/2017	HSBC	3,060
3,900,000	01/05/2016	05/27/2017	HSBC	13,465
2,200,000	01/05/2016	02/27/2017	HSBC	2,736
6,600,000	01/05/2016	03/21/2017	HSBC	11,646
9,400,000	01/05/2016	06/24/2017	HSBC	27,779
11,600,000	01/05/2016	02/24/2018	HSBC	63,922
5,100,000	01/05/2016	08/20/2017	HSBC	12,065
3,800,000	01/05/2016	05/20/2017	HSBC	5,281
5,600,000	01/05/2016	02/21/2018	HSBC	24,547
11,700,000	01/05/2016	10/24/2018	HSBC	84,364
6,000,000	01/05/2016	02/19/2017	NATIXIS	7,143
4,500,000	01/05/2016	02/23/2017	NATIXIS	5,957
4,500,000	01/05/2016	02/28/2017	NATIXIS	6,433
2,400,000	01/05/2016	02/25/2017	NATIXIS	3,214
13,100,000	01/05/2016	04/16/2017	NATIXIS	29,610
4,600,000	01/05/2016	09/18/2017	NATIXIS	20,380
10,500,000	01/05/2016	06/19/2018	NATIXIS	55,284
5,700,000	01/05/2016	03/12/2018	NATIXIS	31,721
17,000,000	01/05/2016	03/17/2017	NATIXIS	10,049
8,500,000	01/05/2016	12/22/2018	NATIXIS	60,065
6,400,000	01/05/2016	01/22/2017	Royal Bank of Scotland	3,317
2,400,000	01/05/2016	05/26/2017	Royal Bank of Scotland	6,411
15,400,000	01/05/2016	11/24/2017	Royal Bank of Scotland	64,908
12,600,000	01/05/2016	05/19/2018	Royal Bank of Scotland	66,823
7,500,000	01/05/2016	03/18/2018	Royal Bank of Scotland	31,818
9,000,000	01/05/2016	09/17/2018	Royal Bank of Scotland	78,401
2,900,000	01/05/2016	09/18/2017	Royal Bank of Scotland	8,797
4,900,000	01/05/2016	11/24/2017	Royal Bank of Scotland	14,167
6,000,000	01/05/2016	11/26/2018	Royal Bank of Scotland	41,101
2,800,000	01/05/2016	08/26/2018	Royal Bank of Scotland	16,129
3,000,000	01/05/2016	09/21/2018	Royal Bank of Scotland	18,843
2,600,000	01/05/2016	06/21/2018	Royal Bank of Scotland	13,333
5,700,000	01/05/2016	12/21/2017	Royal Bank of Scotland	18,067
20,400,000	01/05/2016	10/16/2017	Société Générale	75,445
13,000,000	01/05/2016	06/15/2017	Société Générale	23,299
1,101,087,000				**12,920,450**

6.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

Transactions/Type of hedge	Fair Value						Cash flow		Net investments in foreign operations
	Micro-hedge					Macro-hedge	Micro-hedge	Macro-hedge	
	Interest rate risk	Exchange risk	Credit risk	Price risk	Multiple risks				
1. Available for sale financial assets						X		X	X
2. Loans and receivables				X		X		X	X
3. Held to maturity investments	X			X		X		X	X
4. Porrfolio	X	X	X	X	X	12,920	X		X
5. Others						X		X	
Total assets						**12,920**			
1. Financial liabilities				X		X		X	X
2. Portfolio	X	X	X	X	X		X		X
Total liabilities									
1. Forecasted transactions	X	X	X	X	X	X		X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X		X		

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

Section 7 – Remeasurement of financial liabilities with general hedges – item 70

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

Section 8 – Tax liabilities – item 80

Please refer to Section 14 of the Assets.

Section 9 – Liabilities associated with non-current assets held for sale – item 90

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

Section 10 – Other liabilities – item 100

10.1 Other liabilities: breakdown

Other liabilities amount to Euro 368,665 thousand (Euro 185,907 thousand at the end of 2015) and consist of:

	12/31/2016	12/31/2015
Due to suppliers	76,323	15,196
Due to dealers	24,634	24,523
Payables to employees	5,842	5,029
Due to Social Security institutions	2,982	2,193
Tax payables	5,131	2,645
Other amounts due to customers	13,266	12,985
Due to insurances	15,848	12,730
Factoring payables	115,717	61,572
Accruals and deferred income	33,599	128
Items in transit	48,607	25,070
Other liabilities for commissions	7,888	9,107
Other payables	18,828	14,729
Total	**368,665**	**185,907**

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

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

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

Further details have been provided of prior year comparatives to enhance the clarity of disclosures.

Section 11 – Provision for employee termination indemnities – item 110

11.1 Provision for employee termination indemnities: change in the year

	12/31/2016	12/31/2015
A. Opening balance	**3,639**	**4,223**
B. Increases	**1,979**	**10**
B.1 Provision of the year	88	10
B.2 Other increases	1,891	
C. Decreases	**1,262**	**595**
C.1 Payments made	590	586
C.2 Other decreases	672	8
D. Closing balance	**4,355**	**3,639**

The provision for employee termination indemnities amounts to Euro 4,355 thousand (Euro 3,639 thousand at 31 December 2015) and, as required by IAS 19, this coincides with its actuarial valuation (Defined Benefit Obligation – DBO).

The actuarial assumptions adopted for the valuation of the provision at the reporting date are the following:
- discount rate: 1.30%;
- expected inflation rate: 1.75%;
- number of retirements: 6.5;
- frequency of advances: 5%.

The following demographic assumptions were used:
- Death: ISTAT 2014 mortality tables;
- Disability: 1998 INPS tables;
- Retirement: in accordance with law 214/2011.

With the introduction of the reform envisaged by Law 296/2006 (2007 Finance Act) on supplementary pensions, amounts provided relate to interest cost, corresponding to interest cost accrued at the beginning of the period and interest cost pertaining to movements in the year.
In addition, in line with the amendment to IAS 19 regarding the recognition of actuarial gains and losses accrued at the balance sheet date, they have been recognised with the OCI method as decreases or increases under the item "other changes".
Finally it should be noted that the item "Other increases" includes mainly the staff severance fund obtained through the transfer of assets other than cash of the business unit from the subsidiary Banca PSA.

Section 12 – Provisions for risks and charges – item 120

12.1 Provisions for risks and charges: breakdown

Items	12/31/2016	12/31/2015
1. Provisions for pensions and similar obligations		
2. Other provisions for risk and charges	26,218	21,530
2.1 Legal disputes	11,367	10,017
2.2 personnel charges		
2.3 Other	14,850	11,512
Total	**26,218**	**21,530**

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

12.2 Provisions for risks and charges: change in the year

	12/31/2016	
	Pensions and post retirement benefit obligations	Other provisions
A. Opening balance		**21,530**
B. Increases		**17,042**
B.1 Provision for the year		16,875
B.2 Time value change		
B.3 Difference due to discount-rate changes		
B.4 Other increases		167
C. Decreases		**12,354**
C.1 Utilisations during the year		5,308
C.2 Difference due to discount-rate changes		
C.3 Other decreases		7,046
D. Closing balance		**26,218**

The main increases in item "B.1 - Provisions for the year" relate to provisions for legal disputes with customers and dealers, as well as allocations to provisions for customer disputes relating to the salary assignment loan portfolio. These provisions cover fees that are a matter of dispute. For further details, please refer to the corresponding income statement table.
Item C.1 "Utilisations during the year" relates to reversals of provisions through line item 160 of the income statement, set up in prior years for lawsuits, whereas item C.4 "Other changes" relates to utilisations of provisions set up in prior years as a result of disbursements made.
Finally it should be noted that the item B.4 "Other increases" includes mainly the provision for risks and charges obtained through the transfer of assets other than cash of the business unit from the subsidiary Banca PSA.

12.3 Defined-benefit pension plans

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

12.4 Provisions for risks and charges - other provisions

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

Section 13 – Technical reserves – item 130

The Group does not have any technical reserves.

Section 14 – Redeemable shares – item 150

The Group has not approved any share redemption plans.

Section 15 – Group shareholders' equity - items 140, 160, 170, 180, 190, 200 and 220

The Group Shareholders' Equity amounts to Euro 692,747 thousand (Euro 563,466 thousand at 31 December 2015) and is broken down as follows:

Items/Amounts	12/31/2016	12/31/2015
1. Share capital	573,000	573,000
2. Share premium reserve	633	633
3. Reserves	40,512	(43,522)
4. (Treasury shares)		
a) parent company		
b) subsidiaries		
5. Valuation reserve	(568)	(1,608)
6. equity instruments		
7. Group profit (loss) of the year	79,170	34,964
Total	**692,747**	**563,466**

Retained earnings are described later in this section.
Valuation reserves relate to changes in fair value of available-for-sale financial assets (Euro 80 thousand) and the impact of measurement in accordance with IAS 19 of the provision for termination indemnities (Euro 488 thousand).

15.1 "Share capital" and "Treasury shares": breakdown

For the breakdown of share capital, see point 15.2 below.

15.2 Share capital – number of shares of the Parent Company: change in the year

Items/Types	Ordinary	Other
A. Outstanding shares at the beginning of the year	**573,000**	
- fully paid	573,000	
- not fully paid		
A.1 Treasury shares (-)		
A.2 Outstanding shares: opening balance	**573,000**	
B. Increases		
B.1 New issues		
- against payment		
- business combinations		
- bonds converted		
- warrants exercised		
- other		
- free		
- to employees		
- to Directors		
- other		
B.2 Sales of treasury shares		
B.3 Other changes		
C. Decreases		
C.1 Cancellation		
C.2 Purchase of treasury shares		
C.3 Disposal of companies		
C.4 Other changes		
D. Outstanding shares: closing balance	**573,000**	
D.1 Treasury Shares (+)		
D.2 Outstanding shares at the end of the year		
- fully paid		
- not fully paid		

15.3 Share capital: other information

At 31 December 2016, the share capital of Santander Consumer Bank S.p.A. amounts to Euro 573 million, made up as follows:

	Total 12/31/2016	Total 12/31/2015
Par value per share (zero if the shares have no par value)	1,000	1,000
Fully paid		
Number	573,000	573,000
Amount	573,000,000	573,000,000
- Agreed sale of shares:		
Number of shares under contract		
Total amount		

15.4 Profit reserves: other information

The profit reserves of the Group at 31 December 2016 mainly consist of the legal reserve (Euro 2,180 thousand), special reserves (Euro 40,348 thousand), retained earnings of the subsidiary Santander Consumer Finance Media S.r.l. in liquidation (Euro 262 thousand) and the merger reserve (Euro -2,304 thousand).

15.5 Other Information

The Group has not issued any puttable financial instruments ("financial instruments repayable on demand") and has not approved any distribution of dividends.

Section 16 – Minority interests – item 210

16.1 Details of item 210 "Minority interests"

Minority interests are made up as follows:

Company name	12/31/2016	12/31/2015
Investments in consolidated companies with significant minority interests		
1. PSA Italia spa	109,296	4,957
2. Santander Consumer Finance Media s.r.l. in liquidation	2,525	2,591
Other investments		
Total	**111,821**	**7,548**

These amounts relate to the portion of shareholders' equity attributable to De Agostini Group in relation to its 35% equity interest in Santander Consumer Finance Media s.r.l. in liquidation and to Banque PSA in relation to its 50% equity interest in Banca PSA Italia S.p.A.

16.2 Equity instruments: breakdown and change in the year

There are no equity instruments attributable to minority interests.

OTHER INFORMATION

1. Guarantees given and commitments

Operations	12/31/2016	12/31/2015
1) Financial guarantees given to		
a) Banks		
b) Customers		
2) Commercial guarantees given to		
a) Banks		
b) Customers		
3) Irrevocable commitments to disburse funds		
a) Banks		
i) certain to be called		
ii) not certain to be called		
b) Customers		
i) certain to be called	141,754	108,720
ii) not certain to be called		
4) Commitments underlying credit derivatives: protection sales		
6) Assets formed as collateral for third-party obligations		
6) Other commitments		
Total	**141,754**	**108,720**

Irrevocable loan commitments relate for the Parent Company to factoring arrangements with car manufacturers and for the subsidiary Banca PSA to financing to be disbursed for contracts outstanding.

2. Assets used to guarantee own liabilities and commitments

There are no assets used to guarantee own liabilities or commitments.

3. Information on operating leases

No Group company has taken out operating leases.

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

Technical forms	Gross amounts of financial assets (a)	Financial liabilities offset in Balance Sheet (b)	Net Balance Sheet values of fiinancial asset (c=a-b)	Related amounts not subject to offsetting in Balance Sheet		Net amount 12/31/2016 (f=c-d-e)	Net amount 12/31/2015
				Financial instruments (d)	Cash deposits posted as collateral (e)		
1) Derivatives	3,229	237	2,992		2,960	32	47
2) Repos							
3) Securities							
4) Others	20,973		20,973			20,973	
Total 12/31/2016	**24,201**	**237**	**23,964**		**2,960**	**21,004**	**X**
Total 12/31/2015	**4,577**		**4,577**		**4,530**	**X**	**47**

For the item “Derivatives”, as required by IFRS 7, it is noted that the derivative contract entered into with the Spanish Abbey National Treasury Services Plc Group company and subject to an ISDA based framework agreement, amounts to Euro 2,992 thousand at 31 December 2016 and is shown in “column c)”. The effects of the potential offsetting of exposures for which cash collateral has been provided are shown in column e) “Cash deposits received/offered as collateral”. Included in the same item is the derivative contract entered into by the subsidiary Banca PSA with HSBC. Column b) shows the negative fair value of the related derivative.
With regard to the item “Others”, reference is made to the comments for the following table.

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

Technical forms	Gross amounts of financial liabilities (a)	Financial assets offset in Balance Sheet (b)	Net Balance Sheet values of fiinancial liabilities (c=a-b)	Related amounts not subject to offsetting in Balance Sheet		Net amount 12/31/2016 (f=c-d-e)	Net amount 12/31/2015
				Financial instruments (d)	Cash deposits posted as collateral (e)		
1) Derivatives	12,920		12,920		12,920		
2) Repos	412,434		412,434	412,434			
3) Securities lending							
4) Others	23,415		23,415			23,415	
Total 12/31/2016	**448,769**		**448,769**	**412,434**	**12,920**	**23,415**	**X**
Total 12/31/2015	**439,631**		**439,631**		**439,631**	**X**	

As required by IFRS 7, it is hereby disclosed that derivatives, the amount of which at 31 December 2016 is shown in “column c)” of the above table, are subject to an ISDA based framework agreement and are thus subject to net settlement arrangements. The effects of the potential offsetting of exposures for which cash collateral has been provided are shown in column e) “Cash deposits received/offered as collateral”.
The item “Repurchase agreements” includes the value of a repurchase agreement entered into with a third-party bank and that is part of GMRA agreement.
The item “Other transactions” in this table and the item “Others” in the previous table include exposures to the network of dealers registered in named accounts, in which the reciprocal receivables and payables arising from commercial dealings with Brands are recorded, with periodic elimination through the netting of positions.

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 venture.

Part C – Information on the consolidated income statement

Section 1 - Interests - items 10 and 20

1.1 Interest and similar income: breakdown

Interest and similar income amounts to Euro 352,241 thousand (Euro 295,165 thousand at 31 December 2015) and is made up of:

Items/Technical forms	Debt securities	Loans	Other transactions	Total 12/31/2016	Total 12/31/2015
1. Financial assets held for trading					
2. Financial assets designated at fair value through profit or loss					
3. Available for sale financial assets					**76**
4. Held to maturity investments					
5. Due from banks		98	1	**99**	**263**
6. Loans to customers		351,122		**351,122**	**294,826**
7. Hedging derivatives	X	X			
8. Other assets	X	X	1,020	**1,020**	
Total		**351,220**	**1,021**	**352,241**	**295,165**

Against a background of negative rates, the item "Due from banks" mainly consists of interest income accrued on financing transactions through TLTRO-II with the European Central Bank. For more details, refer to the Financial Management section of the Report on Operations attached to the Consolidated Financial Statements.
The value of interest on loans to customers is represented by the economic consequences on an accrual basis of the components identified as relevant for amortised cost purposes as per IAS 39, 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 IAS 39 on reversal derecognition.
The item "Other assets" consists of the interest income relating to tax settlements concluded for the tax years 2008-2010 and 1999.

1.2 Interest and similar income: differentials on hedging transactions

The balance of differentials on hedging interest rate swaps is negative (as in 2015).
For details, reference should be made to paragraph 1.5.

1.3 Interest and similar income: other information

1.3.1 Interest and similar income on foreign currency assets
The Group does not hold any financial assets in foreign currency.

1.3.2 Interest and similar income on finance lease transactions
Interest income on finance lease transactions for the year 2016 amount to Euro 12,145 thousand (Euro 1,793 thousand in 2015). The substantial increase compared to the previous year is due to the contribution of Banca PSA to financial leasing results equal to Euro 10,218 thousand.

Items	12/31/2016	12/31/2015
Interest income on financial leasing activities	12,145	1,793

1.4 Interest and similar expense: breakdown

Items/Technical forms	Payables	Securities	Other transactions	Total 12/31/2016	Total 12/31/2015
1. Due to central banks	277	X		277	510
2. Due to banks	37,930	X	433	38,363	41,503
3. Due to customers	11,502	X	3,659	15,161	4,996
4. Debt securities issued	X	326		326	406
5. Financial liabilities held for trading					
6. Financial liabilities at fair value through					
7. Other liabilities and provisions	X	X	333	333	1
8. Hedging derivatives	X	X	20,432	20,432	27,904
Total	**49,709**	**326**	**24,858**	**74,892**	**75,320**

Interest payable to central banks are accrued up to June 2016 on financing operations (TLTRO-I) by the Parent Company with the Bank of Italy.
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 8,158 thousand.
Interest expense on debt securities issued relates to securities issued under EMTN Programmes.
For more details on the above-mentioned transactions, refer to the Financial Management section of the Report on Operations attached to the Consolidated Financial Statements.
Interest expense on amounts due to customers consists mainly of the cost of funding provided by the Parent Company through current and deposit accounts (Euro 11,218 thousand). Again with reference to the amounts due to customers, shown under other transactions are the income statement components attributable to securitisation transactions by Banca PSA (Euro 3,659 thousand).
The item “Other liabilities and provisions” consists mainly of negative interest accrued on treasury bonds classified under financial assets available for sale.
“Hedging derivatives” include the net balance of differentials on hedging derivatives as reported in table 1.5 below.

1.5 Interest and similar expense: differentials on hedging transactions

Items	12/31/2016	12/31/2015
A. Positive differentials related to hedging operations	748	
B. Negative differentials related to hedging operations	(21,180)	(27,904)
C. Net differentials (A-B)	**(20,432)**	**(27,904)**

1.6 Interest and similar expense: other disclosures

1.6.1 Interest and similar expense on foreign currency liabilities
The Group has no liabilities in foreign currency.

1.6.2 Interest and similar expense on finance lease obligations
None of the companies in the Group has entered into a purchase lease.

Section 2 – Commissions – items 40 and 50

2.1 Commission income: breakdown

The commission income generated during the year amounts to Euro 107,024 thousand (Euro 101,823 thousand at 31 December 2015) and is broken down as follows:

Type of service/Segments	Total 12/31/2016	Total 12/31/2015
a) guarantees given		
b) credit derivatives		
c) management, brokerage and consulting services:		
1. trading in financial instruments		
2. trading in foreign exchange		
3. portfolio management		
3.1. individual		
3.2. collective		
4. custody and administration of securities		
5. custodian bank		
6. placement of securities		
7. reception and transmission of orders		
8. advisory services		
8.1 related to investments		
8.2 related to financial structure		
9. distribution of third party services		
9.1 portfolio management		
9.1.1. individual		
9.1.2. collective		
9.2 insurance products	59,924	31,091
9.3 other products	31,520	54,873
d) collection and payment services	12,028	12,285
e) securitization servicing	5	
f) factoring services		
g) tax collection services		
h) management of multilateral trading facilities		
i) management of current accounts		
j) other services	3,547	3,574
Total	**107,024**	**101,823**

The item "Management, brokerage and consulting services" includes commission income from insurance products placed with customers financed by the Parent Company in the amount of Euro 35,490 thousand and by Banca PSA in the amount of Euro 24,434 thousand, and salary assignment loans granted by the Bank in the amount of Euro 31,520 thousand, whereas the item "collection and payment services" includes commissions generated during the year from collection and payment services provided to customers by the Parent Company.
Item j) "other services", on the other hand, comprises:

- income recognised in respect of damages and penalties for late payment (Euro 2,115 thousand);
- fees and commission income for the management of credit cards (Euro 215 thousand);
- commission income on stock financing (Euro 673 thousand);
- commissions for other services (Euro 544 thousand).

2.2 Commission expense: breakdown

Commission expense amounts to Euro 68,158 thousand (Euro 64,752 thousand at 31 December 2015) and is broken down as follows:

Services/Amounts	Total 12/31/2016	Total 12/31/2015
a) guarantees received	24	16
b) credit derivatives		
c) management and brokerage services:		
1.trading in financial instruments		
2. trading in foreign exchange		
3. portfolio management:		
3.1 own portfolio		
3.2 third party portfolio		
4. custody and administration securities	92	80
5. financial instruments placement	49	
6. off-site distribution of financial instruments. products and	63,745	59,909
d) collection and payment services	4,110	4,351
e) other services	138	396
Total	**68,158**	**64,752**

Point 6 mainly refers to commissions paid on the sale of insurance products (Euro 28,790 thousand) and salary assignment loans (Euro 32,081 thousand), contributions and termination indemnities accrued by the network of agents based on targets for the placement of loans with customers (Euro 1,961 thousand).
The total of item d) in the table refers to the cost incurred for the collection of loan instalments and for payments made.
Item e) mainly includes charges incurred for securitisation transactions.

Section 3 – Dividends and similar income – item 70

3.1 Dividends and similar income: breakdown

No dividends were received in the year.

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

4.1 Net trading income (loss): breakdown

Net trading income (loss) amounts to Euro 860 thousand and is broken down as follows:

Transactions / Income components	Unrealized profits (A)	Realized profits (B)	Unrealized losses (C)	Realized losses (D)	Net Profit (A+B)-(C+D) 12/31/2016
1. Held for trading Financial assets					
1.1 Debt securities					
1.2 Equity					
1.3 Units in investment funds					
1.4 Loans					
1.5 Other					
2. Held for trading Financial liabilities					
2.1 Debt securities					
2.2 Debts					
2.3 Other					
3. Financial assets and liabilities in foreign currency: exchange differences	**X**	**X**	**X**	**X**	
4. Derivatives					
4.1 Financial derivatives:					
- on debt securities and interest rates		5,070	(38)	(5,892)	(860)
- on equity securities and shares indexes					
- On currencies and gold	X	X	X	X	
- Other					
4.2 Credit derivatives					
Total		**5,070**	**(38)**	**(5,892)**	**(860)**

The item includes the losses arising from financial derivatives held to hedge interest rate risk associated with securitisations that do not meet the requirements under IAS 39 for classification as hedging derivatives, as well as the gains and losses arising from early redemption of Banca PSA derivative operations and the losses arising from early redemption of Parent Company financing transactions.

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.

Items / Income components	Total 12/31/2016	Total 12/31/2015
A. Income relating to:		
A.1 Fair value hedges	15,814	18,535
A.2 Hedged asset items (in fair value hedge relationships)		
A.3 Hedged liability items (in fair value hedge relationship)		
A.4 Cash-flow hedging derivatives (including ineffectivness of net investment hedge)		
A.5 Foreign currency assets and liabilities		
Total income from hedging activity (A)	**15,814**	**18,535**
B. Expenses relating to:		
B.1 Fair value hedges		
B.2 Hedged asset items (in fair value hedge relationship)	(17,310)	(19,407)
B.3 Hedged liabilities items (in fair value hedge relationships)		
B.4 Cash-flow hedging derivatives (including ineffectivness of net investment hedge)		
B.5 Foreign currency assets and liabilities		
Total charges from hedging activity (B)	**(17,310)**	**(19,407)**
C. Net profit from hedging activity (A-B)	**(1,497)**	**(872)**

Section 6 - Gains (losses) on disposal or repurchase - item 100

6.1 Gains (losses) on disposal or repurchase: breakdown

Items / Income components	Total 12/31/2016			Total 12/31/2015		
	Gains	Losses	Net profit	Gains	Losses	Net profit
Financial assets						
1. Due from banks						
2. Loans to customers		(5)	(5)		(3,568)	(3,568)
3. Financial assets available for sale	587	(326)	261			
3.1 Debt securities	351	(326)	24			
3.2 Equity Instruments	237		237			
3.3 Units in investment funds						
3.4 Loans						
4. Financial assets held to maturity						
Total assets	**587**	**(331)**	**256**		**(3,568)**	**(3,568)**
Financial liabilities						
1. Due to banks						
2. Due to customers						
3. Debt Securities in issue						
Total financial liabilities						

The item Loans to customers includes receivables sold without recourse during the year, net of related writedowns.
The item financial assets available for sale includes gains and losses arising from sales of government securities and shares held in the portfolio.

Section 7 – Net result on financial assets and liabilities designated at fair value - item 110

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

Section 8 – Net losses/recoveries on impairment – item 130

8.1 Net losses/recoveries on impairment of loans and receivables: breakdown

Transactions/Income components	Adjustments (1)			Write - backs (2)				Total	
	Specific		Portfolio	Specific		Portfolio		12/31/2016	12/31/2015
	Write - offs	Others		A	B	A	B		
A. Due from banks									
- Loans									
- Debt securities									
B. Loans to customers	(646)	80.156	31.154		(33.270)		32,677	(46,009)	(82,984)
Non-performing purchased loans									
- Loans			X			X	X		
- Debt securities			X			X	X		
Other receivables									
- Loans	(646)	80.156	31.154		(33.270)		(32.677)	46.099	(82,984)
- Debt securities									
C. Total	**(646)**	**80.156**	**31.154**		**(33.270)**		**32,677**	**(46,009)**	**(82,984)**

Key:
A= from interests
B= other recoveries

8.2 Net impairment losses to financial assets available for sale: breakdown

Transactions/Income	Adjustments (1)		Reversals of impairment losses (2)		Total 12/31/2016	Total 12/31/2015
	Specific		Specific			
	Write-off	Others	A	B		
Debt securities						
B. Equity instruments		(245)			(245)	
C. Units in investments funds						
D. Loans to banks						
E. Loans to customers						
F. Total		**(245)**			**(245)**	

8.3 Net impairment losses to financial assets held to maturity: breakdown

The Group has no financial assets held to maturity.

8.4 Net impairment adjustments to other financial transactions: breakdown

Transactions / Income	Adjustments (1)			Reversals of impairment losses (2)				Total	
	Specific		Portfolio	Specific		Portfolio		12/31/2016	12/31/2015
	Write - offs	Other		A	B	A	B		
A. Guarantees given									(19)
B. Credit derivatives									
C. Commitments to disburse funds									
D. Other transactions									
E.Total									**(19)**

Key
A= from interests
B= other recoveries

Section 9 – Net premiums – item 150

The Group does not include insurance companies.

Section 10 – Net other insurance income/expense – item 160

The Group does not include insurance companies.

Section 11 – Administrative expenses – item 180

11.1 Payroll: breakdown

Payroll amounts to Euro 54,166 thousand (Euro 38,818 thousand at 31 December 2015) and is split as follows:

Type of expense/Amounts	Total 12/31/2016	Total 12/31/2015
1) Employees		
a) wages and salaries	37,736	26,798
b) social security contributions	9,887	7,320
c) Severance pay (only for Italian legal entities)	133	1
d) Social security costs		
e) allocation to employee severance pay provision	103	10
f) provision for retirements and similar provisions:		
- defined contribution		
- defined benefit		
g) payments to external pension funds:		
- defined contribution_old	2,195	1,803
- defined benefit		
h) Expenses resulting from share based payments		
i) other employee benefits	1,740	1,472
2) Other staff	1,701	628
3) Directors and Statutory Auditors	671	786
4) Early retirement costs		
Total	**54,166**	**38,818**

“Social security charges” include pension costs incurred by the Group in 2016.
The “provision for employee termination indemnities” shows the amount calculated in accordance with actuarial estimates.

11.2 Average number of employees by category

	Total 12/31/2016	Total 12/31/2015
2) Employees		
a) Senior managers	18	13
b) Managers	189	151
of which 3rd and 4th level	66	62
c) Remaining employees staff	560	423
Total	**767**	**588**
Other personnel	**20**	**20**

11.3 Post-retirement defined benefit plans: total costs

The Group has not allocated post-retirement defined benefit plans.

11.4 Other personnel benefits

	12/31/2016	12/31/2015
Ancillary staff expenses (contributions to rent and health insurance, luncheon vouchers, other minor benefits and training costs)	1,732	1,468
Incentive plan reserved for managers and middle managers	8	4
Total	**1,740**	**1,472**

11.5 Other administrative expenses: breakdown

Other administrative expenses amount to Euro 91,489 thousand (Euro 68,055 thousand at 31 December 2015) and are made up as follows:

Type of service/Amounts	Total 12/31/2016	Total 12/31/2015
Indirect taxes and duties	12,862	9,135
Telephone, broadcasting and postal	4,842	5,163
Maintenance, cleaning and waste disposal	1,245	1,286
Property lease, removals and condominium expenses	3,975	3,249
Professional fees and corporate expenses	16,888	8,141
Travel and accomodation	4,082	2,439
Stamp duty and flat-rate substitute tax	4,175	1,434
Insurance charges	112	351
Forms, stationery and consumables	352	216
Supplies, licences EDP consulting and maintenance	8,777	10,801
Debt recovery charges	13,476	14,275
Legal fees	3,640	3,050
Advertising, promotion and representation	1,656	1,099
Commercial information and searches	3,360	2,662
Other expenses	12,047	4,753
Total	**91,489**	**68,055**

Section 12 – Net provisions for risks and charges – item 190

12.1 Net provisions for risks and charges: breakdown

	Total 12/31/2016	Total 12/31/2015
Net provision for legal disputes	2,959	5,170
Other provisions	8,608	9,178
Total	**11,567**	**14,348**

"Provisions for legal risks" mainly include provisions for risks and charges made during the year for litigation with customers and dealers, based on a reliable assessment of the expected financial outlay.
"Provisions for other liabilities" relate to an amount provided for a dispute over the criteria applied for the early redemption of loans guaranteed by salary and pension assignment. For further information thereon, please see the section on "Other facts worth mentioning" in the Report on Operations.

Section 13 – Net adjustments to/recoveries on property and equipment – item 200

13.1 Net adjustments to/recoveries on property and equipment: breakdown

Net adjustments to property and equipment amount to Euro 695 thousand and refer to the depreciation of the Group's fixed assets.

Assets/Income items	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b + c) 12/31/2016
A. Property and equipment				
A.1 Owned				
- For business purposes	676	59	(40)	695
- For investment purposes				
A.2 Held under finance lease				
- For business purposes				
- For investment purposes				
Total	**676**	**59**	**(40)**	**695**

Section 14 – Net adjustments to/recoveries on intangible assets – item 210

14.1 Net adjustments to/recoveries on intangible assets: breakdown

Net adjustments to intangible assets amount to Euro 3,524 thousand and relate to the amortisation of the year, as shown in the following table:

Assets/Income items	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net risult (a + b + c) 12/31/2016
A. Intangible assets				
A.1 Owned				
- Internally generated				
- Other	3,524			3,524
A.2 Held under finance lease				
Total	**3,524**			**3,524**

Section 15 – Other operating expenses/income – item 220

15.1 Other operating expenses: breakdown

Other operating expenses amount to Euro 25,487 thousand (Euro 5,570 thousand at 31 December 2015) and are divided as follows:

	Total 12/31/2016	Total 12/31/2015
Rebates and discounts	58	56
Losses on disposal	10	287
Miscellaneous expenses	481	253
Expenses related to leasing activities	21,811	598
Other expenses	3,108	4,375
Total	**25,467**	**5,570**

15.2 Other operating income: breakdown

Other operating income amounts to Euro 52,912 thousand (Euro 10,824 thousand at 31 December 2015) and can be broken down as follows:

	Total 12/31/2016	Total 12/31/2015
Recovery of taxes	5,721	3,851
Recovery of lease instalments	66	66
Recovery of other expenses	6,755	601
Recovery of preliminary expenses	10,254	4,146
Rebates and discounts received	4	4
Insurance reimbursements	89	90
Gains on disposal	268	615
Income related to leasing transactions	28,657	1,095
Other income	1,079	356
Total	**52,893**	**10,824**

Section 16 – Profit (loss) on equity investments – item 240

The Group has not recognised any profit or loss on equity investments.

Section 17 – Net gains (losses) arising on fair value measurement of property and equipment and intangible assets – item 250

The Group's property and equipment and intangible assets have not been measured at fair value.

Section 18 – Adjustments to goodwill – item 260

The Group has not recognised any goodwill.

Section 19 – Gains (losses) on disposal of investments – item 270

The Group has not recorded gains or losses on disposal of investments.

Section 20 – Income tax for the year on current operations – item 290

20.1 Income taxes for the year on current operations: breakdown

The item "Income tax for the year" shows a balance of Euro (41,932) thousand (Euro (13,383) thousand at 31 December 2015) and represents the provision made during the year in accordance with current tax law. It is made up as follows:

Income components/Sectors	Total 12/31/2016	Total 12/31/2015
1. Current taxes (-)	(31,432)	(15,467)
2. Change in prior period income taxes (+/-)		(1)
3. Reduction in current tax expense for the period (+)	246	207
3.bis Reduction in current taxes for tax credits as per Law 214/2011 (+)		
4. Change in deferred tax assets (+/-)	(10,762)	1,879
5. Change in deferred tax liabilities (+/-)	15	
6. Income tax for the year (-) (-1+/-2+3+3bis+/-4+/-5)	**(41,932)**	**(13,383)**

The change is due to the recognition of deferred tax assets generated by deductible temporary differences, mostly due to write-downs of loans, 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 14 – Tax assets and tax liabilities.

20.2 Reconciliation between the theoretical and effective tax charge

The following table shows the effects on current taxes recognised in the financial statements arising from the presence of permanent differences that increase taxable income with respect to the operating profit, thereby aggravating the tax burden.

	12/31/2016	12/31/2015
Profit (loss) from continuing operations before tax	133.846	48.251
Profit before tax on discontinuing operations		
Theoretical taxable income	**133.846**	**48.251**
Income tax - Theoretical tax charge	(36.807)	(13.269)
- effect of income and expenses that do not contribute to the tax base	4.229	3.846
- effect of expenses that are wholly or partially non-deductible	(852)	(2.645)
- differences due to the scope of consolidation	17	(10)
IRES - Effective tax burden	**(32.941)**	**(12.078)**
IRAP - Theoretical tax charge	(7.470)	(2.703)
- portion of non-deductible administrative expenses, depreciation and amortisation	(2.826)	(2.556)
- portion of non-deductible interest expense	(137)	(115)
- effect of income and expenses that do not contribute to the tax base	3.521	4.301
- effect of expenses that are wholly or partially non-deductible	(2.079)	(239)
- differences due to the scope of consolidation		7
IRAP - Effective tax burden	**(8.991)**	**(1.305)**
Effective tax burden as shown in the financial statements	**(41.932)**	**(13.383)**

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 21 – Profit (loss) after tax on discontinuing operations – item 310

The Group has not recognised any gains or losses on disposal groups classified as held for sale.

Section 22 – Net profit (loss) pertaining to minority interests – item 330

22.1 Analysis of item 330 “Net profit (loss) pertaining to minority interests”

	31/12/2016	31/12/2015
Investments in consolidated companies with significant minority interests		
1. Santander Consumer Finance Media S.r.l. in liquidation	(66)	(53)
2. Banca PSA Italia S.p.A.	12.808	(43)
Other investments		
Total	**12.742**	**(96)**

The result attributable to minority interests amounts to Euro 12,742 thousand and relates to the portion attributable to the group headed by De Agostini Editore S.p.A. arising from its 35% equity interest in the subsidiary Santander Consumer Finance Media S.r.l. in liquidation of Euro 66 thousand and to the profit attributable to Banque PSA arising from its 50% interest in Banca PSA Italia S.p.A. of Euro 12,808 thousand.

Section 23 – Other information

No further information has to be given in addition to what has already been provided in the previous sections.

Section 24 – Earnings per share

24.1 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.

24.2 Other information

Profit (loss) for the year	91.913
Basic earnings per share	**0,14**

Profit (loss) for the period pertaining to the Parent Company	79.170
Basic earnings per share	**0,14**

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

		12/31/2016		
		Gross Amount	**Tax Effects**	**After tax effects**
10.	**Net Profit (Loss) for the year**	**X**	**X**	**91,913**
	Other comprehensive income after tax not to be recycled to income			
20.	Tangible assets			
30.	Intangible assets			
40.	Defined benefit plans	520	(150)	370
50.	Non current assets classified as held for sale			
60.	Valuation reserves from investments accounted for using the equity			
	Other comprehensive income after tax to be recycled to income			
70.	**Hedge of foreign investments:**			
	a) changes in fair value			
	b) reclassification through profit or loss			
	c) other variations:			
80.	**Exchange differences:**			
	a) value changes			
	b) reclassification through profit or loss			
	c) other variations:			
90.	**Cash flow hedges:**	**1,612**	**(533)**	**1,079**
	a) changes in fair value	1,612	(533)	1,079
	b) reclassifications through profit or loss			
	c) other variations:			
100.	**Available-for-sale financial assets:**	**(580)**	**192**	**(388)**
	a) changes in fair value	(290)	96	(194)
	b) reclassifications trough profit or loss	(290)	96	(194)
	- impairment losses			
	- following disposal	(290)	96	(194)
	c) other variations:			
110.	**Non current assets classified as held for sale:**			
	a) changes in fair value			
	b) reclassifications through profit or loss			
	c) other variations:			
120.	**Valutation reserves from investments accounted for using the**			
	a) changes in fair value			
	b) reclassifications trough profit or loss			
	- impairment losses			
	- following disposal			
	c) other variations:			
130.	**Total of other comprehensive income after tax**	**1,552**	**(491)**	**1,061**
140.	**Comprehensive income (Items 10+130)**			**92,974**
150.	Consolidated comprehensive income attributable to minorities			12,764
160.	**Consolidated comprehensive income attributable to Parent**			**80,211**

Part E - Information on risks and related hedging policies

Introduction

Santander Consumer Bank Group (the Group) places great importance on the management and control of risks as a means of ensuring reliable and sustainable value creation in a context of controlled risk.
The Risk management strategy focuses on a complete and consistent overview of risks. It takes account of the macro-economic scenario and the Group's risk profile, it stimulates a growing risk culture and encourages a transparent and accurate presentation of the risks associated with the Group's portfolios.

The Group's risk appetite is shown in the Risk Appetite Framework (RAF), a strategically important tool, organised and structured to present to the Board of directors and senior management, through established indicators, the main risks to which the group is exposed and the level of such risks that it is willing to assume under normal and stressed conditions.

The general principles on which the Group's risk assumption strategy is based may be summarised as follows:

- Santander Consumer Bank is a Banking Group the operations of which are almost entirely 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;
- the Group's objective is to understand and manage risks in a manner which ensures an adequate return for the risks assumed and solidity and business continuity in the long term;
- the Group intends to maintain tight control over the main specific risks (not necessarily related to macroeconomic shocks) to which it is exposed.

The Risk Appetite Framework is the framework that sets out the level of risks assumed by the Group and provides a definition of the maximum risk tolerance thresholds and the consequent structure of the overall risk profile for the consolidated metrics.

The risk profile stems from the general principles defined by the risk policies and consists of a structure of limits to ensure that the Group, even under stressed conditions, meets minimum levels of solvency, liquidity and earnings.

The Board of Directors, in its capacity as a strategic oversight body, approves the risk objectives, the tolerance thresholds (where identified) and the risk management policies. It also ensures that the implementation of the RAF is consistent with the risk objectives and the approved tolerance thresholds.

The risk appetite 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 business development;
- it takes a prospective view of the 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 ordinary activities, given that it was designed to take account of existing policies and limits.

Defining the consolidated metrics within the scope of the Risk Appetite Framework and the consequent limits are fundamental steps for the operational application of long term risk strategy along the Group's decision-making chain, down to each operating unit.

Risk culture

Utmost attention is given to the transmission and sharing of a risk culture, by means of regular updates to relevant documents (such as Tableau de Bord, ICAAP, Risk Appetite Framework, Capital Planning and Monitoring, Credit Management Programme and Internal Control System/SOX) and by initiatives implemented to address specific issues as they arise.
Moreover, the Group ensures the dissemination of risk culture by means of extensive training aimed at the correct application of internal and external models designed to prevent, mitigate and monitor risks in an effective manner.
The approach to risk management is orientated towards an increasingly integrated and consistent management of risks, by taking account of the macro-economic scenario and the Group's risk profile, by stimulating a growing risk culture by means of an extensive and transparent presentation of the risks associated with portfolios.

Organisation and risk governance

The organisational standards applied within the organisation to ensure 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 in operational processes;
- guaranteeing that any anomalies, which result from checks performed by the control functions, are rapidly brought to the attention of the appropriate level of management and dealt with promptly.

The Parent Company's risk management and governance process is based on an organisational structure that ensures there is an internal control system that operates on three levels, in line with supervisory regulations. For further details, see the same section of the Separate Financial Statements of Santander Consumer Bank S.p.A.

To this end, for the subsidiary Santander Consumer Finance Media S.r.l, risk management is carried out by the competent functions at the Parent Company by virtue of existing contracts for the outsourcing of services, while the subsidiary Banca PSA Italia S.p.A. (hereinafter Banca PSA) has adopted an organisational structure for its risk management and governance process 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 of Banca PSA to verify that the processes and tasks within its competence have been carried out in accordance with internal procedures. Where possible, these types of controls are automated IT procedures;
- risk management controls (second-level checks): these are performed by the Risk Control Unit of Banca PSA 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, which verifies compliance with internal and external regulations applicable to the Group;
- internal audit controls (third-level controls): these are carried out by the Group's Internal Audit department, which has the task of verifying the correct performance of processes (management and production, business and commercial, support and 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.

Within the scope of management and coordination activities, the Parent Company carries out supervision activities as required by Joint Venture agreements and regulatory requirements.

Scope

An overview of the risks to which the Santander Consumer Bank Group is mainly exposed, given the nature and characteristics of its business, is summarised in the following table. An assessment of the significance of risks is performed for the purpose of the ICAAP (Internal Capital Adequacy Assessment Process) report drawn up by Santander Consumer Bank, based on criteria approved by the Board of Directors.

	Type of risk	Definition	Classification
Pillar I	Credit risk	Risk associated with the probability that a borrower may be unable to meet its contractual obligations, thus exposing the bank to possible future losses	Significant
Pillar I	Market risk	Risk of an unfavourable change in the value of financial instruments, included in the trading portfolio for supervisory purposes, caused by adverse movements in interest rates, foreign exchange rates, inflation rates, volatility, equity prices, credit spread, commodity prices (general risk) and credit standing of the issuer (specific risk)	Not significant

	Type of risk	Definition	Classification
	Counterparty risk	Risk that the counterparty in one of the transactions shown below may default prior to settlement of the transaction. Specifically, this applies to the following categories: - Derivatives linked to interest rates, foreign exchange rates and gold and credit derivatives; - repo transactions and securities or commodities lending or borrowing; - transactions with long-term settlement; - margin lending transactions secured by securities or commodities	Significant
	Operational risk	Risk of incurring losses due to inadequate or dysfunctional procedures, human resources or internal systems, or to exogenous events. This type of risk includes legal risk, but does not include strategic and reputational risk	Significant
Pillar II	Compliance risk	Risk of incurring legal or administrative sanctions, financial losses or reputational damage as a result of violations of obligatory rules (laws or regulations) or of self-regulation (e.g. articles of association, codes of conduct, codes of ethics)	Significant
	Country risk	Risk of incurring losses caused by events that occur in countries other than Italy	Not significant
	Transfer risk	Risk that a bank exposed to a party that takes out a loan in a currency other than the one in which it receives its main sources of income, incurs losses due to difficulties encountered by the debtor in converting its own currency into the currency of the loan	Not significant
	Interest rate risk in the Banking Book	Risk arising from the possibility that changes in market interest rates will impact assets and liabilities held other than for trading ("banking book"), thus impacting the Group's earnings or capital.	Significant
	Liquidity risk	Risk that the Group will be unable to meet its payment commitments due to the inability to raise funds on the market (funding liquidity risk) or the inability to sell its assets (market liquidity risk)	Significant
	Securitisation risk	Risk that the economic substance of a securitisation is not fully reflected in pricing decisions and risk management	Not significant
	Strategic risk	Current or prospective risk of a decline in earnings or capital arising from changes in the operating environment or from adverse business decisions, improper implementation of decisions or a lack of responsiveness to changes in the competitive environment	Significant
	Reputational risk	Current or prospective risk of a decline in earnings or capital arising from a negative perception of the Group's image on the part of customers, counterparties, the Groups shareholders, investors or supervisory authorities	Significant
	Concentration risk	Risk arising from exposures with counterparties, inclusive of central counterparties, groups of connected counterparties and counterparties operating in the same economic sector, in the same geographical area or engaged in the same business or that deal with the same commodities, as well as from the application of credit risk mitigation techniques, comprising, in particular, risks arising from indirect exposures, such as from individual collateral providers	Significant

Type of risk	Definition	Classification
Provisioning risk	Risk that adjustments booked by the Group are underestimated compared to losses potentially or actually present in the loan portfolio	Significant
Excessive leverage risk	Risk that a particularly high level of debt with respect to capital makes the Group vulnerable, forcing it to adopt corrective measures in its business plan, such as selling off assets at a loss, which could result in impairment on the part of the remaining assets	Not significant
Residual Risk	Risk that the recognised techniques for mitigating credit risk used by the Group are less effective than expected	Not significant
Business Risk	Risk of changes in earnings and margins, versus budget, generally due to changes in the competitive environment, in customers' behaviour or in technological development (encompassed by the wider risk category of strategic risk)	Significant
Structural foreign exchange rate risk	Risk arising from foreign currency exposures stemming from commercial operations when these are linked to strategic investment decisions (encompassed by the wider risk category of market risks).	Not significant
Risk associated with Goodwill and Intangible assets	Risk that intangible assets, consisting of purchased goodwill or other types of deferred charges, are reduced or fully written down, with a consequent negative impact on the income statement as a result of the performance of impairment tests in compliance with IAS/IFRS.	Not significant
Pension Risk	Risk that an entity, which is a sponsor of a pension plan, is forced to pay additional contributions in order to meet its obligations. This risk is not applicable to the Italian pension system	Not significant
DTA Risk	Risk that deferred tax assets, which are not capable of being converted to amounts recoverable from the tax authorities, are deducted from own funds with negative consequences in terms of a reduction of total capital	Not significant

The risks assumed are the same for all Group companies.

Section 1 - Risks faced by the banking group

1.1 Credit risk

Qualitative information

General aspects
Credit risk is the main type of risk to which the Group is exposed.
It is the risk associated with the probability that a borrower may be unable to meet its contractual obligations, thus exposing the Group to possible future losses. The Group'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;
Credit risk arises from the existence of a contractual relationship relating to the placement of the following products:

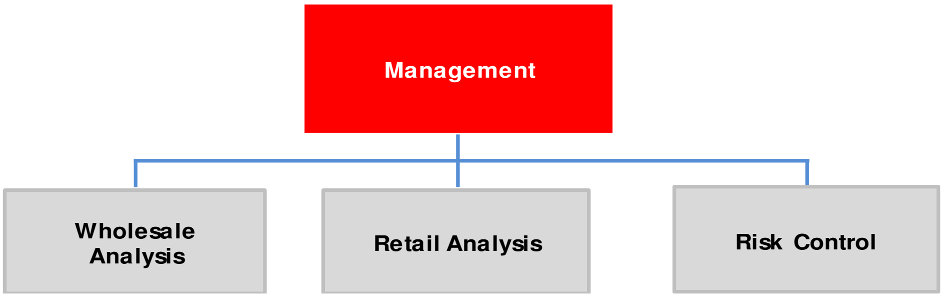
- Car loans: specific-purpose loans for the purchase of vehicles, including motorcycles, to persons who apply for loans offered by dealers affiliated with the Bank. The loan amount is granted directly by the affiliated dealer. The customer undertakes to repay the loan in accordance with a fixed rate repayment plan in equal instalments. The customer may take out insurance cover for the loan or the object financed;
- Special-purpose loans: loans granted solely by the agency channel to persons for the purchase of goods other than cars and/or for the provision of services. These have the same repayment / contractual features of car loans;
- Personal loans: loans granted directly to the customer that have the same repayment / contractual features of car loans. It is possible to take out insurance cover for the loan;
- Consumer car leasing: financing transactions offered by the Bank (in its capacity as lessor) for the use for an agreed period of time, upon payment of periodic lease charges, of motor vehicles, commercial vehicles and motorcycles, purchased or constructed by a third party supplier, as requested by the lessor and chosen and indicated by the customer (user with a VAT number); the latter assumes all the risks and retains the right, at the end of the contractual term, to purchase the goods for a predetermined price and to extend the use thereof under predetermined or predeterminable financial conditions. For leasing products, the typical risks of finance leases, apart from those arising from a contractual breach by the customer, are of a contractual and financial nature;
- Credit cards: a line of credit for an unlimited period made available to a customer, who may make use thereof in one or more lots. The user undertakes to repay the amounts utilised and interest payable thereon, complying with the payment of monthly minimum instalments, but with the right to make larger repayments if desired. The repayment of the capital element ensures the availability once again of the full credit facility, which may be reutilised by the customer. Interest rates are generally fixed, but Santander Consumer Bank has the right to modify the financial conditions during the relationship, in compliance with regulations in force. The loan may be guaranteed;
- Salary/pension-backed loans: 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 linked to after-sales: special-purpose loans for car repairs (instalments, deferred payments) and the purchase of spare parts and accessories by customers at affiliated dealers;
- 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.

Credit risk management policies

- Organisational aspects
The Corporate bodies play a fundamental role in the management and control of credit risk within the Santander Group Consumer Bank, each in accordance with their respective competences. They ensure appropriate credit risk by identifying strategic inputs and risk management policies, continuously verifying their efficiency and effectiveness and defining the tasks and responsibilities of the corporate functions and structures involved in the processes.
For Santander Consumer Bank S.p.A., ample information on the organisational aspects has been provided in the same section of the Separate Financial Statements, to which reference is made for further details.
For the subsidiary Santander Consumer Finance Media S.r.l, the control and management of credit is reflected in the current organisational structure by which risk management activities are carried out directly by the Parent Company by means of existing service outsourcing contracts.
For Banca PSA, on the other hand, the Parent Company plays a supervisory role, since the Subsidiary has its own specific risk management structure.
Banca PSA's Risk Management Department reports to General Management, its hierarchical superior, and coordinates the related units for which it is responsible:

- Risk Control Unit;

- Retail Unit;
- Wholesale Unit.



Management's mission is to control and monitor the various types of risk to which the Company is exposed in the performance of its activities, through proper management and control based on the guidelines laid down by the Bank and in line with the corporate framework.

Management must set out the credit policy, and the relevant guidelines for ensuring their correct implementation, using as a basis company strategies and the applicable regulations. It focuses on the choices and approaches that govern risk-taking processes and operationally oversees the decision-making activities in respect of delegated powers. It establishes Management's budget, setting out guidelines for the Units managed, adapted to ensure qualitative and quantitative development in accordance with the Company's strategic policies.

In particular, Management is responsible for:

- implementing—and if appropriate adapting to the regulations in force—the risk method and policy defined by the Parent Company;
- approving and monitoring the implementation of local risk management models (in particular credit risk), in addition to keeping the documentation on risk management policies and procedures updated;
- supervising and controlling the operation and maintenance of the automated decision-making systems (scorecards);
- checking the monitoring processes for the various types of risks, as well as finalising and overseeing the issuance of reporting required by management for decision-making purposes;
- approving double-signature retail loans with the Head of Operations, in accordance with the provisions of the regulation on the delegation of powers in relation to credit;
- attending the committees within its competence in which policies, operations, systems and other requirements in the field of credit risk are discussed;
- actively participating in the committees for the approval of new products and in other committees that require the presence of the Company's risk department;
- supervising the annual financial plan prepared for the Company and the analysis of the impacts on locally-established risk limits;
- facilitating compliance by other business functions with the locally-established regulatory requirements in relation to risks;
- monitoring the issuance of consolidated information to the Parent Company;
- if appropriate, coordinating and cooperating in relation to national and international regulatory authorities, with the internal and external auditors in the course of carrying out their functions;
- monitoring and reviewing, together with the Legal and Tax Affairs Unit, clauses with implicit risks incorporated in customer contracts.

Risk Control Unit

The Risk Control Unit operates from within the Risk Department. In order to maintain autonomy and independence, the unit reports directly to the Board of Directors. Moreover, the Unit Manager is the Chairman of the Risk Committee, within which the Unit shares the findings of its activities, which are recorded and brought to the attention of the Board of Directors.

The Unit Manager must have the same characteristics as provided for when choosing heads of the Control Units, as described later in the section "Internal control system".

In general, the Unit is authorised to carry out risk monitoring activities, in a strategic and actionable manner, in compliance with the regulations in force and, in particular, Basel III, which is aimed at a correct allocation of capital at Bank level.

The Unit aims to contribute to defining and implementing the Risk Appetite Framework and the relevant risk management policies by means of an appropriate risk management process. In this regard, it provides the Parent Company with the information required to define and monitor the consolidated metrics.

More specifically, the Unit:

- helps to verify the adequacy of the RAF and the risk management process and the operational limits in line with the Risk Appetite policy defined by the Board of Directors;
- defines the common metrics for the assessment of operational risks in line with the RAF, in coordination with the functions involved. In this regard, its uses policies defined at Group level, performing prior validation of possible changes to be made in relation to business type or operational context.
- provides opinions on the compliance with the RAF of the most significant transactions, before also, depending on the nature of the transaction, seeking the opinion of other functions involved in the risk assessment process;
- communicates with the Compliance and AML function with regard to the monitoring of reputational risk;
- ensures the consistency of the risk measurement and control systems with assessment processes and methodologies of the corporate activities that are most exposed;
- discusses the risks of new products and services and those arising from entry into new operating or market segments;
- constantly monitors the actual risk assumed by the Bank and its consistency with risk objectives as well as compliance with the operating limits assigned to the operational structures in relation to the taking of various types of risk;
- ensures the overseeing of corporate risk control and management activities aimed at preventing “abnormal” and potentially harmful (in terms of the safeguarding of company assets) situations;
- collaborates with other business units within the Group involved in the internal capital adequacy assessment process (ICAAP).

In order to provide guidance aimed at setting up adequate internal control and risk management systems, the Unit Manager will:

- help to define risk measurement methods and the operating limits assigned to the operating structures in line with the expected profitability from products, establishing procedures for the timely review of such limits;
- validate the information flows required to ensure the timely control of exposure to risks and the immediate detection of anomalies;
- ensure the monitoring of the change in provisions and in the cost of risk over time and their comparison with the expected losses;
- prepare reporting to the Board of Directors, the General Management and the function managers about the evolution of risks and the violation of established operating limits;
- check the consistency of risk measurement models with the activity of the Company;
- collaborate on and support the ICAAP for the calculation of the capital and prudential ratios for the Bank of Italy;
- assist with the implementation of stress tests.

The Risk Management Unit protects the Company, in a preventive manner, against the credit risks associated with customer relations, against interest rate and liquidity risks, and against risks related to loan disbursement activities, by monitoring, checking and periodically reporting to the Board of Directors.

The Unit is responsible for continuously quantifying the risk assumed and effectively managing it, implementing, where necessary, any relevant mitigating actions.

Significant Exposures are analysed monthly, as is compliance with the general and individual limits with respect to the Supervisory Capital, as provided for by the supervisory regulations.

Retail Unit

The Retail Unit, which, hierarchically speaking, is under the direct control of the Risk Department, deals mainly with defining policies and operational strategies relating to the granting of credit, contributing to the training of personnel for outsourcing procedures and continuously monitoring disbursement activities in accordance with the relevant guidelines, in line with company strategy.

The Unit is responsible, in particular, for defining credit and insurance criteria within the framework of the Company’s credit policy and is responsible for monitoring this policy and adjusting it where necessary.

The Unit is responsible for ensuring the correct application of the risk assumption policies and procedures on particular credit proposals; in particular it supervises the preliminary procedure and the resolution process for loan applications falling under the ordinary operations of the Retail Underwriting Unit.

Its main functions are divided into various areas, as identified below:

- Planning (definition of annual budget and new products);

- Defining credit strategies through the creation and maintenance of scorecards for the automatic resolution and management of exceptions;
- Monitoring of the effectiveness of scoring models and the first-level monitoring of the loans portfolio;
- Reporting (production and maintenance of management reporting).

Wholesale Unit

The Wholesale Unit, which, hierarchically speaking, is under the direct control of the Risk Department, deals mainly with qualitatively and quantitatively developing the structure, together with Management, in line with the Company's strategic policies.

The Unit is responsible to prepare appropriately the positions that have to be analyzed by the units in charge to approve, both wholesale customers and retail customers.

Moreover, it annually reviews dealer positions, defines, together with Credit Collection and Dispute Department, recovery strategies to be implemented in respect of affiliates, and manages collaborations with the car brands Peugeot and Citroen.

Within this process, the main functions of the Wholesale Unit are more or less the same as those of the Retail Unit.

- Internal control system

The internal control system plays a central role in within the organisation as it represents a fundamental element of knowledge for the company bodies in order to ensure full awareness of the situation and effective supervision of business risks and their interrelationships.

Banca PSA has set up the internal control system on the basis of the policy defined by the Santander Consumer Bank Group, taking into account the indications coming from the Supervisory Board as well as best practices in terms of security and control. The system is structured as previously described in the section "Organisation and risk governance".

The operating structures are the first responsible for the risk management process; in the context of their daily operations, they are required to identify, measure or assess, monitor and mitigate risks in accordance with the risk management process and in compliance with the operating limits assigned to them.

The departments responsible for second-level controls are distinct from production departments and contribute to defining risk management policies and processes.

Serving as the foundation for a complete and functional internal control system, business organisation should be adequate to ensure sound and prudent management and compliance with the applicable provisions.

Without prejudice to the foregoing, general risk monitoring is ensured by means of suitable control functions, which, as previously described in the section "Organizational Aspects", will be established by the Company and used by the Parent Company to carry out certain specific activities. The rationale behind choosing to outsource certain tasks to the Parent Company is driven by the unique characteristics of the activities to be checked as well as the possibility of taking advantage of a high level of methodological expertise and access to more resources.

To ensure that the internal control system operates correctly, it is essential that the company bodies, committees, and the parties responsible for the statutory audit and control functions work together. Ensuring mutual independence, and that the roles and responsibilities of each of the company control functions are maintained, the control functions shall cooperate with each other and with other company functions in order to develop a methodological control approach consistent with company strategies and operations.

In this sense, the organisation complies with the following principles:

- the decision-making processes and the assignment of functions to staff are formalised and allow the clear identification of tasks and responsibilities, ensuring separation between control structures and production structures;
- staff are qualified to exercise the responsibilities assigned to them;
- the risk management process is integrated using a risk management common language;
- the functions use consistent risk measurement and assessment methods and instruments (for example, a single taxonomy of processes and a single risk map);
- the processes and methodologies used for the assessment of risks for business activities, including for accounting purposes, are reliable and are integrated with the risk management process;

- operating and control procedures must minimise the risks linked to employee fraud or misconduct, and prevent or mitigate potential conflicts of interest;
- the IT system and the levels of operational continuity are adequate and comply with regulations in force as well as performance recommendations established by Management.

With regard to the appointment of the Heads of the Control Functions, the Company plans to internally source candidates with the following attributes:

- appropriate professionalism with regard to internal control activities;
- have authority and be in an appropriate hierarchical role;
- no direct responsibility over operational areas subject to control nor hierarchically subordinate to those responsible for said areas;
- appointed and terminated (giving the reasons) by the strategic oversight body, on the advice of the control unit.

The essential feature of the entire internal control system is the formation of information flows between first- and second-level control functions; in this regard, the Company adopts the general principles governing the implementation of information flows within the SCB Group.

More specifically, there are two types of information flows within the Company:

- “Horizontal flows”, related to cooperation and exchanges between internal control functions;
- “Vertical flows”, from the internal control functions and the Independent Auditors to the governing bodies.

As regards outsourced activities, the task assigned to each supplier is formalised in a specific Service Level Agreement that defines the purpose and scope of the authority assigned, the activity guidelines and the levels of service to be met, pursuant to the Supervisory Regulations (Circular no. 263 of 27 December 2006 - 15th update of 2 July 2013).

The outsourcing of these activities does not mean that there is no accountability; indeed, the heads of the control functions are always in-house.

Specifically, the only Control Function that will have some of its activities outsourced to the Parent Company is the Internal Audit function, for which, in any case, an Internal Head of function will be appointed and resources for the fulfilment of control tasks will be allocated.

The Company has entered into a service agreement with SCB, in accordance with the outsourcing policy in effect within the Group, which sets out the following:

- the type of business functions and activities that can be outsourced;
- the specific decision-making and operational process for outsourcing (analysis, identification of the supplier, approval, drawing up of the contract);
- the notifications to be made to the Bank of Italy;
- procedures for defining roles and responsibilities.

- Risk Managing, Measuring and Monitoring System

The internal control system plays a central role in within the organisation as it represents a fundamental element of knowledge for the company bodies in order to ensure full awareness of the situation and effective supervision of business risks and their interrelationships.

The Parent Company’s risk managing, measurement and monitoring system is presided over by the Risk Management Department. For further details, see the same section of the Separate Financial Statements of Santander Consumer Bank S.p.A.

For the subsidiary Banca PSA, 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 Management 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 Banca PSA Italia, the credit risk assumed by the performance of the company’s activity can essentially be split into two categories: Standardised (Retail Risk) and Non-Standardised (Corporate Risk). Both these types involve the 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.

As regards standardised management of risks, the following phases are involved:

1. Acceptance of a loan application
2. Monitoring and Reporting
3. Credit Collection

1. The acceptance of a loan application is in turn split into input to the system, credit analysis, approval and disbursement:
- Input to the system is the first phase of the loan application process. The importance of this step can be summarised as follows:
    - enables an accurate assessment of the customer's credit standing;
    - enables customers to be registered correctly;
    - facilitates the possible collection phase, by confirming addresses, telephone numbers and e-mail addresses.

The body responsible for the inputting of loan applications to the system is made up of parties identified as distribution channels for the Bank's products.
To input data, the intermediary will use the front office POS (Point of Sale) portal.
For cases involving the redefinition of contractual relations with previously acquired customers or takeovers of financial leasing contracts, inputting will be carried out directly by the Bank.
- Once input is complete, applications are assigned to the bodies responsible for credit analysis.

Credit analysis is the second phase of the loan application handling process, and at this stage the Bank seeks to ascertain the accuracy, validity and completeness of the data provided by the subject at the time of submitting the loan application.
Adequate control allows the Bank to:
- Accurately assess the customer's credit standing;
- create a valid and certified database, which will in the near future perform an analysis of the portfolio based on data that reflect the realities of the market;
- identify or confirm the differentiating variables in the acceptance phase;
- develop new scoring models that reflect the evolution of the market.

The body responsible for credit analysis is the Underwriting Retail Unit, which will use the GP (*Gestion Provisoire*) portal as a credit assessment instrument .
- Approval is the third phase of the loan application process.

In practice, it consists in assigning one definitive status to loan applications, typically either an Approval or a Refusal. The body responsible for approval is the Underwriting Retail Unit.
- Disbursement is the last phase of the loan application process, in which the beneficiary will be the affiliated dealer.

This phase involves the payment of the amount of the loan agreement at the time of delivery of the product or service.
The actual disbursement of the economic consideration that is the subject of the loan application takes place by crediting a netting current account or possibly via bank transfer.
The body responsible for the disbursement phase is the Middle Office Unit (Operations Department).

2. the monitoring phase is handled by Retail Risk. 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 Management 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, senior management and the Board of directors in line with the agreed reporting schedule.

3. The credit collection phase is handled by Collection. 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 injunctions 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).

On the other hand, as regards Non-Standardised risk management, the process gets split into the following phases:
- customer analysis
- customer's credit rating
- analysis of credit transactions
- preparation of resolutions regarding transactions/customers
- monitoring
    - customer tracking
    - portfolio tracking
    - controls

- check on production volumes
- collection.

- Credit risk mitigation techniques

The risk mitigation techniques used in portfolio management are closely linked to the characteristics of the products. The main types of collateral currently in use are:

- 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 holding company at the signing of the framework agreement and allocation of a solidarity fund for dealers in order to cover part of defaults, real estate collateral, bank guarantees for the Subsidiary;
- 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.

- Impaired financial assets

Impaired financial assets are managed by the Collection Business Unit, which coordinates debt collection activities for the entire country and for all products, in accordance with the law and the operating procedures.
The unit aims for maximum efficiency in the management of the portfolio to be recovered through the application of strategies to prioritise collection depending on the customer's risk profile and the ageing of their balances; this efficiency is achieved thanks to the introduction of valid strategies, the launch of campaigns and the use of appropriate tools. Management's objective is to ensure the effective management of credit recovery activities, focusing on the choices and approaches that govern all the processes for managing positions classified as "non-performing".

In particular, the main responsibilities of the Board are:

- coordination and review of the collection and recovery strategies and results;
- definition of collection and recovery objectives;
- the promotion of best practice procedures and implementation of corporate models for debt collection;
- coordination with the other business units of the Company;
- monitoring and control of recovery results;
- management and monitoring of the performance of external debt collection agencies;
- management of any activity to recover the assets underlying the loans.

Quantitative information

A. Credit quality

A.1 Impaired and unimpaired loans: amounts, adjustments, trends, economic and territorial distribution

A.1.1 Distribution of financial assets by portfolio and credit quality (book values)

Portfolios/quantity	Non-performing loans	Unlikely to pay	Impaired past due exposures	Not impaired past due exposures	Not impaired exposures	Total
1. Available-for-sale financial assets					492,395	492,395
2. Held-to-maturity financial instruments						
3. Loans and receivables with banks					497,864	497,864
4. Loans and receivables with customers	4,772	37,744	27,734	105,178	6,594,692	6,770,121
5. Financial assets at fair value through profit or .						
6. Financial instruments classified as held for sale						
Total 12/31/2016	**4,772**	**37,744**	**27,734**	**105,178**	**7,584,951**	**7,760,380**
Total 12/31/2015	**18,529**	**40,917**	**78,724**	**180,875**	**5,363,620**	**5,682,665**

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.

A.1.2 Distribution of credit exposure by portfolio and credit quality (gross and net values)

Portfolio / Quality	Impaired assets			Not impaired assets			Total (net exposure)
	Gross exposures	Specific writedowns	Net exposure	Gross exposures	Portfolio adjustments	Net exposure	
1. Available-for-sale financial assets				492,395		492,395	492,395
2. Held-to-maturity financial instruments							
3. Loans and receivables with banks				497,864		497,864	497,864
4. Loans and receivables with	393,955	(323,704)	70,250	6,764,238	(64,368)	6,699,870	6,770,121
5. Financial assets at fair value through				X	X		
6. Financial instruments classified as							
Total 12/31/2016	**393,955**	**(323,704)**	**70,250**	**7,754,497**	**(64,368)**	**7,690,129**	**7,760,380**
Total 12/31/2015	**414,105**	**(275,935)**	**138,169**	**5,598,136**	**(53,641)**	**5,544,495**	**5,682,665**

Portfolio / Quality	Assets of obvious poor credit quality		Other assets
	Cumulated losses	Net exposure	Net exposure
1. Financial assets held for trading			2,992
2. Hedging instruments			
Total 12/31/2016			**2,992**
Total 12/31/2015			**4,577**

The following is an ageing analysis of performing loans to customers that are past due. The Group does not have any exposures subject to renegotiation as part of collective agreements.

	Gross exposure	Specific adjustments	Portfolio writedowns	Net exposure	Pastdue amount
Performing exposure with ageing breakdown:					
up to 3 months	94,499		(14,744)	79,756	24,148
from 3 months to 6 months	6,018		(933)	5,085	704
from 6 months to 1 year	6,152		(1,578)	4,574	1,904
over 1 year	20,850		(5,086)	15,764	5,361
Total	**127,519**		**(22,341)**	**105,178**	**32,116**

Note that these receivables are classified as performing, in accordance with supervisory instructions, as the total amount of the instalments due or past due is less than 5% of the total exposure.

A.1.3 Banking group - On- and off-balance sheet exposures to banks: gross and net values and past due time bands

Type of exposure/Amounts	Gross exposure					Specific writedowns	Portfolio adjustments	Net exposure
	Impaired exposures				Not impaired exposures			
	Till 3 months	Between 3 and 6 months	Between 6 months and 1 year	Over 1 year				
A. BALANCE SHEET EXPOSURE								
a) Non-performing loans					X		X	
-of wich: forborne exposures					X		X	
b) Unlikely to pay					X		X	
- of wich forborne exposures					X		X	
c) Impaired past due exposures					X		X	
- of wich forborne exposures					X		X	
d) past due not impaired	X	X	X	X	1	X		1
- of wich forborne exposures	X	X	X	X		X		
e) Other not impaired exposures	X	X	X	X	497,863	X		497,863
- of wich forborne exposures	X	X	X	X		X		
TOTAL A					**497,864**			**497,864**
B. OFF-BALANCE SHEET EXPOSURE								
a) Impaired					X		X	
b) Not impaired	X	X	X	X	114,585	X		114,585
TOTAL B					**114,585**			**114,585**
TOTAL (A+B)					**612,449**			**612,449**

On-balance sheet exposures to banks include the assets in asset line item 60, while off-balance sheet exposures include the fair value of derivatives in asset line item 20, net of netting arrangements for counterparty risk and counterparty risk linked to repurchase agreements. For details, please refer to the specific sections of the notes.

A.1.4 Banking group - 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.1.5 Banking group - Cash non-performing credit exposures to banks: dynamics of total writedowns

Exposures to banks are not subject to writedowns.

A.1.6 Banking group - On- and off-balance sheet exposures to customers: gross and net values and past due time bands

Type of exposure/Amounts	Gross exposure					Specific writedowns	Portfolio adjustments	Net exposure
	Impaired exposures				Not impaired exposures			
	Till 3 months	Between 3 and 6 months	Between 6 months and 1 year	Over 1 year				
A. BALANCE SHEET EXPOSURE								
a) Non-performing loans	3,648	293	820	178,104	X	178,093	X	4,772
- of wich forborne exposures	1,909	230	391	37,202	X	39,443	X	289
b) Unlikely to pay	44,940	5,562	8,068	85,598	X	106,423	X	37,744
- of wich forborne exposures	19,287	4,884	3,676	12,907	X	34,573	X	6,183
c) Impaired past due exposures	5,026	32,843	24,467	4,586	X	39,188	X	27,734
- of wich forborne exposures	15	1,116	317		X	1,149	X	300
d) past due not impaired	X	X	X	X	127,519	X	22,341	105,178
- of wich forborne exposures	X	X	X	X	11,900	X	3,362	8,539
e) Other not impaired exposures	X	X	X	X	7,129,113	X	42,027	7,087,087
- of wich forborne exposures	X	X	X	X	29,800	X	1,099	28,701
TOTAL A	**53,614**	**38,698**	**33,355**	**268,288**	**7,256,633**	**323,704**	**64,368**	**7,262,516**
B. OFF-BALANCE SHEET EXPOSURE								
a) Impaired					X		X	
b) Not impaired	X	X	X	X	141,754	X		141,754
TOTAL B					**141,754**			**141,754**
TOTAL (A+B)	**53,614**	**38,698**	**33,355**	**268,288**	**7,398,387**	**323,704**	**64,368**	**7,404,270**

This table gives details of impaired and performing loans to customers, gross and net of specific and portfolio adjustments.
"Off-balance sheet exposures" show the amount of commitments relating to factoring transactions.

A.1.7 Banking group - Cash credit exposures to customers: dynamics of gross non-performing loans

Description/Category	Non-performing loans	Unlikely to pay	Past due impaired exposures
A. Opening balance (gross amount)	**187,885**	**112,935**	**113,284**
- Sold but not derecognised	48,900	11,305	25,764
B. Increases	**42,664**	**100,732**	**96,267**
B.1 transfers from performing loans	279	21,722	82,554
B.2 transfers from other impaired exposures	29,418	58,088	1,036
B.3 other increases	12,966	20,922	12,678
C. Decreases	**47,684**	**69,500**	**142,629**
C.1 transfers to perfomorming loans	7,535	19,168	55,958
C.2 write-offs	12,598	5,317	1,657
C.3 recoveries	8,932	14,931	15,595
C.4 sales proceeds	71	30	81
C.5 losses on disposals	106	280	261
C.6 transfers to other impaired exposures	16,120	16,856	55,565
C.7 other decreases	2,322	12,917	13,512
D. Closing balance (gross amounts)	**182,865**	**144,167**	**66,922**
- Sold but not derecognised	22,019	26,828	27,995

Note that the entire amount of the credit exposures to customers of the subsidiary Banca PSA is shown in item B.3 Other increases.

A.1.7bis Cash credit exposures to customers: dynamics of gross forbearance exposures by credit quality

Description/Category	Forborne exposures impaired	Forborne exposures not impaired
A. Opening balance (gross amount)	**85,859**	**58,256**
- Sold but not derecognised	11,236	6,505
B. Increases	**27,656**	**31,297**
B.1 Transfers from performing not forborne exposures	4,289	10,758
B.2. Transfers from performing forborne exposures	10,951	x
B.3. Transfers from impaired forborne exposures	x	12,426
B.4 other increases	12,417	8,113
C. Decreases	**31,579**	**47,852**
C.1 Transfers to performing not forborne exposures	x	22,401
C.2 Transfers to performing forborne exposures	15,393	x
	x	10,378
C.4 write-offs	4,242	15
C.5 recoveries	11,532	14,834
C.6 sales proceeds		
C.7 losses on disposals		
C.8 other decreases	411	223
D. Closing balance (gross amounts)	**81,936**	**41,701**
- Sold but not derecognised	3,674	2,605

Note that the entire amount of the credit exposures to customers subject to forbearance of the subsidiary Banca PSA is shown in item B.4 Other increases.

A.1.8 Banking group - Cash credit exposures to customers: dynamics of total writedowns

Description/Category	Non-performing loans		Unlikely to pay		Impaired Past due exposures	
	Total	Of wich: forborne exposures	Total	Of wich: forborne exposures	Total	Of wich: forborne exposures
A. Opening balance overall amount of	**169,357**	**40,852**	**72,018**	**24,572**	**34,560**	**588**
- Sold but not derecognised	47,283	6,303	8,666	2,579	18,360	122
B. Increases	**39,225**	**8,204**	**62,572**	**22,051**	**37,245**	**1,150**
B.1 write-downs	18,397	3,711	37,916	18,593	37,026	1,076
B.2 bis losses on disposal	1		1		1	
B.3 transfer from other impaired exposure	20,827	4,493	24,655	3,458	218	75
B.4 other increases						
C. Reductions	**30,489**	**9,612**	**28,167**	**12,051**	**32,617**	**588**
C.1 write-backs from assessments	983	1,153	10,838	4,974	2,902	57
C.2 write-backs from recoveries	5,778	2,215	3,134	1,623	2,149	23
C.3 gains on disposal						
C.4 write-offs	12,298	3,141	5,088	1,019	1,844	20
C.5 transfers to other impaired exposures	11,393	3,103	8,873	4,434	25,433	489
C.6 other decreases	37		233		289	
D. Closing overall amount of	**178,093**	**39,443**	**106,423**	**34,573**	**39,188**	**1,149**
- Sold but not derecognised	21,906	1,150	19,278	1,988	16,332	168

Note that the amount of the writedowns of the subsidiary Banca PSA is shown in the increases in item B.1 writedowns.

A.2 Classification of exposures based on external and internal ratings

A.2.1 Banking Group – Distribution of on- and off-balance sheet exposures by external rating class

The table below shows the net amounts of credit exposures to banks corresponding to those shown in the table at A.1.3 and the net amounts of credit exposures to customers shown in the table at A.1.6. Given the nature of the latter customers, they have not been subjected to rating.

Exposures	External rating classes						Unrated	Total
	1	2	3	4	5	6		
A. Cash credit exposures				908,093			6,852,287	**7,760,380**
B. Derivatives								
B.1 Financial derivatives	32							32
B.2 Credit derivatives								
C. Guarantees given								
D. Other commitments to disburse							141,754	**141,754**
E. Others	114,553							**114,553**
Total	**114,585**			**908,093**			**6,994,041**	**8,016,719**

A.2.2 Banking Group – Distribution of on- and off-balance sheet exposures by internal rating classes

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 exposures by type of guarantee

A.3.1 Banking Group – Guaranteed credit exposures to banks

The Group has no guaranteed credit exposures to banks.

A.3.2 Banking Group – Guaranteed credit exposures to customers

	Net exposure	Collaterals (1)				Unsecured Guarantees									Total (1)+(2)
						Credit derivatives					Endorsement credits				
							Other derivatives								
		Property Mortgages	Financial leasing property	Securities	Other secured guarantees	CLN	Governments and Central Banks	Other public entities	Banks	Other entities	Governments and Central Banks	Other public entities	Banks	Other parties	
1. Guaranteed cash credit exposures:															
1.1 fully guaranteed	152,584												36,237	116,347	152,584
- of which impaired	4,937												620	4,317	4,937
1.2 partially guaranteed	217,791				1,801									72	1,873
- of which impaired	2,479				26									33	59
2. Guaranteed off-Balance Sheet credit exposures:															
2.1 fully guaranteed															
- of which impaired															
2.2 partially guaranteed															
- of which impaired															

B. Distribution and concentration of credit exposures

B.1 Banking Group - Distribution by sector of on- and off-balance sheet exposures to customers (book value)

Exposures/Counterparts	Goverments			Other public entities			Financial companies			Insurance companies			Non-financial companies			Other entities		
	Net exposure	Specific write-downs	Portfolio adjustments	Net exposure	Specific write-downs	Portfolio adjustments	Net exposure	Specific write-downs	Portfolio adjustments	Net exposure	Specific write-downs	Portfolio adjustments	Net exposure	Specific write-downs	Portfolio adjustments	Net exposure	Specific write-downs	Portfolio adjustments
A. Balance sheet exposures																		
A.1 Non-performing loans			x			x	4	303	x			x	2,145	36,124	x	2,623	141,666	x
- of wich: forborne exposures			x			x			x			x	6	1,374	x	283	38,068	x
A.2 Unlikely to pay			x			x	2	23	x			x	9,589	7,564	x	28,153	98,837	x
- of wich: forborne exposures			x			x		17	x			x	157	562	x	6,025	33,993	x
A.3 Impaired past due exposures			x	21	19	x	9	23	x			x	2,671	4,522	x	25,034	34,623	x
- of wich: forborne exposures			x			x			x			x	1	12	x	298	1,137	x
A.4 Not impaired exposures	492,395	x		10,464	x	2,161	4,478	x	32	12	x		1,635,957	x	14,337	5,048,959	x	47,838
- of wich: forborne exposures		x			x		37	x			x		849	x	196	36,354	x	4,265
TOTAL A	**492,395**			**10,484**	**19**	**2,161**	**4,493**	**349**	**32**	**12**			**1,650,362**	**48,210**	**14,337**	**5,104,769**	**275,127**	**47,838**
B. Off-balance sheet exposures																		
B.1 Non-performing loans			x			x			x			x			x			x
B.2 Unlikely to pay			x			x			x			x			x			x
B.3 Other impaired assets			x			x			x			x			x			x
B.4 Not impaired exposures		x			x		14	x			x		116,667	x		25,074	x	
TOTAL B							**14**						**116,667**			**25,074**		
Total (A+B) 12/31/2016	**492,395**			**10,484**	**19**	**2,161**	**4,507**	**349**	**32**	**12**			**1,767,028**	**48,210**	**14,337**	**5,129,843**	**275,127**	**47,838**
Total (A+B) 12/31/2015	**407,389**			**25**			**1,219**	**67**	**26**				**526,706**	**36,078**	**3,006**	**4,407,026**	**239,790**	**50,608**

The above table shows the cash positions with customers by sector. It shows the distinct prevalence of exposures to retail customers.

B.2 Banking Group - Territorial distribution of on- and off-balance sheet exposures to customers (book values)

Exposures / Geographical	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 exposures								
A.1 Non-performing loans	1,097	32,333	391	13,889	1,205	37,492	2,079	94,379
A.2 Unlikely to pay	9,371	20,729	1,748	8,026	8,388	23,330	18,237	54,338
A.3 Impaired past due exposures	5,145	8,496	1,975	3,259	5,744	8,605	14,870	18,828
A.4 Not impaired exposures	1,951,335	14,094	1,040,876	8,124	1,801,117	13,319	2,398,937	28,831
TOTAL A	**1,966,948**	75,652	**1,044,990**	33,297	**1,816,455**	82,746	**2,434,123**	196,376
B. Off-balance sheet exposures								
B.1 Non-performing loans								
B.2 Unlikely to pay								
B.3 Other impaired assets								
B.4 Not impaired exposures	44,562		34,883		25,797		36,512	
TOTAL B	**44,562**		**34,883**		**25,797**		**36,512**	
Total (A+B) 12/31/2016	**2,011,510**	**75,652**	**1,079,873**	**33,297**	**1,842,251**	**82,746**	**2,470,635**	**196,376**
Total (A+B) 12/31/2015	**1,281,947**	**59,826**	**599,548**	**24,985**	**1,465,571**	**71,269**	**1,995,300**	**173,497**

The Group has exposures 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 Banking Group - Territorial distribution of on- and off-balance sheet exposures to banks (book value)

Exposures / Geographical	Italy		Other european countries		America		Asia		Rest of the world	
	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 exposures										
A.1 Non-performing loans										
A.2 Unlikely to pay										
A.3 Impaired past due										
A.4 Not impaired exposuress	127,910		369,955							
TOTAL A	**127,910**		**369,955**							
B. Off-balance sheet exposures										
B.1 Non-performing loans										
B.2 Unlikely to pay										
B.3 Other impaired assets										
B.4 Not impaired exposures			114,585							
TOTAL B			**114,585**							
Total A+B 12/31/2016	**127,910**		**484,539**							
Total A+B 12/31/2015	**166,680**		**401,138**							

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.
With respect to off balance sheet exposures, please see the information provided at point B.4.

B.4 Large exposures

	12/31/2016
Number	1
Book value	115,291

At the balance sheet date there was only one counterparty classified as a large exposure; the amount above refers mainly to the difference between the fair value of securities provided as collateral for repo transactions recognised in the financial statements at the year end and the amount of the loan received in connection with the transaction.

C. Securitisations

Qualitative information

As regards securitisation transactions, it should be noted that the information provided relates exclusively to the subsidiary Banca PSA Italia; otherwise, such information is not provided for the Parent Company since for transactions currently in progress the full amount of securities issued has been subscribed.

In 2016, with the objective of redefining the revolving period, and improving the rating of securities issued and the transaction terms and conditions, a loan securitisation transaction originally carried out in 2014 by the transferee Banque PSA Finance—whose “Retail & wholesale” business unit was transferred to the JV Banca PSA Italia—was renegotiated and at the same time novated to Banca PSA Italia .These objectives were achieved thanks to the excellent performance of the portfolio of loans transferred, as shown in the reports produced by the servicer and calculation agent for the monitoring of the main indicators of the portfolio for the benefit of investors.

The transaction in question, totalling Euro 1,100 million and maturing in 2028, was concluded with the transfer of car loans of the same amount to the special purpose entity Auto Abs Italian Loans Master S.r.l., specially constituted under the Italian law on securitisation no. 130 of 20 April 1999, and aims to achieve the following objectives:

- diversification of funding sources;
- improvement of liquidity position;
- optimisation of the funding cost.

The purchase of loans by the special purpose entity was financed through the issuance of two classes of securities, Senior Class A securities in the amount of Euro 500 million, quoted on the Luxembourg secondary market and subscribed by institutional investors, and Junior class B securities in the amount of Euro 71.4 million, without rating and wholly subscribed by the originator.
The interest rate of the Senior securities was fixed at a level equal to the Euribor 1 month plus a minimum margin of 0.75 bps while that of Junior securities was fixed at a level equal to 2% plus possible excess spread.

As a result of the subscription of the Junior tranche by the originator and the substantial maintenance by the latter of the credit risk on the transferred portfolio, the conditions required by IAS 39 paragraph 20 (“substantial transfer of risks and rewards”) for a total derecognition of the assets by Banca PSA—which therefore continues to present the assigned receivables in its financial statements and determines the capital requirement on such activities—were not met.
Within the scope of the same transaction, the special purpose entity concluded, with one of the subscribers of the Senior Notes, an Interest Rate Swap with nominal value equal to that of the transferred assets. This IRS transaction is an exact mirror image of those that were already put in place by the Bank before the sale of the portfolio to the SPE: for this reason the derivative instruments, subscribed by the Bank and by the SPE, are classified for accounting purposes as trading instruments and presented one against the other with set-off of financial results.

Banca PSA, besides being the transferor and the subscriber of the junior securities, also took on the role of servicer of the transaction, which entails the management of the collection activities. The collections received daily on behalf of the SPE are transferred to the latter on the next business day via a current account opened with a third-party that also has the role of bank account, paying agent and representative of the noteholder. The role of calculation agent is also played by a third-party.
Sufficient information on operating performance has been provided to senior management within the scope of the ALCO Committee (Funding and ALM Committee). Each new transaction, or modification to an existing transaction, is subjected to a preliminary assessment by the Risk Management Unit in accordance with the internal policy on the most significant transactions.

The following table, with amounts in thousands of euros, shows the data relating to the size of the portfolio and the total exposure of Banca PSA.

	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
Auto ABS Italian Loan Master	547,466	499,999	71,429	39,803	n.a.	Cash 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	**12/31/2016**
	Auto ABS Italian Loan Master
Interest expense on securities issued	(3,717,865)
- for servicing	(765,525)
- for other services	0
Other charges	(5,108,136)
Interest generated by the securitised assets	36,039,249
Other revenues	0
Total interest income	26,447,723

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																		
Auto ABS Italian Loan Master *Consumer Credit*	483,460	4,427			69,066	632												

C.2 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 Special purpose entities (SPE) created for securitisation

Securitization name - Company name	Head office	Consolidation	Assets			Liabilities		
			Credits	Debt securities	Others	Senior	Mezzanine	Junior
Auto ABS Italian Loan Master	Conegliano (TV)	YES	547,464		23,964	499,999		71,429

C.4 Non-consolidated special purpose entities (SPE) created for securitisation

The Group has no non-consolidated special purpose entities.

C.5. Banking Group - 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. Banking group - Consolidated special purpose entities (SPE) created for securitisation

Name society vehicle and head office: **Auto ABS Italian Loan Master, Conegliano (TV)**	
A. Securitized assets	**570,885**
A.1 Credits	547,464
A.2 Securities	
A.3 Others	23,420
B. Investments of deriving from the credit management	**2,133**
B.1 Debt securities	
B.2 Equity securities	
B.3 Availability current account	2,133
C. Securities issued	**571,428**
C.1 Senior	499,999
C.2 Mezzanine	
C.3 Junior	71,429
D. Loans received	
E. Other liabilities (specify)	**1,589**
E.1 Accrued interest on securities	1,124
E.2 Other liabilities	466
F. Interest expenses on securities issued	**3,658**
G. Fees and commissions related to the transaction	**620**
G.1 Servicing Service	560
G.2 Other Servicing	60
H. Other charges	**4,812**
H.1 Other interest expenses	505
H.2 Other charges	3,297
H.3 Value adjustments on loans	1,010
I. Interest income on securitized assets	**5,300**
L. Other revenues	**3,790**

The securitised loans shown in this table are performing exposures in the amount of Euro 546,998 thousand, past due exposures in the amount of Euro 397 thousand, unlikely to pay in the amount of Euro 29 thousand and doubtful in the amount of Euro 39 thousand.

D. Information on structured entities (other than special purpose entities created for securitisations)

The Group does not have any positions with structured entities.

E. Disposal transactions

A. Financial assets sold but not fully derecognised

Qualitative information

As regards securitisation transactions, it should be noted that the information provided relates exclusively to the subsidiary Banca PSA Italia; otherwise, such information is not provided for the Parent Company since for transactions currently in progress the full amount of securities issued has been subscribed.

Quantitative information

E.1 Banking Group - Financial assets sold but not derecognised: book value and full value

Type / Portfolio	Fiancial assets held for trading			Financial assets carried at fair value through			Available-for-sale financial assets			Held-to-maturity investments			Loans and receivables with banks			Loans and receivables with customers			Total	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	12/31/2016	12/31/2015
A. Balance-sheet assets																690,982			690,982	
1. Debt securities																				
2. Equity securities										X	X	X	X	X	X	X	X	X		
3. UCIS										X	X	X	X	X	X	X	X	X		
4. Loans																690,982			690,982	
B. Derivatives				X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		
Total 12/31/2016																690,982			690,982	X
of which impaired																466			466	X
Total 12/31/2015																			X	
of which impaired																			X	

E.2 Banking Group - Financial liabilities for financial assets sold but not derecognised: book value

Liabilities/portfolio assets	Financial assets held for trading	Financial assets carried at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables with banks	Loans and receivables with customers	Total
1. Deposits from customers						571,428	571,428
a) related to fully recognised assets						571,428	571,428
b) relating to partially recognised assets							
2. Deposits from banks						200,000	200,000
a) related to fully recognised assets						200,000	200,000
b) relating to partially recognised assets							
3. Debt securities in issue							
a) related to fully recognised assets							
b) relating to partially recognised assets							
Total 12/31/2016						771,428	771,428
Total 12/31/2015							

E.3 Banking Group - Transfers with liabilities that have recourse only against the assets sold: fair value

Type / Portfolio	Financial assets held for trading		Financial assets carried at fair value through profit or loss		Available-for-sale financial assets		Held-to-maturity investments (fair value)		Loans and receivables with banks (fair value)		Loans and receivables with customers (fair value)		Total	
	A	B	A	B	A	B	A	B	A	B	A	B	12/31/2016	12/31/2015
A. Balance-sheet assets											**690,982**		**690,982**	
1. Debt securities														
2. Equity securities							x	x	x	x	x	x		
3. UCIS							x	x	x	x	x	x		
4. Loans											690,982		690,982	
B. Derivative instruments			x	x	x	x	x	x	x	x	x	x		
Assets Total											**690,982**		**690,982**	
C. Liabilities associated											**771,428**		x	x
1. Due with customers											571,428		x	x
2. Due with banks											200,000		x	x
3. Securities													x	
Liabilities Total											**771,428**		**771,428**	
Net value 12/31/2016											**(80,445)**		**(80,445)**	x
Net value 12/31/2015													x	

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

Qualitative information

The Group has not been party to any sale transactions with recognition of continued involvement.

Quantitative information

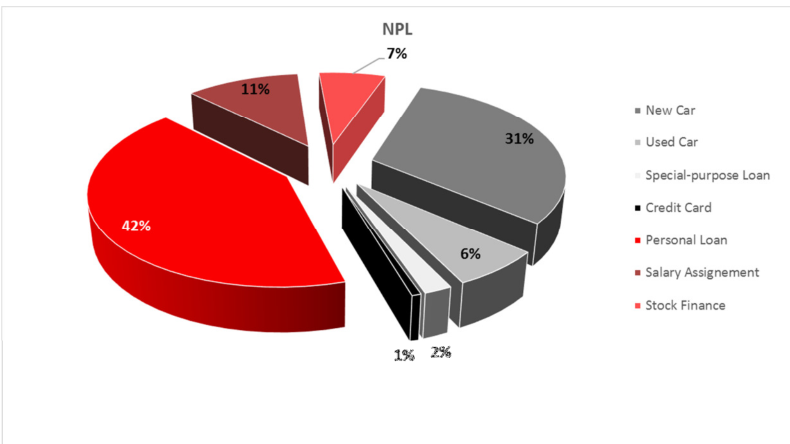
Please see the information provided above.

E.4 Banking Group - Covered bond transactions

The Group has not carried out any covered bond transactions.

F. Banking Group – Models for the measurement of credit risk

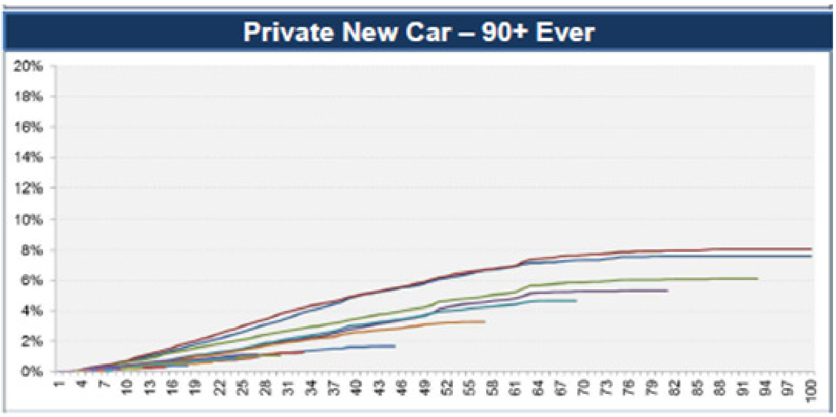
The balance at risk by product of the “dossiers in default” (i.e. that have amounts past due by more than ninety days and with other characteristics that make them be considered high risk) is monitored on a monthly basis. Note that the monthly change in the default helps to define another metric, called VMG (*Variación de Mora Gestionada*).



The chart shows how the breakdown of the figure by product reflects the features of the Group’s business.

Credit risk is assessed, among other things, by:

- Vintage analysis. This indicator is the ratio of a generation of loans that in any month have been classified as bad to the total of the same loan generation. This is a tool that allows you to make comparisons between different production performances (over the life of the product), according to their segmentation. The comparison is between products with a similar production date, so you can identify any deviations from past performances. Usually, graphic representations are used to keep track of the trend, such as the one that shows the relationship between age and the loss rate;



(*) New scorecard implemented in October 2010

- 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. 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;

- Expected Loss, in collaboration with the Spanish Parent Company, is calculated as the value of EL/LGD for each dossier, the main objectives being:
  - to estimate expected recoveries;
  - to set up a reserve for expected losses;
  - to create a database that can be used for analysis performed by other areas of the company;
  - to reduce the impact of riskier products on the portfolio.

1.2. Banking Group - Market risks

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 for the purpose of the purchase of cars (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.
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 (Funding and ALM Committee).
Monitoring involves comparing the limits established by both the regulations of the Bank of Italy and the policies established at Group level.
Specific ratios are formalised by the Administration and Finance Department 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 derivatives (interest rate swaps);
- natural hedges, that is, recourse to fixed rate loans.

Of the various types of risk hedges that are acceptable, the Group has chosen to use derivatives according to the following methods.

B. 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.

C. Cash flow hedges

As regards cash flow hedges, the Group has entered into bullet derivatives to neutralise the exposure of its liabilities to changes in future cash flows arising from unexpected fluctuations in interest rates.

The effectiveness of the hedges is periodically measured and formalised, based on monthly predefined tests (both retrospective and prospective):

- prospective test. The prospective test also involves preparing a report that identifies the correlation between the cash flows (interest) arising from the item being hedged by the hedging instrument;
- retrospective test. The aim of the test is to verify the correlation between interest expense generated by loans granted and interest income earned from traded derivatives (floating flow).

The observation interval and effectiveness meet the requirements of IAS-IFRS.
The metrics are defined and maintained in accordance with the Spanish Parent Company's instructions.

As at 31 December 2016, all cash flow hedges are settled.

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 an actual figure at the end of each month, as well as a forecast figure for the next reporting period. Monitoring interest rate risk is the responsibility of the Administration and Finance Department and is calculated according to the guidelines defined by the Santander Consumer Finance Group. When reporting, specific ratios are formalised by that Department and monitored by the Risk Management Department.

Sensitivity indicator "Market Value of Equity" (MVE)

This indicator is aimed at quantifying and monitoring the sensitivity of the interest rate risk; in particular, it quantifies the effect of a parallel and symmetric change in the interest rate curve under various scenarios on shareholders' equity. The scenarios on which the calculation is performed are ±25, ±50, ±75, ±100, ±200 and +250 b.p. The following paragraph shows the results obtained by applying the scenario +100 basis points on which are based the monthly analysis and the decisions on interest rate risk. 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 2016, the MVE calculated with a shift of +100 basis points was Euro -37 million (-27.1 for SCB and -9.9 for PSA); in 2016, the average figure for PSA was Euro -7.8 million, with a minimum for PSA of Euro -5.1 million and a maximum for PSA of Euro -9.9 million.

Sensitivity indicator "Net Interest Margin" (NIM)

This indicator is aimed at quantifying and monitoring the sensitivity of the interest rate risk; in particular, it quantifies the effect of a parallel and symmetric change in the interest rate curve under various scenarios on net interest income (the analysis period was 12 months). As regards the interest rate shift scenarios, please refer to the paragraph on MVE.
At 31 December 2016, the consolidated NIM was Euro -5 million (-4.5 SCB and -0.5 PSA).

+100 bps MM	MVE	NIM
December 16	-37	-5

1.2.3 Exchange risk

The Group is not exposed to exchange risk.

1.2.4 Derivatives

A. Financial derivatives

A.1 Trading portfolio for supervisory purposes: period-end notional amounts

There are no financial derivatives in the trading portfolio for supervisory purposes.

A.2 Banking book: period-end notional amounts

A.2.1 For hedging

Underlying assets / Type of derivatives	Total 12/31/2016		Total 12/31/2015	
	Over the counter	Clearing House	Over the counter	Clearing House
1. Debt securities and interest rate indexes	**1,101,087**		**1,780,887**	
a) Options				
b) Swap	1,101,087		1,780,887	
c) Forward				
d) Futures				
e) Others				
2. Equity instruments and stock indexes				
a) Options				
b) Swap				
c) Forward				
d) Futures				
e) Others				
3. Gold and currencies				
a) Options				
b) Swap				
c) Forward				
d) Futures				
e) Others				
4. Commodities				
5. Other underlyings				
Total	**1,101,087**		**1,780,887**	
Average	**1,716,128**		**2.632.662**	

For details of interest rate swaps, please see the information provided in the relevant asset and liability sections.

A.2.2 Other derivatives

Underlying assets / Type of derivatives	Total 12/31/2016		Total 12/31/2015	
	Over the counter	Clearing House	Over the counter	Clearing House
1. Debt securities and interest rate indexes	**1,808,511**		**1,293,600**	
a) Options				
b) Swap	1,808,511		1,293,600	
c) Forward				
d) Futures				
e) Others				
2. Equity instruments and stock indexes				
a) Options				
b) Swap				
c) Forward				
d) Futures				
e) Others				
3. Gold and currencies				
a) Options				
b) Swap				
c) Forward				
d) Futures				
e) Others				
4. Commodities				
5. Other underlyings				
Total	**1,808,511**		**1,293,600**	
Average	**1,568,483**		**1,781,553**	

A.3 Financial derivatives: positive gross fair value – breakdown of products

Portfolios / Types of derivatives	Positive fair value			
	Total 12/31/2016		Total 12/31/2015	
	Over the counter	Clearing House	Over the counter	Clearing House
A. Regulatory trading portfolio				
a) Options				
b) Interest rate swap				
c) Cross currency swap				
d) Equity Swap				
e) Forward				
f) Futures				
g) Other				
B. Banking book - Hedging derivatives				
a) Options				
b) Interest rate swap				
c) Cross currency swap				
d) Equity Swap				
e) Forward				
f) Futures				
g) Other				
C. Banking book - Other derivatives				
a) Options				
b) Interest rate swap	3,154		4,577	
c) Cross currency swap				
d) Equity Swap				
e) Forward				
f) Futures				
g) Others				
Total	**3,154**		**4,577**	

A.4 Financial derivatives: negative gross fair value – breakdown by product

Portfolios / Types of derivatives	Negative fair value			
	Total 12/31/2016		Total 12/31/2015	
	Over the counter	Clearing House	Over the counter	Clearing House
A. Regulatory trading portfolio				
a) Options				
b) Interest rate swap				
c) Cross currency swap				
d) Equity Swap				
e) Forward				
f) Futures				
g) Others				
B. Banking book - Hedging derivatives				
a) Options				
b) Interest rate swap	12,920		28,643	
c) Cross currency swap				
d) Equity Swap				
e) Forward				
f) Futures				
g) Others				
C. Banking book - Other derivatives				
a) Options				
b) Interest rate swap	3,411		5,091	
c) Cross currency swap				
d) Equity Swap				
e) Forward				
f) Futures				
g) Others				
Total	**16,332**		**33,734**	

A.5 OTC financial derivatives: trading portfolio for supervisory purposes – notional amounts, positive and negative gross fair values by counterparty – contracts not included in netting agreements

The Group does not have any derivatives classified in the trading portfolio for supervisory purposes.

A.6 OTC financial derivatives: trading portfolio for supervisory purposes – notional amounts, positive and negative gross fair values by counterparty – contracts included in netting agreements

The Group does not have any derivatives classified in the trading portfolio for supervisory purposes.

A.7 OTC financial derivatives: banking portfolio – notional amounts, positive and negative gross fair values by counterparty – contracts not included in netting agreements

The Group has not entered into OTC financial derivatives not included in netting agreements.

A.8 OTC financial derivatives: banking portfolio – notional amounts, positive and negative gross fair values by counterparty – contracts included in netting agreements

Contracts included in netting agreement	Governments and central banks	Other public-sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rate							
- notional amount			2,909,598				
- positive fair value			3,154				
- negative fair value			(16,332)				
2. Equity instruments and stock							
- notional amount							
- positive fair value							
- negative fair value							
3. Gold and currencies							
- notional amount							
- positive fair value							
- negative fair value							
4. Other instruments							
- notional amount							
- positive fair value							
- negative fair value							

A.9 Residual life of OTC financial derivatives: notional amounts

Underlying / residual value	Up to 1 year	Over 1 year up to 5 year	Over 5 year	Total
A. Regulatory trading book				
A.1 Financial derivative contracts on debt securities and				
A.2 Financial derivative contracts on equity securities and				
A.3 Financial derivative contracts on exchange rates and				
A.4 Financial derivative contracts on other values				
B. Banking portfolio				
B.1 Financial derivative contracts on debt securities and	1,028,803	880,797	999,998	**2,909,598**
B.2 Financial derivative contracts on equity securities and				
B.3 Financial derivative contracts on exchange rates and				
B.4 Financial derivative contracts on other values				
Total 12/31/2016	**1,028,803**	**880,797**	**999,998**	**2,909,598**
Total 12/31/2015	**1,459,200**	**1,615,287**		**3,074,487**

A.10 OTC financial derivatives: counterparty risk/financial risk – Internal models

The Group does not use EPE-type internal models to calculate counterparty risk and, accordingly, this table has not been completed, although tables A.3 and A.8 have been completed.
For information on the notional value of derivatives by counterparty, please see *Part B – information on the balance sheet,* and Liabilities *Section 8.*

B. Credit derivatives

The Group does not have any credit derivatives at the date of the financial statements.

C. Financial and credit derivatives

C.1 OTC financial and credit derivatives: net fair value and future exposure by counterparty

	Governments and central banks	Other public-sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1) Bilateral financial derivatives							
- positive fair value			3,154				
- negative fair value			(16,332)				
- future exposure			4,404				
- net counterparty risk			7,558				
2) Bilateral credit derivatives							
- positive fair value							
- negative fair value							
- future exposure							
- net counterparty risk							
3) Cross product agreements							
- positive fair value							
- negative fair value							
- future exposure							
- net counterparty risk							

1.3. Banking Group - Liquidity risk

Qualitative information

A. General aspects, management and measurement of liquidity risk

The Group's main objective is to preserve the sustainability of the results with respect to the current macroeconomic scenario. Great attention is paid to the actions aimed at strengthening and maintaining an adequate level of liquidity.
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.

For Santander Consumer Bank S.p.A., ample information has been provided in the same section of the Separate Financial Statements, to which reference is made for further details.

Banca PSA Italia has implemented a liquidity policy, approved by the Board of Directors, that defines the principles and means for the management of a timing mismatch between maturing assets and liabilities.
The Administration and Finance Department manages liquidity risk in accordance with the liquidity policy 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 liquidity risk management model is composed of a series of fundamental principles, as follows:

- management of operational and structural liquidity, including through financial planning that is regularly reviewed and updated;
- constant monitoring of cash flow movements and adoption of metrics for measuring and controlling exposure to liquidity risk (maturity mismatch approach);
- monitoring of regulatory indicators (LCR, NSFR, maturity ladder);
- definition of exposure and concentration limits in relation to liquidity risk;
- stress test analyses in order to assess risk exposure;
- definition of a Liquidity Risk Policy;
- definition of the Contingency Funding Plan aimed at defining the roles and responsibilities, the processes, the actions to be undertaken and the identification of risk mitigation tools to be used in the event that a sudden liquidity crisis occurs.

Within the maturity mismatch approach, the quantification of liquidity risk is made primarily by calculating the Minimum Liquidity Ratio (MLR), the logic of which has been agreed at Santander Consumer Finance Group level. This ratio is a synthetic indicator of the liquidity situation and expresses the Bank's ability to meet its commitments at the contractual maturities.
According to the Group's methodology, account is taken of inflows from the repayment of customer loans and from any securities held and used as collateral for refinancing operations with the Central Bank or with other banks as well of outflows for maturing deposits.
The MLR is updated monthly and summarises the Bank's liquidity position over 12 months. The ratio is computed using the following formula:

$$\text{MLR} = \frac{\text{Available Liquidity + Total Sensitive Asset} < \text{12 months}}{\text{Total Sensitive Liabilities} < \text{12 months}}$$

In addition to MLR, the Bank manages its liquidity by following the guidance of the legislator; in particular it monitors the maturity ladder, as per the instructions of the Bank of Italy. This analysis is designed to identify and quantify the imbalances between cash inflows and outflows that occur in different timeframes.
Finally, the Bank also monitors its Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

The LCR is defined as:

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

At 31 December 2016 the Bank held Euro 80 million of high quality liquid assets, purchased throughout the year (consisting of Italian government securities).
The LCR level must constantly remain above 70% throughout 2016, as required by European Commission Regulation 575/2013 and by Directive 2013/36/EU, for Basel III purposes. Banca PSA's liquidity ratio largely complies with the above requirement.

The NSFR is defined as:

$$\text{NSFR} = \frac{\text{Amount of stable funding available}}{\text{Compulsory amount of stable funding}}$$

The NSFR will enter into effect as from 1 January 2018 with the obligation to be higher than 100%. At 31 December 2016, Banca PSA Italia's ratio is slightly below this threshold.
The ALCO (Funding and ALM Committee), that comprises representatives from the Bank's Risk Management, and Finance and Administration department, meets on a monthly basis. Also invited to join this committee are members of the corresponding departments of the Parent Company Santander Consumer Bank and Santander Consumer Finance. The objective of this committee is to agree on the Bank's strategies for interest rate and liquidity risk, funding policies and the cost of funding.

Quantitative information

1. Distribution of 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
On-balance sheet assets	**560,205**	**7,227**	**61,919**	**134,659**	**540,094**	**1,046,611**	**1,530,196**	**3,438,133**	**663,740**	**19,365**
A.1 Government securities					77,812	269,869	142,188			
A.2 Other debt securities										
A.3 Units in investment funds										
A.4 Loans	560,205	7,227	61,919	134,659	462,282	776,742	1,388,009	3,438,133	663,740	19,365
- Banks	478,476			23	1					19,365
- Customers	81,730	7,227	61,919	134,636	462,281	776,742	1,388,009	3,438,133	663,740	
On-balance sheet liabilities	**697,801**	**63,678**	**117,926**	**159,234**	**447,011**	**665,658**	**1,390,154**	**2,968,171**	**496,772**	
B.1 Deposits and current accounts	694,377	178	376	803	7,413	153,449	84,209	44,171		
- Banks	29,000			88	119	110,202	50,050			
- Customers	665,377	178	376	715	7,294	43,247	34,159	44,171		
B.2 Debt securities				9	68	112	200,346	113,000		
B.3 Other liabilities	3,424	63,500	117,550	158,422	439,529	512,097	1,105,599	2,811,000	496,772	
Off-balance sheet transactions										
C.1 Physically settled fin. derivatives										
- Long positions										
- Short positions										
C.2 Cash settled Fin. derivatives										
- Long positions				60	795	140	200,089			
- Short positions		69	174	639	202,939	2,629	3,752			
C.3 Deposit to be received										
- Long positions										
- Short positions										
C.4 Irrevocable commitments to disburse funds										
- Long positions										
- Short positions	141,754									
C.5 Written guarantees										
C.6 Financial guarantees received										
C.7 Physically settled cred. derivatives										
- Long positions										
- Short positions										
C.8 Cash settled Cred. derivatives										
- Long positions										
- Short positions										

With respect to financial assets subject to self-securitisations, at the end of 2016, the Parent Company was involved in three securitisations of performing loans for which it had subscribed all of the securities issued.
The securitisations are stand-alone.
At 31 December 2016 a further securitisation had been launched called Whole Loan Note, given that it involved a single class of securities.

As part of Operation Golden Bar Stand-Alone 2012-1 the company purchased a portfolio of performing consumer loans (special purpose loans and personal loans) for a total of Euro 753,106,836, which was completed on 23 July 2012 with the issuance of a single series of securities for a total of Euro 753,100,000, divided into three classes with decreasing order of priority and subscribed entirely by the originator.
On 28 September 2016 the transaction was terminated ahead of schedule, with the complete redemption of the securities and the transfer to the originator of the entire portfolio of underlying loans.

As part of Operation Golden Bar Whole Loan Note VFN 2013-1 the company purchased a portfolio of performing loans for a total of Euro 425,143,451, which was completed on 23 July 2013. In October 2013 an additional transfer of loans for Euro 66,447,730 was made and a single series of notes was issued for Euro 491,590,000, with a revolving period of 5 years.

In accordance with the variable funding structure, the exchange value of the securities was increased after issuance until the month of August 2015, up to an amount of Euro 570,596,900.
During the year, the SPE made four further acquisitions of performing consumer loans for a total of Euro 239,792,505.

As part of Operation Golden Bar Stand Alone 2014-1 the company purchased a portfolio of performing loans granted for the purchase of new and second-hand cars of Euro 752,046,351, which was completed on 25 June 2014 with the issuance of a single series of securities for a total of Euro 752,000,000, divided into three classes with decreasing order of priority and subscribed entirely by the originator. On the same date, Santander Consumer Bank granted the company a subordinated loan of Euro 18,830,000, so as to guarantee the cash reserve of Euro 18,800,000 required by contract. At the end of the year the subordinated loan has been fully repaid.
During the year, the SPE made one further revolving acquisition of performing loans for a total of Euro 81,657,160. The redemption of Class A securities also began in the year, of an amount of Euro 242,543,532.

As part of Operation Golden Bar VFN 2015-1 the Company purchased a portfolio of performing loans for a total of Euro 700,091,097, which was completed on 9 October 2015 with the issuance of a single series of securities for a total of Euro 700,000,000, divided into three classes with decreasing order of priority and subscribed entirely by the originator. On the same date, Santander Consumer Bank granted the company a subordinated loan of Euro 17,530,000, so as to guarantee the cash reserve of Euro 17,500,000 required by contract. At the end of the year the subordinated loan has been fully repaid. The variable funding structure of the transaction made it possible to increase the value of the securities issued up to an amount of Euro 1,000,000,000.
During the year, the SPE made four further revolving acquisitions of performing loans for a total of Euro 361,241,419.

As part of Operation Golden Bar VFN 2016-1, the company purchased a portfolio of performing loans consisting of loans secured by salary assignment, pension assignment and deductions at source, for a total of Euro 657,053,698, followed by the sale of a further portfolio for a total of Euro 443,034,331. Both acquisitions were finalised with the issuance of a single series of securities on 2 August 2016, for a total amount of Euro 1,100,000,000, divided into six classes with decreasing order of priority and subscribed entirely by the Originator.
On the same date, Santander Consumer Bank granted the company a subordinated loan of Euro 49,500,000, so as to guarantee the cash reserve of Euro 27,500,000 and the liquidity reserve of Euro 22,000,000 required by contract. At the end of the year, the amount of the outstanding subordinated loan is Euro 41,286,909. The variable funding structure of the transaction made it possible to increase the value of the securities issued up to an amount of Euro 1,300,000,000.
During the year, the SPE made one further revolving acquisition of performing loans consisting of loans secured by salary assignment, pension assignment and deductions at source, for a total of Euro 145,215,485.

In the course of the year, the operations Golden Bar Stand Alone 2012-1, Golden Bar Stand Alone 2014-1, Golden Bar VFN 2015-1 and Golden Bar VFN 2016-1 were monitored by Moody's Investors Services and by DBRS.

As the servicer, Santander Consumer Bank handles the management of payments from customers, the immediate crediting of the funds received to the SPE and, where necessary, the activation of debt collection procedures.

	Assets held by the SPE	Senior and Mezzanine Securities subscribed	Junior Securities subscribed	Cash Reserve	Assets held by the Group	Type of collateral	Distribution of collateral by geographical area	Average maturity of the collateral	Rating of the collateral
Golden Bar Whole Loan Note VFN 2013-1	525,120		570,597	4,760	6,770,121	n.a.	n.a.	n.a.	n.a.
Golden Bar Stand Alone 2014-1	500,105	434,356	75,100	34,835		n.a.	n.a.	n.a.	n.a.
Golden Bar Stand Alone 2015-1	1,008,487	623,000	77,000	37,429		n.a.	n.a.	n.a.	n.a.
Golden Bar VFN 2016-1	1,031,005	1,099,890	110	76,236		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.

Breakdown of the excess spread accrued during the year	12/31/2016				
	Golden Bar Stand Alone 2012-1	Golden Bar Whole Loan Note VFN 2013-1	Golden Bar Stand Alone 2014-1	Golden Bar Stand Alone 2015-1	Golden Bar VFN 2016-1
Interest expense on securities issued	(524)	-	(5,455)	(9,667)	(8,803)
- for servicing	(386)	(2,593)	(3,449)	(936)	(1,205)
- for other services	(11)	(76)	(303)	(114)	(11)
Other charges	(572)	(986)	(3,776)	(270)	(585)
Interest generated by the securitised assets	13,358	42,134	44,366	50,396	45,465
Other revenues	323	1,899	2,948	2,651	88
Total interest income	**12,188**	**40,378**	**34,331**	**42,060**	**34,949**

Financial year 2015

Breakdown of the excess spread accrued during the year	12/31/2015								
	Golden Bar Programme IV	Golden Bar Stand Alone 2011-1	Golden Bar Stand Alone 2011-2	Golden Bar Stand Alone 2012-1	Golden Bar Stand Alone 2012-2	Golden Bar Whole Loan Note VFN 2013-1	Golden Bar Whole Loan Note 2013-2	Golden Bar Stand Alone 2014-1	Golden Bar Stand Alone 2015-1
Interest expense on securities issued	(2,040)	(536)	(384)	(2,087)	(8,654)			(7,640)	(2,220)
- for servicing	(568)	(421)	(1,072)	(950)	(3,046)	(2,943)	(953)	(3,799)	(171)
- for other services	(10)	(13)	(11)	(22)	(17)	(19)	(11)	(25)	(6)
Other charges	(290)	(2,689)	(4,146)	(942)	(86)	(445)	(8)	(2,496)	(158)
Interest generated by the securitised assets	9,592	4,140	14,686	27,930	34,209	45,341	8,740	50,674	24,069
Other revenues	834	371	489	678	15	1,815	1	3,015	1,154
Total interest income	**7,518**	**852**	**9,562**	**24,607**	**22,421**	**43,749**	**7,769**	**39,729**	**22,668**

1.4 Banking Group - 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 the subsidiary Santander Consumer Finance Media S.r.l, the control and management of operational risk is reflected in the current organisational structure by which risk management activities are carried out directly by the Parent Company by means of existing service outsourcing contracts.
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.

Operational risk is therefore closely linked to the Bank's 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.

In the area of operational risk, the exposure is measured according to the criteria laid down in the rules of internal governance. The guidelines for the management of operational risk are set forth in the "Policy for the management of risk" and the local procedure "Internal Control - Controls and Recommendations Plan", which defines the basic principles of managing and monitoring operational risk.

Operational incidents 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.

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. In the presence of legal obligations, for which it is probable that there will be an outflow of economic resources for their fulfilment, and for which it is possible to make a reliable estimate of the amount involved, the Bank decided to set up provisions for risks and charges, distinguishing between situations according to the most appropriate Basel II category (i.e. Provision for Legal Risks, categories IV/VII).

These two Basel categories of legal-type risk include the following:

Category IV: practices connected with customers, products and activities such as breach of the fiduciary relationship, abuse of confidential information.

Category VII: executive and procedural compliance such as incorrect data entry, incomplete legal documentation, breach of contract by non-customer counterparties, legal disputes with suppliers.

The bank's provisions for legal risks in place at 31 December 2016 amount to Euro 24,976 thousand, of which Euro 14,153 are set aside for claims and appeals, while PSA has no legal disputes in progress at the date of these financial statements.

Banca PSA is, on the other hand, exposed (albeit in a remote and secondary manner) to a fiscal risk. Mention is therefore made of a number of assessment notices relating to income and VAT declared by the transferor Banque PSA Finance - Italy Branch for the years 2011 and 2012, and also notified in 2016 to Banca PSA Italia as transferee. In this case, the Bank is linked to the tax events of the permanent establishment established for the secondary joint liability foreseen by art. 14 of Legislative Decree 472 of 18 December 1997. In addition, the possible fiscal obligation which may arise from the investigations will ultimately be fulfilled by the French Company by virtue of the commitments accepted with the Santander Group on the occasion of the creation of the joint venture. For these reasons, in these closing financial statements no provision was allocated.

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 area;

• measurement of inherent risk: risk associated with an activity/process regardless of the level of control present;

• verification of the presence of appropriate control tools;

The Group has established three levels of control for the internal control of Joint Ventures:

- Annual Plan: controls on mapped risks chosen by local internal control on the basis of priority established in accordance with length of time since the previous control;
- Quarterly Plan: controls on risks that arise cyclically on a quarterly basis;
- Self-Assessment (also called Certificates): checks on retail and wholesale risks based on self-assessment of the services involved.

Details are provided below of gross losses suffered and net provisions made in 2016 at consolidated level by risk category:

	2016			
In thousands of local unit	Net Losses	Net provisions	Addition and Uses	Net Op Risk Impact
Internal Fraud	-	-	-	-
External Fraud	224	791	-	1,015
Employment. Practices & Workplace Safety	-	-	-	-
Clients, Products & Business Practices	6,954	8,804	- 11,345	4,414
Damage to Physical Assets	-	-	-	-
Business Disruption & System Failures	-	-	-	-
Execution, Delivery & Process Management	446	7,893	- 897	7,442
Total	**7,624**	**12,540**	**- 12,242**	**12,871**

Section 2 – Risks of insurance companies

There are no insurance companies in the consolidation.

Section 3 – Risks of other companies

There are no other active companies in the consolidation.

Part F - Information on consolidated shareholders' equity

Section 1 – Consolidated shareholders' equity

A. Qualitative information

Equity management of the Santander Consumer Bank Group is designed 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 full compliance with the regulatory requirements and consistency with the risk profiles assumed.
The Group's strategic objectives in terms of capital include:

- Adequate expected profitability: special attention is paid to the Return on Risk Weighted Assets (RORWA)[15]. This indicator allows us to interpret the Group's performance effectively, integrating the component parts of the financial statements (assets, liabilities and RWAs) with the components of the income statement (revenues and expenses); it provides support to management in risk-return decisions.
  Profitability in terms of RORWA is measured and assessed at Group level, by product / channel / agreement, on generations of new productions.
- Maintaining levels of capitalisation in line with current regulations and with the constraints imposed by the Supervisory Authority, as well as with the objectives agreed with the Parent Company.

The Group makes sure that adequate capital levels are maintained through an evaluation and monitoring process based on the following instruments:

- Capital Planning and monitoring;
- RAF (Risk Appetite Framework)[16];
- ICAAP.

"Capital Planning and Monitoring" is a way of measuring regulatory capital availability for the period of reference and for subsequent periods according to the expected developments, with the aim of verifying the level of the mandatory minimum requirements and anticipating any corrective measures.
In capital planning, all components of regulatory capital and the corresponding RWA are monitored constantly[17]. The key indicators for monitoring purposes are:

- CET I ratio
- Tier I ratio
- Total Capital Ratio

The indicators are calculated using total internal capital as the taxable basis; they are monitored both on an actual basis, with reference to the supervisory reports[18], and prospectively[19], 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;
- Total Capital Ratio;
- Total Adequacy Ratio.

These indicators are measured in terms of Risk capacity, Risk appetite, Risk tolerance, Risk profile, Risk limits.

The Internal Capital Adequacy Assessment Process (ICAAP) is the process by which we evaluate capital adequacy relative to the significant risks connected with the company's operations and reference markets. The Second Pillar, which is the process for controlling supervised banks' overall risk exposure, is intended to support the quantitative rules envisaged in the First Pillar for the determination of regulatory capital requirements with a process (the ICAAP), which makes it possible, through self-assessment and discussions between the Supervisory Authority and the intermediaries, to take into account the peculiarities and specific risk profiles of individual banks and to assess the possible impact on them of the evolution of markets, products and technology.

[15]Calculated as the ratio between Profit After Taxes and RWAs.
[16] Risk appetite framework policy.
[17] 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.
[18] Figures sent on a quarterly basis.
[19] Monthly with a time horizon included in the 12 months of the current year.

Since December 2014, the Group's minimum capital requirements have been 8.5% for the Common Equity Tier 1 Ratio, 9.5% for the Tier 1 Ratio and 12.5% for the Total Capital Ratio.
In October 2015, the Group received a communication from the ECB on its total minimum capital requirements to be respected at a consolidated level (10.25% for CET1).

B. Quantitative information

B.1 Consolidated shareholders' equity: breakdown by type of business

The following table analyses the various items in Group shareholders' equity.

Shareholders' equity items	Banking Group	Insurance companies	Other companies	Consolidation adjustments and eliminations	12/31/2016
1. Share capital	**720,309**			**(74,704)**	**645,604**
2. Share premium reserve	**24,177**			**(11,772)**	**12,405**
3. Reserves	**69,706**			**(14,513)**	**55,193**
4. Equity instruments					
5. (Treasury shares)					
6. Revaluation reserves	**(547)**				**(547)**
- Financial assets available for sale	(204)				(204)
- Property, plant and equipment					
- Intangible assets					
- Foreign investment hedges					
- Cash flow hedges					
- Exchange differences					
- Non-current assets held for sale					
- Actuarial gains(losses) on defined benefit plans	(343)				(343)
- Portion of measurement reserves relating to investments carried at equity					
- Special revaluation laws					
7. Net income (loss) (+/-) group and minorities	**91,913**				**91,913**
Shareholders equity	**905,558**			**(100,990)**	**804,568**

B.2 Valuation reserves for financial assets available for sale: breakdown

Assets / values	Banking group		Insurance companies		Other companies		Consalidation adjustments and eliminations		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	101	(305)							101	(305)
2. Equity securities										
3. Units in investment funds										
4. Loans										
Total 12/31/2016	**101**	**(305)**							**101**	**(305)**
Total 12/31/2015	**209**	**(25)**							**209**	**(25)**

B.3 Valuation reserves for financial assets available for sale: change in the year

	Debt securities	Equity securities	Units in investments funds	Loans
1. Opening balance	**184**			
2. Positive changes	**127**			
2.1 Fair value increases	127			
2.2 Reclassification through profit or loss of negative				
- due to impairment				
- following disposal				
2.3 Other changes				
3. Negative changes	**514**			
3.1 Fair value reductions	321			
3.2 Impairment losses				
3.3 Reclassification throught profit or loss of positive	194			
3.4 Other changes				
4. Closing balance	**(204)**			

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

During the year there was an increase in valuation reserves related to defined-benefit pension plans of Euro 319 thousand (Euro 225 thousand net of the corresponding tax effect).

Section 2 – Own funds and capital adequacy ratios

2.1 Scope of application of the regulation

Own Funds and the capital adequacy ratios are calculated on the basis of the current instructions (Circular 285 and 286 and update of Circular 154 of 22 November 1991) issued by the Bank of Italy following the transposition of Directive 2013/36/EU (CRD IV) and (EU) Regulation 575/2013 (CRR) which introduce into the European Union the standards laid down by the Basel Committee on Banking Supervision.
Note that the scope of application of the regulations on own funds and capital ratios is the same as the one for financial statement regulation.

2.2 Bank's own funds

A. Qualitative information

The Santander Consumer Bank Banking Group is subject to capital adequacy requirements set by the Basel Committee, as incorporated into the current regulations of the Bank of Italy. Under these rules, the ratio between capital and risk-weighted assets at a consolidated level must be at least 8% or at higher ratios where established; compliance with this requirement is checked by the Supervisory Board every six months. As previously mentioned, the Group has been subject since October 2015 to specific capital requirements communicated directly by the European Central Bank.

Compliance with the capital requirements is verified from two different perspectives.

A forward-looking perspective, at the same time that the Three-Year Plans and Annual Budget are agreed, to identify the main impacts, which are typically the expected growth in loans and quantification of the different elements of risk (credit, interest rate, operational). Based on quantitative information, a capitalisation plan is prepared in consultation with the Shareholder and on a monthly basis, any new capital requirements and the instruments to be used are identified (typically securitisation operations, increases in capital, subordinated "Tier II" deposits).

A backward-looking perspective, to assess on a quarterly basis during the year any significant variances with respect to the capitalisation plan and, where appropriate, to identify suitable corrective measures to ensure compliance with the capital requirements.

Even in the case of extraordinary operations, such as acquisitions or the start-up of new business initiatives, a capitalisation plan is prepared which then becomes an integral part of the overall business plan.

1. Common Equity Tier 1 – CET1
Tier 1 capital includes paid-up capital and reserves, net of intangible assets.

2. Additional Tier 1 – AT1
Similarly, the Group does not have any instruments classified as Additional Tier 1.

3. Tier 2 –T2
The contracts relating to the subordinated liabilities are not subject to provisions that allow the liabilities to be converted into capital or any other type of liability, and envisage the following:

- in the event of liquidation of the Bank, repayment of the debt only after all the other creditors not equally subordinated have been satisfied;
- early repayment, if foreseen, only on the Bank's initiative and after receiving authorisation from the Bank of Italy.

	Issue date	Amount (Euro)	Interest rate	Duration
UPPER TIER II subordinated debt to Openbank S.A.	06/30/2008	16,250,000	Euribor 6 months + 2,8%	10 years
UPPER TIER II subordinated debt to Openbank S.A.	10/31/2008	16,250,000	Euribor 6 months + 2,8%	10 years
LOWER TIER II subordinated debt to Openbank S.A.	06/30/2008	6,500,000	Euribor 6 months + 1,8%	10 years
LOWER TIER II subordinated debt to Openbank S.A.	10/31/2008	6,500,000	Euribor 6 months + 1,8%	10 years
TIER II subordinated debt to Santander Consumer Finance S.A.	06/30/2015	50,000,000	Euribor 6 months + 3,2%	10 years

The table shows the carrying amounts of subordinated loans outstanding at the balance sheet date, which for the purposes of determining the Tier 2 capital shown in Section B - Quantitative information, are calculated on the basis of a daily repayment schedule.

B. Quantitative information

	Total 12/31/2016	Total 12/31/2015
A. Capital primary Class 1 (Common Equity Tier 1 - CET1) before application of prudential filters	**709,729**	**533,031**
of which CET1 instruments subject to transitional provisions		4,529
B. Prudential filters CET1 (+/-)		1,079
C. CET1 before items to be deducted and the effects of the transitional arrangements (A +/- B)	**709,729**	**534,110**
D. Deductions from CET1	**8,179**	**9,141**
E.Temporary regime – impact on Tier 1 (+/-), including minority interests subject to transitional provisions	**1,176**	
F. Total Capital primary Class 1 (Common Equity Tier 1 - CET1) (C - D +/- E)	**702,725**	**524,969**
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 dall'AT1		
I. Transitional regime - Impact on AT1 (+/-), including instruments issued by subsidiaries that are given recognition in AT1 pursuant to transitional provisions		
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	**66,670**	**83,189**
of which T2 instruments subject to transitional provisions		
N. Deductions from T2		
O. Transitional regime - Impact on T2 (+/-), including instruments issued by subsidiaries that are given recognition in T2 pursuant to transitional provisions		
P. Total Share of Class 2 (Tier 2 -T2) (M - N +/- O)	**66,670**	**83,189**
Q. Total own funds (F + L + P)	**769,395**	**608,157**

The table shows the amount of capital for supervisory purposes and its fundamental components which correspond to those indicated in supervisory reports.

2.3 Capital adequacy

A. Qualitative information

Please refer to paragraph A - qualitative information.

B. Quantitative information

Categories / Values	Non weighted assets		Weighted assets	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
A. RISK ASSETS				
A.1 Credit and counterparty risk	8,892,397	6,680,571	5,828,688	4,129,344
1. Standardized approach	8,892,397	6,680,571	5,828,688	4,129,344
2. IRB approach				
2.1 Foundation				
2.2 Advanced				
3. Securitizations				
B. CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			466,095	330,348
B.2 Risk valuation adjustment credit			217	
B.3 Regulation Risk				
B.4 Market Risk				
1. Standardized approach				
2. Internal models				
3. Concentration risk				
B.5 Operational risk			39,855	27,360
1. Basic inidcator approach (BIA)				
2. Traditional standardized approach (TSA)			39,855	27,360
3. Advanced measurement approach (AMA)				
B.6 Other calculation elements				
B.7 Total capital requirements			506,167	357,708
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Weighted risk assets			6,327,092	4,471,344
C.2 Capital primary class1 / Risk			11.11 %	11.74%
C.3 Capital Class 1 / Risk-weighted assets (Total capital ratio)			11.11 %	11.74%
C.4 Total own funds / Risk-weighted assets (Total capital ratio)			12.16 %	13.60%

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

Section 3 – Insurance capital and capital ratios

Not applicable.

Section 4 – The capital adequacy of the financial conglomerate

Not applicable.

Part G - Business combinations

Section 1 – Transactions carried out during the year

In the course of the financial year, the Parent company acquired, from a company forming part of a third-party banking group, a business unit made up of a network of sole agents specialised in consumer loans and salary assignment loans, and the relevant sales agreements with leading companies.
Based on the analysis carried out for the purposes of compliance with the requirements of IFRS 3, it was revealed that the transaction did not result in the recognition of goodwill in Santander Consumer Bank's financial statements, whereas it required the recording of the cash conferred and the relative provision for agents' indemnity.

Section 2 – Transactions subsequent to the year end

The Group has not carried out any business combination after the balance sheet date.

Section 3 – Retrospective adjustments

The Group has not carried out any business combination after the balance sheet date.

Part H – Related-party transactions

1. Information on the remuneration of directors, auditors and managers

The following table shows the amounts of compensation paid in 2016 to members of the management and control bodies and to managers with strategic responsibilities that fall within the definition of “related party”.

	12/31/2016
Short-term benefits	3,079
Post-employment benefits	847
Other long-term benefits	
Termination indemnities	
Share-based payments	
Total	**3,926**

2. Related party disclosures

Shown below are the principal relationships with related parties according to the size of the year-end balance (in thousands of euros):

	Receivables	Payables	Derivatives	Expenses	Income
Banco Santander	367,353	11,675	772,387	17,523	14,506
Santander Consumer Finance		3,317,061		31,792	13
Banque PSA Finance Group companies	771	2,130		10,696	397
Other Santander Group companies	3,468	104,345	808,513	9,010	960

Versus the Spanish Parent Company Banco Santander:

- the receivables relate to amounts paid by way of guarantee deposit payments in connection with derivative contracts entered into with the Spanish counterparty and to cash deposits belonging to the segregated funds of the securitisations (Euro 355,353 thousand);
- the payables mainly relate to the measurement of derivatives and related interest;
- the derivatives refer to the interest risk hedging transactions as mentioned in Part E, Section 2. The amount shown in the table is the algebraic sum of the notional amounts;
- the expenses mainly relate to hedging activities (Euro 17,397 thousand) and to brokerage (Euro 126 thousand);
- income relates to hedging activities;

Versus 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 (Euro 3,317,061 thousand);
- the charges relate to interest expenses on loans received (Euro 30,715 thousand) and to negative differentials on the hedging result (Euro 1,077 thousand);
- the income relates to commercial paper.

Relationships are also maintained with other companies of the Santander Group. Receivables relate mainly to the measurement of derivatives and related accruals of Euro 2,992 thousand. the derivatives refer to trading transactions as mentioned in Part E, Section 2. The amount shown in the table is the algebraic sum of the notional amounts. The payables mainly consist of subordinated loans and hybrid capital instruments (Euro 97,706 thousand) and traded derivatives entered into in connection with securitisations (Euro 3,249 thousand), whereas the expenses mainly consist of interest expense accrued on loans requested (Euro 3,508 thousand), the result of the derivatives for securitisation transactions (Euro 37 thousand) and costs for consulting and services offered by Group companies (Euro 5,436 thousand). Income derives mainly from reimbursement of expenses (Euro 77 thousand) and fees earned for the distribution of insurance products (Euro 866 thousand).

Finally, the relations between the subsidiary Banca PSA Italia and the Banque PSA Finance Group, which owns 50% of the shares, are shown. Receivables mainly relate to invoices to be issued for administrative services rendered in favour of the subsidiaries of companies in the BPF Group. Liabilities, and the relative expenses, relate mainly to the costs of outsourcing accrued during the year in respect of central IT.

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)	131,400
	PricewaterhouseCoopers SpA	Subsidiaries		143,860
	PricewaterhouseCoopers SpA	SPV Golden Bar		23,026
Certification services	PricewaterhouseCoopers SpA	Parent Company	Preparation of a comfort letter relating to a bond issue (EMTN)	26,000
Other services	PricewaterhouseCoopers SpA	Parent Company	Services related to TLTRO	16,000
	PricewaterhouseCoopers SpA	Parent Company	Services related to "Employee Loans"	20,000
				360,286

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.

Santander
CONSUMER BANK

Separate Financial Statements of Santander Consumer Bank

Santander
CONSUMER BANK

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, sector trends and other events worthy of note, please refer to the relevant sections of the Report on operations of the Consolidated Financial Statements.

Strategic guidelines

In accordance with the strategic guidelines of the Santander Group, management of Santander Consumer Bank S.p.A. pursues the objectives of being the best consumer credit bank, gaining the loyalty of its employees, customers, shareholders and the community in which it operates.

As part of this mission and strategic direction, the expectations are listed below:

- Customers. To retain, and collaborate long-term with, existing customers/partners, in addition to seeking new opportunities for collaboration, maintaining market share and preserving its position in the reference market. For this reason, the Bank will focus on the following:
  a) customer loyalty and development of custom plans;
  b) geographical presence;
  c) risk culture;
  d) digitalisation, innovation and improvement of processes;
  e) financial offerings and insurance services combined with banking products;
  f) development and consolidation of business arising from the acquisition of the new agency network.

- Shareholders. To ensure steady, adequate and sustainable growth with value creation (RoRWA).
- Funding management. Collection activities aimed at supporting customer disbursement activities, with a focus on increasing the diversification of sources of finance through securitisations, retail customer deposits, issues of European Medium Term Notes (EMTNs), TLTRO programmes.
- Control/optimisation of operating costs, ensuring their growth is lower than the growth in revenue.
- Effective risk management. Constant monitoring of the quality of the managed portfolio in order to consolidate capital strength and make sure the profitability target is achieved (RoRWA), and maintaining a steady percentage in dispute using an effective strategy of acceptance and recovery.
- Capital. Ability to generate capital independently and achieve levels of capitalisation in line with current regulations and with constraints imposed by the Supervisory Authority, as well as with the objectives agreed with the Parent Company.
- Internal culture. Developing and updating business skills and know-how, nurturing talent, improving skills.
- Community and environment. The objective is to continuously support the community in which the bank operates: relations with schools and universities through work experience/internship programmes, financial education and active participation in academic events, support for voluntary associations, organisation of sports events, in addition to internal eco-sustainability initiatives and sustainable mobility incentives.

Strategic policy is constantly updated and agreed with Santander Group, with the aim of integrating and implementing best corporate practices.

The Sales Network

The consumer credit market recorded a good level of growth in 2016[20]. Against this background, Santander Consumer Bank achieved new loan volumes that were largely in line with the previous year, with a good performance in the automotive sector and a slight contraction in salary/pension-backed loans.
The automotive sector recorded an increase of 5.4%, particularly on brands involved in Captive Agreements, which reflect the efforts made by the Group to strengthen such partnerships.
In 2016, sales of the salary assignment product recorded a decrease compared with the previous year (-20.5%), due to lower production from 106 intermediaries (specialised intermediaries authorised under art. 106 of the Consolidated Banking Act) as a consequence of the new competitive scenario facing them, while special-purpose loans closed the year with strong growth compared to the performance achieved in the previous year (+133.2%), due mainly to the widening of the new agent network through acquisition of a business unit from a third-party banking group.

[20] In the first eleven months of 2016, +16.7% compared to the same period of the previous year (Source: Assofin).

In terms of personal loans, the Bank closed 2016 with a result 10.3% higher than at end-2015.
With regard to credit cards, the focus on portfolio management favours profitability over volumes, the result being a decrease compared to 2015 in terms of volumes financed (-10.8%).

Marketing

In 2016, particular attention was given to customers through the development of new, personalised customer relationship management (CRM) processes for all of the Group's products, while maintaining the activities that were already ongoing.
The car loans business saw the management of standard customer contact processes with Trade Cycle Management (TCM) products and support for key partners on the occasion of new model launches and campaign events aimed at strengthening customer loyalty and establishing greater engagement with dealerships.
In the motorcycle loans business, we continued with trade up and TCM processes, the development of test campaigns to support sales of specific models and the champion challenge for new model proposal for customers interested in a motorcycle, but not yet owners of one.
With regard to the personal loan product, a new Marketing & Risk strategy was implemented, characterised mainly by an approach of differentiating between active customers and past customers with a prior evaluation of the probability of acceptance. Customised campaigns focused on conversion were created, and new offer limits were established for certain clusters. This new approach has led to a high probability of acceptance on specific clusters and has made it more efficient to manage client contacts.
With regard to salary/pension-backed loans, a "renewals" campaign targeted at the active customer base was launched for certain "test" agents in order to increase loyalty.
Finally, the usual retention campaigns continued for the deposit account product.
With regard to insurance products, there was a stable trend in the placement of insurance services combined with loans being granted, whereas there was an increase in their placement through remote channels. In 2016, insurance commission came to Euro 22.0 million, an improvement on the 2015 figure (Euro 17.7 million), thanks to the support of stand-alone products and to increased financial volumes.
Generally speaking, the traditional "Point of Sale" channel saw a stabilisation in performance by Creditor Protection Insurance (CPI) products, whereas the product offering related to property grew with the increase (in terms of market share) in the distribution of property insurance policies, such as Fire and Theft, and the introduction of the warranty extension product.
The trend in "alternative" channels has been very positive, with a proportion of overall insurance sales of 24.2%. The campaign for "stand alone" products (i.e. not linked to loans) through the telemarketing channel closed with excellent results (and was boosted with the offer of the captive company of the CNP Santander Insurance group), as did the "recall" channel (with the offering of CPI, GAP, Billing Protection and the newly added warranty extension product).
Profits in absolute terms are 5.4% short of budget, mainly due to an increase in commissions being refunded, attributable to a phenomenon of early repayments and a worsening of results produced by portfolios generated in prior years that generate a negative impact in terms of profit share.

Nationwide Agreements

Captive agreements were handled in coordination with the Parent Company, Santander Consumer Finance, as part of agreements at European level, in terms of guidelines 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 generally good performance by the automotive sector and the growing capacity to manage the bank's Captives programmes, have allowed the volumes financed to be increased, in some cases with the best performances in the market.
More specifically, the volumes financed for Hyundai increased in the year (+4.9% compared to 2015), as was the case for KIA (+19.7%), Mazda (+46.1%) and Mitsubishi/SsangYong (+16.3%).
The market share based on sales has increased with all the partnerships and, in certain months, it exceeded the target of 40%.
As for the motorcycle industry, 2016 saw a general growth in volumes financed on all brands (Yamaha +10%, Harley-Davidson +4%, KTM +20%, Husqvarna +38%), due in part to the growth of the reference market with respect to the previous year (+11%).
Worth noting is the retail sales penetration for Yamaha (23%) and Harley-Davidson (34%).

Salary assignment

In 2016, the salary and pension assignment market saw a slight increase in volumes compared with the previous year. There was an increase in the number of intermediaries involved, both due to the input of credit institutions specialising in the purchase of loans without recourse, and the return to the direct disbursement of salary assignment and delegation of payment loans by Financial Intermediaries pursuant to Art. 106 of the consolidated banking act subject to reform by the Bank of Italy. The Bank's commercial strategy continues to target sustainable development with adequate profitability, maintaining focus on executing new mandates with financial agents, thus supporting the volumes coming from the agency channel, but inevitably reducing activities to distribute their product through Financial Intermediaries. At the end of the year, thanks to the acquisition of part of the agency network of a leading Italian bank, more than 120 agency mandates were in place for the promotion and placement of salary assignment loans, considerably improving the existing market presence. The financed capital of new disbursements in 2016 stood at approximately Euro 384.8 million, with a clear majority brought in by tied agents with respect to the brokered volumes total, i.e. 70.47%. The mix of new disbursements, with distinctions made between the different sectors of employment of the customers, was as follows: State and public, 53.22%; para-public, 5.45%; pensioners, 23.44%; private individuals, 16.24%.

Personal Loans

The volumes achieved by the Personal Loans division in 2016 (approximately +10.30% vs 2015 volumes) confirm that the commercial, risk and process strategies implemented in the two-year period 2015-2016 have been strategically very successful. In addition to the excellent results achieved in terms of volumes financed, new disbursements have reached a good level of profitability, which is satisfactory and in line with the bank's objectives.
The general favourable mood of the product segment is also confirmed by the analysis of the reference market that showed a steady growth with respect to 2015, strengthening the tendency toward the progressive recovery of pre-crisis volumes.
2016 was an interesting year also in terms of the development of new strategies for the management of repeat business and cross selling activities; indeed, through a more efficient and effective segmentation of the customer portfolio, mainly characterised by the introduction of a strategy of differentiating product proposition approaches, and subsequently a "customised" management of the offer, significant improvements have been achieved in terms of the net conversion of direct marketing activities carried out on active clients.
Positive changes have also been seen in relation to the distribution model adopted by Santander Consumer Bank which is still among the most comprehensive on the market and adapted to the current needs of customers (physical, remote and digital channels). It should be noted, in fact, that in the last two months the distribution capacity, including for personal loans, has been further strengthened as a result of the integration of part of the agency network—which is highly specialised in consumer credit—acquired from a leading Italian bank.

Deposit accounts

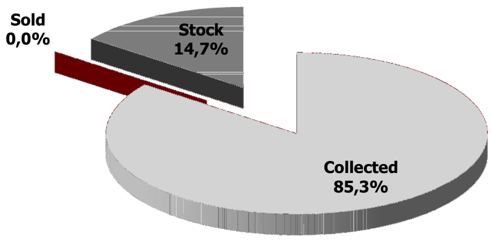
Deposit accounts are still one of the most successful sources of funding in Italy, with a wide variety available on the market offered by many banking institutions.
The Bank has always offered its retail customers a demand deposit account and time deposit accounts with different maturities (12, 24 and 36 months) with yield in line with the middle range of the market.
Operational focus during the year has been on the launch of the new management software platform and the streamlining of the online banking service, along with fully reviewing the process of opening of new accounts. As a result of this, the Bank, in October 2016, replaced the products in the portfolio with two new lines:

- *IoPosso* (demand deposit accounts)
- *IoScelgo* (for the management of time deposit accounts).

From the commercial point of view, there was an expansion of the portfolio of customers for both products which has greatly increased the funding volume in line with the Bank's funding and diversification of financial management policies.
Compared to the previous year, time deposit funding, amounting to Euro 129 million, registered an increase of 150%, and demand deposit funding, amounting to Euro 633 million, grew by 100%.

Debt Collection

In 2016, the financial situation in Italy improved slightly compared to recent years, with a positive effect on the management of loan recovery.
From the point of view of the debt collection process, all activities, both judicial and non-judicial, are headed up by the Collection Business Unit (CBU), in line with the model foreseen by the Santander Group. 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 prioritise the collection depending on the customer's risk profile and the ageing of their balances; this efficiency is also achieved by launching specific campaigns and using appropriate tools.
In 2016, the sum of flows handled monthly consisted of 339,120 contracts, for a total of Euro 2.5 billion, -20.8% than the previous year in terms of the number of contracts and -21.7% in terms of amount.
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. Every month we study specific campaigns for targeted groups of contracts selected on the basis of detailed analysis of the collection portfolio, aimed at defining more appropriate solutions to offer to customers, based on the household's financial resources, in order to meet the customers' needs and help lower the percentage of the Group's receivables that are in dispute. Control activities and daily reports are used to promptly monitor the progress and effectiveness of the collection process.
As can be seen in the chart below, the result of the collection activity in terms of value was positive for 85.3% of the volumes handled in 2016, with a residual stock still being handled at 31 December 2016 of 14.7%.
In the course of 2016, frequent disposals of Credit Card products were made to the company AT NPL'S, for a total amount of Euro 0.5 million.



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 2016, the managed collection portfolio consisted of Euro 479 million.
In 2016, the stock of claims decreases compared to 2015; the process has been focused on minimising the time needed to open and manage claims.
The stock of claims opened has gone from 4,873 positions with a risk of Euro 41.9 million (2.5% of the total portfolio) to 4,472 positions with a risk of Euro 38.2 million (2.3% of the total portfolio). The stock of rejected claims at the end of 2016 was 364 positions amounting to Euro 4.5 million. In 2016, 4,289 new claims were opened, of which 876 were life claims, 2,330 related to occupational accidents and 1,083 were retirement related.

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.

At the end of 2016, the net amount of financial indebtedness of Santander Consumer Bank came to Euro 5,089 million (+3.18% compared with 2015).

In the course of the financial year, the Bank reduced the recourse to loans disbursed by the Santander Group by increasing the weight of external sources of financing. Besides the usual instrument of securitisations, having as collateral loans originated by the Bank itself, it relied on its EMTN programme and in particular on direct customer deposits through deposit accounts.

One new loan securitisation (GB 2016-1) was concluded during the year, with the issue, on 2 August 2016, of securities by the SPE Golden Bar (Securitisation) S.r.l. amounting to a nominal value of Euro 1,300,000,000. These securities, which were structured as variable funding, were issued for an initial value of Euro 1,100,000,000. The securities consist of Class A, B, C, D and E securities with a fixed coupon rate; Class F securities offer an excess spread. The legal maturity of the transaction is scheduled for 2040 with a period of four years during which the SPEs may purchase subsequent portfolios, financed by an increase in the value of the issued ABS securities up to a nominal value of Euro

1,300,000,000. The transaction has an underlying portfolio of loans guaranteed by salary or pension assignment and deductions at source. The Class A securities, which have been given a double rating, are suitable for refinancing operations with the European Central Bank.

The table below summarises ABS issues completed in 2016 with underlying securities originated from the Bank.

Name	Class	CCY	Nominal Amount	Current Outstanding	Issue Rating	Issue Date	Maturity Date
Golden Bar 2016-1	**A**	Eur	1,066,000,000.00	902,000,000.00	A3 Moody's / A DBRS	08/02/2016	12/27/2040
Golden Bar 2016-1	**B**	Eur	32,500,000.00	27,500,000.00	Baa3 Moody's / BBB DBRS	08/02/2016	12/27/2040
Golden Bar 2016-1	**C**	Eur	45,500,000.00	38,500,000.00	Ba3 Moody's / BB DBRS	08/02/2016	12/27/2040
Golden Bar 2016-1	**D**	Eur	65,000,000.00	55,000,000.00	B2 Moody's / B DBRS	08/02/2016	12/27/2040
Golden Bar 2016-1	**E**	Eur	90,870,000.00	76,890,000.00	Unrated	08/02/2016	12/27/2040
Golden Bar 2016-1	**F**	Eur	130,000.00	110,000.00	Unrated	08/02/2016	12/27/2040

On 28 September 2016, the Golden Bar Stand Alone 2012-1 securitisation transaction was completed ahead of schedule, with the securities having been fully redeemed by Golden Bar (Securitisation) S.r.l. and the loans having been repurchased by Santander Consumer Bank S.p.A.

As of 31 December 2016, the total amount that had arisen from having participated in ECB auctions amounted to Euro 1,373 million, entirely attributable to TLTRO-I and TLTRO-II auctions. The Bank's short-term liabilities mainly consist of loans of variable durations of up to six months provided primarily by the Spanish Parent Company.
Intercompany medium- to long-term liabilities include medium-term loans again with the Spanish Parent Company and subordinated loans provided by Santander Consumer Group companies and by the Santander Group.

In July, the EMTN programme was renewed, taking the maximum amount to Euro 3 billion.
The programme, guaranteed by Santander Consumer Finance S.A., has obtained a rating equal to that of the Parent Company (P2/A3 by Moody's, A2/BBB+ by Standard &Poor's).
In the last quarter of 2016, the Bank issued a total of Euro 113 million over more tranches, mainly with a two-year maturity. As at the reporting date, outstanding issues represented a total of Euro 313 million (approximately 6% of the total).

As explained in the previous *Deposit accounts* section, retail customer deposits increased significantly, from approximately Euro 370 million at the end of 2015 to approximately Euro 760 million at December 2016 (+106%).

On the whole, the cost of collection decreased in 2016 as a result of both the increased use of more economic forms of financing and the reduction of interest rates and spreads paid.

In order to meet the regulatory requirements of short-term liquidity which entered into force in October 2015, the Bank invested in the last year in a portfolio of highly liquid eligible securities issued by the Italian government. The portfolio remained at values higher than Euro 400 million for the whole financial year, allowing the bank to remain at Liquidity Coverage Requirement (LCR) levels well above the regulatory limit fixed at 70% for 2016.

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 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;
- Demand management: in order to improve the interaction between IT and the user and respond effectively and efficiently to the Bank's changing environment, improvement initiatives were carried out in 2016 in relation to IT tools and processes, particularly those related to Change Management. Requests relating to application and infrastructure are redirected, their technical/economic/temporal feasibility is verified.
- Data Governance: governance of data and information in a manner that complies with the provisions of Circular no. 285/2013 of the Bank of Italy. In this context, the IT Service consists of a team dedicated to constantly ensuring the integrity, completeness and correctness of data and information, providing tracking and control processes in case of the manual entry or correction of data. It also defines the Data Governance standard, i.e. a reference model (processes, structures and technologies) to better identify data properties and measure the respective quality; it formalises the data models for information systems, including the input and processing processes, data reconciliation processes and all data extraction and reporting activities (through innovative "business intelligence/analytics" solutions), which become a requirement for improving the quality of company reporting.
- Overseeing of architecture, ICT security (Information, Communication & Technology) and technological risks: policies and procedures for an IT risk management consistent with the risk appetite and the internal and external regulations to which the bank is subject have been defined and implemented in this regard. For technological and operational risk oversight, the Bank applies a risk management model defined in agreement with the Parent Company Santander Consumer Finance, which provides for the updating of operational risk indicators, the consolidation of risk events, regular risk reporting to the Parent Company and to the appropriate levels of the organisation, the maintenance of the Business Continuity Plan to the extent of its competence; the Bank also has a Cybersecurity Master Plan for the strengthening of the controls put in place to protect its physical assets and the confidentiality, integrity and availability of its information from threats coming from cyber space, which will be fully implemented in the three-year period 2017-2019.

Institutional Relations, Legal and Compliance Department

The Bank's Institutional Relations, Legal and Compliance Department oversees the following areas:

- Governance and extraordinary operations: it 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, it 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: 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. During the year, the main critical issue that arose from the handling of complaints related to the contesting of the criteria applied to the early termination of loans secured by salary and pension assignment. This led to an increase in complaints received. In general, this phenomenon applied to the salary and pension assignment market, as confirmed by statistical data released by the relevant trade association (Assofin);
- 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.
- The critical issue relating to the contesting of the criteria applied to the early termination of loans secured by salary and pension assignment was also a factor that triggered the appeals to the BFA. As was the case with complaints, the above phenomenon applied to the entire salary and pension assignment market.

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.

Human Resources

Santander Consumer Bank's workforce at 31 December 2016 consists of 605 persons (including 11 managers, 158 middle managers and 436 office workers). The office workers include one fixed-period contract. At the end of the year, there are 13 employees on post-graduate internships.
The average age is 40.5 years, while female workers represent 45% of total employees.
Resources are allocated 39% in the commercial area, the rest in the various functions of General Management.
Personnel costs for the year amount to Euro 41 million.
In October 2016, the 3rd edition of the people survey was conducted, involving all of the Group's employees. Participation in the survey nationally was 92%. The initiative provides an important opportunity for listening about issues relating to the management of staff and about the internal climate. It made it possible to establish actions for improvement for the next year and showed an improvement in all indicators monitored during the analysis.
In 2016, based on the results of the 2015 survey, Management identified several areas for which action was needed, including innovation, training, listening to staff at individual level, work-life balance, the new incentive scheme, internal communication.
In 2016, the Leaders of Change training project began, the aim of which is to promote and develop innovation within the company. Through 12 training days, 30 colleagues have been able to analyse in depth ways to create and disseminate innovation in a business context; they also studied relevant case studies.
In general, in-house training has always played a key role in the updating and development of technical and commercial skills: over 17,000 hours of training were provided both on technical, product and process issues, and on regulatory and behavioural skills. The Your Own Choice (YOC) training course continued, as a result of which every employee has been able to choose a course of their own choice from a dedicated catalogue. To improve knowledge of policies, regulations, procedures and processes, the e-learning platform has been further developed and updated, including through the use of a dynamic and interactive format. All colleagues involved in the sale of insurance products have taken IVASS professional refresher courses totalling more than 2,500 hours. A number of sales network training initiatives have been launched, and significant attention has been given to aligning the new agency network (formerly Accedo) through training.
The positive collaboration continued with external partners and lecturers financed by the joint inter-professional fund, Fondo Banche Assicurazioni.
In 2016 the HR4US initiative was launched, aimed at all employees, both within the branches and offices, with the aim of focusing on each individual's professional experience by means of a personal interview with the Human Resources and Organisation team.
In order to facilitate internal mobility and promote the development of cross-functional competences, job vacancies have been reported to employees through the communication of position openings, allowing any interested employees to challenge themselves by transferring to a different business unit.
For office employees, flexible working was introduced, allowing staff to improve the balance between work, personal and family life.
The bonus system was updated in order to boost the financial results achieved and improve the commitment of every individual to achieving the agreed workplace objectives. The bonus was also provided through the new company welfare system, through which the Bank wanted to align itself ever more closely with the personal, family and social needs of its employees.
Internal communication conveyed all the changes introduced for employees throughout the year, the common theme being innovation and corporate behaviours that express the internal culture at Group level. The year also saw the launch of the new company Intranet, which has completely reinvented internal communication methods and makes it possible to stay informed on corporate news in a timely and simple manner. Designed to be responsive and with a particular focus on usability, it has many features that facilitate employees' work.
The international exchanges related to the *"Mundo Santander"* project continued, by means of which a number of selected employees worked at other Santander Group locations.
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. A number of high school pupils got to know the business by participating in several weeks of professional training.
For middle schools, the Financial Education course, in collaboration with the Foundation for Financial Education and Savings, was launched with the aim of spreading a new culture of financial citizenship among young people.
In the spirit of attracting and developing high fliers, Santander Consumer Bank also took part in the work orientation days organised by major universities in Piedmont.
Industrial relations continued in 2016 in the interest of sharing and coordination between the parties.

The new Chief Executive Officer and General Manager periodically met with various trade unions to illustrate the business performance of the Bank.
Moreover, in 2016, the company timetabled weekly meetings with social partners focused primarily on listening and informing in order to better understand the strategies and business initiatives put in place, with a firm focus on transparency, cooperation and discussion.
Two significant agreements were signed:
The first agreement, signed on 18 March 2016, is on the issue of the “Company welfare bonus” in the light of the stability law of 28 December 2015.
The second, dated 15 September 2016, is an agreement on the issue of “working hours for branch personal loans employees” to ensure a healthy balance between work life and personal life.

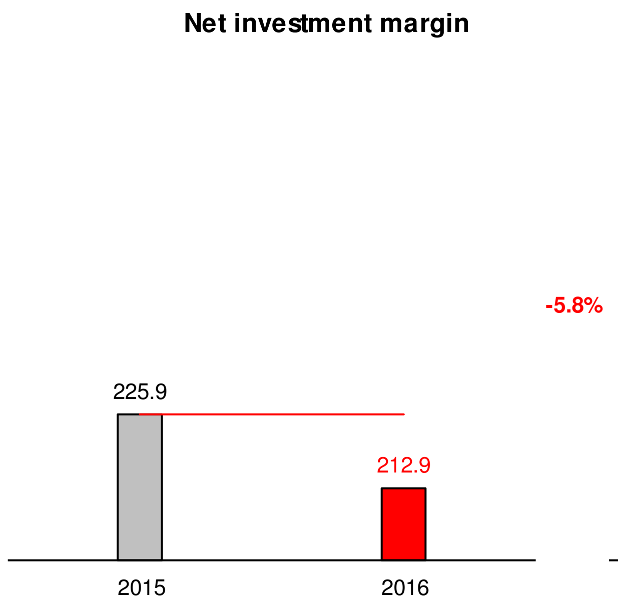
Taxation

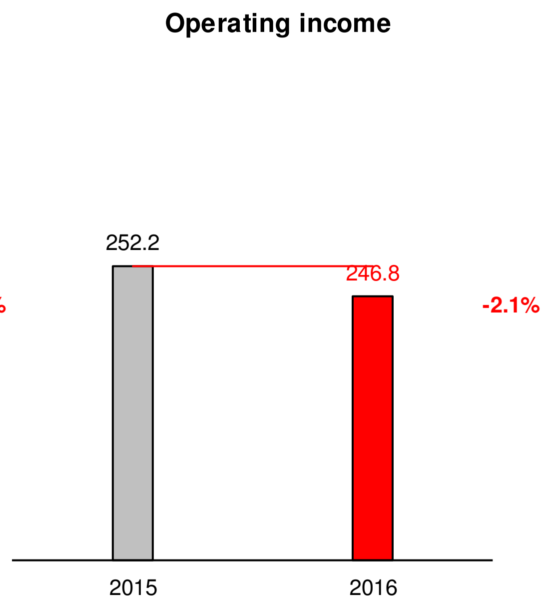
In order to ensure that the Group’s general principles in matters of taxation (included in the “Tax Strategy” already approved by the Board of Directors of the bank at the end of 2015) are complied with in full, in 2016 the Banco Santander parent company issued a specific Corporate Tax Policy containing guidelines to be followed in relation to tax risk governance and management.
In application of the aforesaid policy, the Bank’s tax department therefore drew up, on the initiative of and with the aid of the Bank’s Compliance function and external consultants, 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, which assigns to the Bank’s tax department the role of local tax advisor reporting directly to the Corporate Tax Advisory, 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.
In the course of 2016, the Bank received the tax reimbursements expected as a result of the improved settlement in 2014 for fiscal years 2008-2010, and Euro 1.3 million relating to similar proceedings relating to fiscal year 1999.
As at 31 December 2016, there were no pending disputes with the Tax Authorities nor any inspections underway.

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

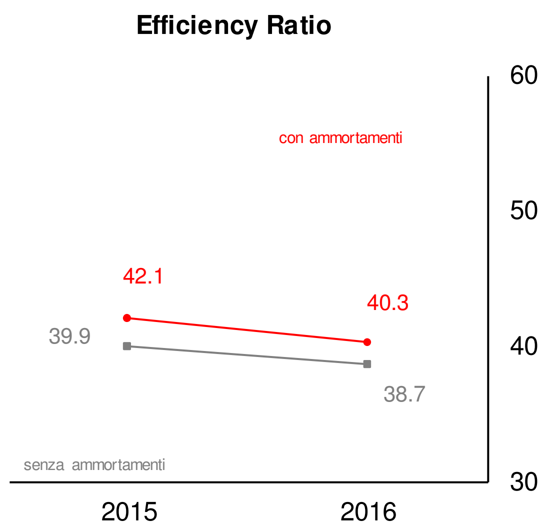
The table shows the key economic and operating figures for the year, with comparative figures from the previous year (in millions of euros).

Amounts in millions of Euro	2,016	% TAA	2,015	% TAA	Change	
					Amounts	%
Net investment margin	**212.9**	**3.5**	**225.9**	**3.7**	**(13.0)**	**(5.8)**
Net fee and commission	32.1	0.5	37.4	0.6	(5.3)	(14.2)
Commercial margin	**244.9**	**4.0**	**263.4**	**4.4**	**(18.5)**	**(7.0)**
Net income (loss) financial assets and liabilities held for trading and FV adjustment in hedge accounting	1.6	0	(7.6)	(0.1)	9.2	(121.1)
Gains and losses on disposal of financial assets and liabilities	0.3	0	(3.6)	(0.1)	3.9	(108.3)
Operating income	**246.8**	**4.1**	**252.2**	**4.2**	**(5.4)**	**(2.1)**
other operating income (charges)	14.9	0.2	5.2	0.1	9.7	186.5
Administrative costs:	(110.3)	(1.8)	(105.9)	(1.8)	(4.4)	4.2
payroll costs	(41.2)	(0.7)	(38.5)	(0.6)	(2.7)	7.0
other administrative costs	(69.2)	(1.1)	(67.4)	(1.1)	(1.8)	2.7
Depreciation	(4.2)	(0.1)	(5.6)	(0.1)	1.4	(25.0)
Net operating margin	**147.2**	**2.4**	**145.9**	**2.4**	**1.3**	**0.9**
Impairment losses on financial assets	(41.0)	(0.7)	(82.8)	(1.4)	41.8	(50.5)
Other provisions	(11.4)	(0.2)	(14.3)	(0.2)	2.9	(20.3)
Total profit or loss before tax	**94.8**	**1.6**	**48.7**	**0.8**	**46.1**	**94.7**
Tax	(28.3)	(0.5)	(13.6)	(0.2)	(14.7)	108.1
Net profit or loss	**66.5**	**1.1**	**35.1**	**0.6**	**31.4**	**89.5**



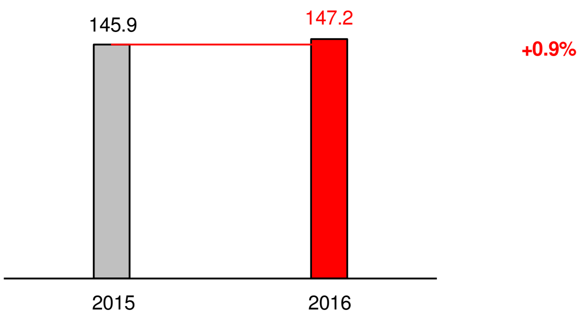


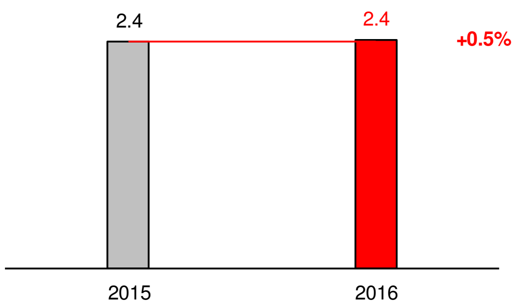
Net interest income fell slightly compared to the previous year: the decrease in interest income (-8.6%), which was mainly attributable to a change in the portfolio mix, was not fully offset by a reduction in interest expense, which fell significantly (-17.2%), driven by a fall in market interest rates and spreads.
Net fee and commission income reduced compared to the comparative prior period, recording a decrease of 14.2%, caused primarily by the new pricing scheme introduced on the salary/pension-backed loan product from the end of 2015.
Net interest and other banking income remained largely unchanged with respect to 2015 with a slight drop of 2.1%: in addition to the above-mentioned effects, it is noted that the results for the year were positively influenced by the gradual reduction of the value of securitisation derivatives
Administrative expenses show a slight increase on the previous year (+4.2%), due to an increase in labour and other operating costs (+6.8% and +2.7% respectively). The increase was partially offset by a lower depreciation and amortisation charge (-25.0%).
Impairment losses on loans decreased significantly as a result of the improvement of the quality of the managed portfolio.
“Other provisions” decreased (-20.3%) mainly due to lower provisions for litigation.
2016 closed with a net profit of Euro 66.5 million, an increase of 89.5% compared to 2015.



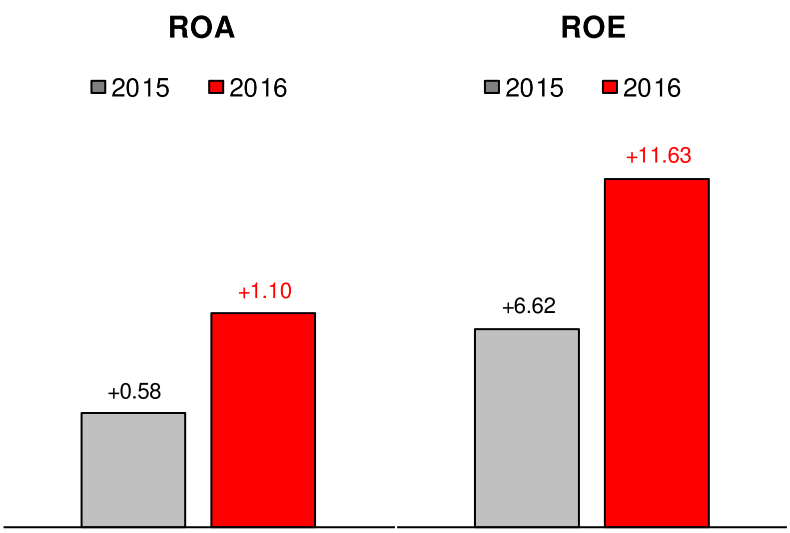
The efficiency ratio, which is the ratio of the sum of administrative expenses and other net operating income (with and without depreciation and amortisation) to net interest and other banking income, improved compared with the previous year.

Net operating margin

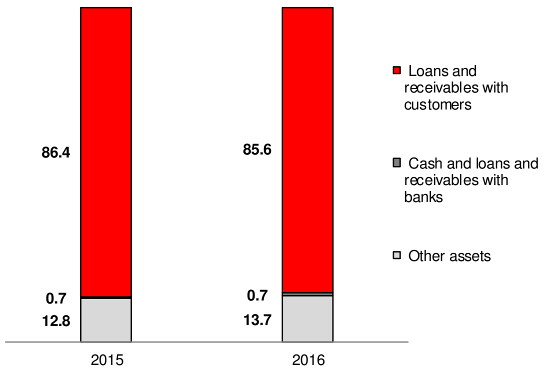


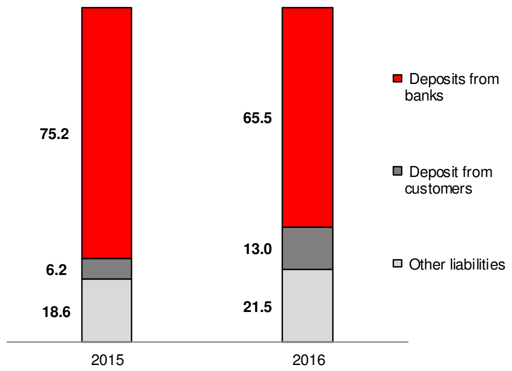


Net operating income (EBIT), calculated as the sum of net interest and other banking income, other income and expenses, administrative costs and depreciation and amortisation, increased by around 0.9%. It increased by around 0.5% compared to the previous year as a proportion of average total assets.



As a result of these trends, ROA (Return on Assets) decreased significantly to 1.10% and ROE (Return On Equity) came to 11.63%.

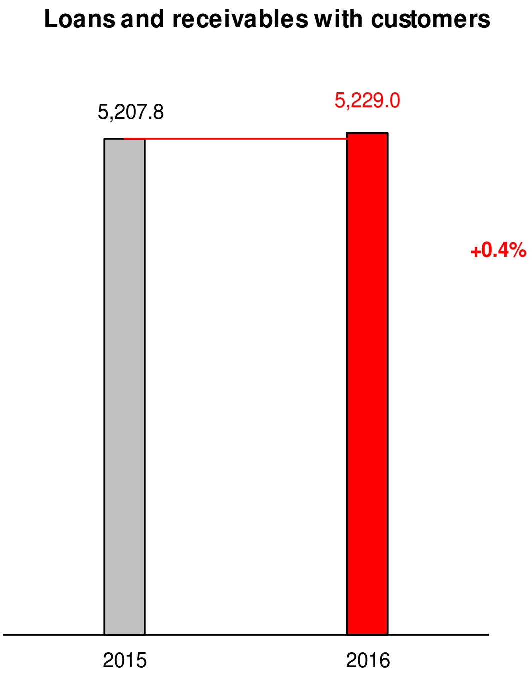




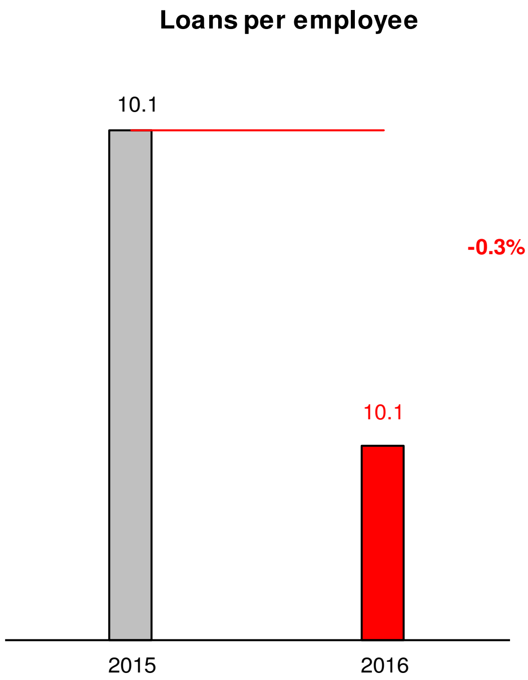
As regards the asset mix, customer loans were more or less stable; the same trend can be seen for loans and advances to credit institutions, while 'Other assets' increased more substantially, mainly due to the increase of the equity investment in PSA Italia S.p.A., partially offset by the reduction of tax assets.
Regarding the structure of sources of funds, on the other hand, there was an increase in amounts due to customers, consisting mainly of demand and time deposit accounts, a substantial decrease in the amounts owed to credit institutions as a result of lower borrowings, and a slight increase in other liabilities.

Amounts in millions of Euro			Change	
	2016	**2015**	**Amounts**	**(%)**
Car loan	2,039	1,895	144	7.6
Special-purpose loan	34	33	1	3.0
Personnel loan	1,025	1,219	(194)	(15.9)
Cards	9	11	(2)	(18.2)
Leasing	50	40	10	25.0
Salary assignment	1,685	1,696	(11)	(1.0)
Stock financing	309	190	119	62.6
Other loans to customers	360	392	(32)	(8.0)
Other components of amortised cost	67	67	7	12.0
Gross loans to customers	**5,578**	**5,536**	**42**	**1.0**
Provision for loan losses	-349	-328	(21)	6.0
Net loans to customers	**5,229**	**5,208**	**21**	**0.4**

As regards the change in loans to customers, the total remained relatively stable compared to the previous year (+0.4%). Analysing the details by product, there was an increase in both retail car loans and wholesale car loans (stock financing), which increased by 7.6% and 62.6% respectively. The salary/pension-backed loans portfolio remains stable (-0.6%). Personal loans and credit cards are down, respectively, 15.9% and 18.2%. The decrease in "Other loans to customers" (-8.2%) is due to the contraction in the components attributable to the SPE Golden Bar.
"Other components of amortised cost" mainly relate to net amounts of contributions and commissions that are paid when a loan is granted but for which the income statement effect thereof is deferred over the expected residual life of the loan.



Loans and receivables with customers
5,207.8
5,229.0
+0.4%
2015
2016



Loans per employee
10.1
10.1
-0.3%
2015
2016

Santander
CONSUMER BANK

Report of the Board of Statutory Auditors on the Financial Statements at 31 December 2016

Report of the Board of Statutory Auditors on the Financial Statements at 31 December 2016

SANTANDER CONSUMER BANK SPA
Head office in Turin, via Nizza no. 262/26
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 PURSUANT TO ART. 2429 OF THE ITALIAN CIVIL CODE ON THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016

Dear Shareholders,

The Financial Statements as at 31.12.2016, submitted to you for approval by the Board of Directors, close with profit for the year in the amount of Euro 66,484,076.

The directors have reported extensively on company developments and have given you comprehensive information, together with a detailed presentation on the corporate structure, on managerial matters and on the accounting entries, both in the Report on Operations, referring to the scope of consolidation, and in the notes to the financial statements, which include the information required by law, by the Bank of Italy and in accordance with International Accounting Standards.

The Board of Statutory Auditors in office on the date of this report was appointed by the Shareholders' Meeting of 28 April 2015 and, in the course of the financial year, carried out supervisory activities acting in accordance with legal requirements, the secondary legislation in force and the recommendations of the Bank of Italy; the supervisory activities were also carried out in compliance with the principles of conduct recommended by the National Board of Accountants (*Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili*).

Both with regard to the checks carried out during the financial year and participation in the Meetings of the Board of Directors and the Shareholders, there has been substantial compliance in terms of corporate management with the Articles of Association and with the regulations in force, including with reference to specific provisions related to the type of work carried out.

During the meetings held, we 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 its subsidiaries and, on the basis of the acquired information, we do not have specific comments to report.

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 pursuant to art. 14 of Legislative Decree 39/2010, which confirmed that no irregularities were found.

We have acquired knowledge and supervised, to the extent of our expertise, regarding the adequacy and the functioning of the organisational structure of the company, including through the gathering of information from heads of functions, and we have no specific comments to report in this regard.

We have acquired knowledge and supervised, to the extent of our expertise, with regard to the adequacy and the functioning of the administrative and accounting system, as well as the reliability of the latter to correctly represent operational transactions, by obtaining information from heads of functions, from the party responsible for the statutory audit and from the examination of business documents, and we have no specific comments to report in this regard.

Furthermore, we acknowledge that we have completed the tasks required by law ensuring compliance with the law and the Articles of Association and compliance with principles of correct administration.

We inform you that no complaints have been submitted and/or presented pursuant to art. 2408 of the Italian Civil Code.

We confirm again that the Financial Statements at 31 December 2016 have been prepared in accordance with Circular 262/05 as subsequently amended by the 4th update of 15 December 2015 "*Guidelines for the preparation of the financial statements and the consolidated financial statements of banks and financial companies holding banking groups*" issued by the Bank of Italy, in the exercise of the powers established by art. 9 of Legislative Decree no. 38/2005 and with the Regulation of 22 December 2005. In preparing the Financial Statements the IAS/IFRS in force at 31 December 2016 have been applied (including the SIC and IFRIC interpretations), as endorsed by the European Commission.

In particular we note that intangible assets, valued at cost, inclusive of additional charges and amortised systematically as a function of their expected useful life, relate entirely to software.

The directors confirm, in the notes to the financial statements, that transactions with related parties were concluded at arm's-length conditions.

The Board of Statutory Auditors therefore considers that the Financial Statements for the year ended 31 December 2016 and the Report on Operations, as well as the proposal for the allocation of the net profit, can be approved by the meeting of shareholders as proposed by the Board of Directors.

Turin, 13 March 2017

The Board of Statutory Auditors

(Walter Bruno)

(Stefano Caselli)

(Maurizio Giorgi)

Notice of calling of the Shareholders' Meeting

Notice of calling of the Shareholders’ Meeting

The Ordinary General Meeting of the shareholders of Santander Consumer Bank S.p.A. has been convened, on first call, for 16 March 2017 at 12.30 at the Company’s head office in Turin, Via Nizza no. 262/56, and, if necessary, on second call for 17 March 2017, 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 2016. Statutory Auditors’ Report and Independent Auditors’ Report. Related resolutions;
2. Information on the 2016 remuneration and bonus system.

Proposals to the Shareholders' Meeting

Proposals to the Shareholders' Meeting
Proposal of allocation of the net profit

Shareholders,

as we have mentioned already, the year ended with a net profit of Euro 66,484,076.
We propose that profit be allocated as follows:

	Euro
Net profit for the period	66,484,076
Legal reserve	3,324,204
Previous losses coverage	1,289,759
Extraordinary reserve	45,270,113
Dividends	16,600,000

Santander
CONSUMER BANK

Independent Auditors' report on the Financial Statements at 31 December 2016

Independent Auditors' report on the Financial Statements at 31 December 2016

INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF 27 JANUARY 2010

To the shareholder of
Santander Consumer Bank SpA

Report on the financial statements

We have audited the accompanying financial statements of Santenader Consumer Bank SpA, which comprise the balance sheet as of 31 December 2016, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows for the year then ended and the related notes, which include a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors Santander Consumer Bank SpA are responsible for the preparation of financial statements that give a true and fair view in compliance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005 and article 43 of Legislative Decree No. 136/2015.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to article 11 of Legislative Decree No. 39 of 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view, 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

PricewaterhouseCoopers SpA

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

www.pwc.com/it

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Santander Consumer Bank SpA as of 31 December 2016 and of the result of its operations and cash flows for the year then ended in compliance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005 and article 43 of Legislative Decree No. 136/2015.

Further notice

The financial statements of Santander Consumer Bank SpA as of 31 December 2015 has been audited by another auditor that, on 11 March 2016, has issued a clean opinion on this financial statements.

Report on compliance with other laws and regulations

Opinion on the consistency with the financial statements of the report on operations and of certain information set out in the report on corporate governance and ownership structure

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion, as required by law, on the consistency of the report on operations and of the information set out in the report on corporate governance and ownership structure of Santander Consumer Bank SpA referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, which are the responsibility of the directors of Santander Consumer Bank SpA, with the financial statements of the Santander Consumer Bank SpA as of 31 December 2016. In our opinion, the report on operations and the information in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of Santander Consumer Bank SpA as of 31 December 2016.

Milan, 13 March 2017

PricewaterhouseCoopers SpA

Signed by

Marco Palumbo
(Partner)

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

Santander
CONSUMER BANK

Financial statements

Balance Sheet

In euros

Balance sheet - Assets	12/31/2016	12/31/2015	Changes	
			absolute	%
10. Cash and cash equivalents	3,695	3,928	(233)	-5.9%
20. Held for trading financial assets	2,991,723	4,576,959	(1,585,236)	-34.6%
40. Available-for-sale financial assets	410,229,107	407,389,431	2,839,675	1.0 %
60. Due from banks	43,466,903	43,778,918	(312,015)	-0.7%
70. Loans to customers	5,229,049,666	5,207,769,637	21,280,028	0.4%
90. Changes in fair value of portfolio heged items (+/-)	9,740,921	24,246,480	(14,505,558)	-59.8%
100. Equity investments	100,989,712	9,550,000	91,439,712	957.5%
110. Property, plant and equipment	1,374,071	1,712,877	(338,806)	-19.8%
120. Intangible assets	8,177,878	9,140,815	(962,937)	-10.5%
130. Tax assets	238,000,756	263,307,659	(25,306,903)	-9.6%
a) current tax assets	27,784,555	42,113,053	(14,328,498)	-34.0%
b) deferred tax assets	210,216,201	221,194,606	(10,978,405)	-5.0%
of wich Law 214/2011	198,744,352	209,243,893	(10,499,541)	-5.0%
140. Non-current assets and disposal groups classified as held for	4,600		4,600	0.0%
160. Other assets	65,324,147	53,822,099	11,502,048	21.4%
Total Assets	**6,109,353,178**	**6,025,298,803**	**84,054,374**	**1.4%**

Liabilities and Shareholders' equity	12/31/2016	12/31/2015	Changes	
			absolute	%
10. Due to banks	4,002,447,680	4,528,969,242	(526,521,562)	-11.6%
20. Due to customers	793,422,712	376,246,053	417,176,659	110.9%
30. Debt securities in issue	313,036,718	300,044,578	12,992,140	4.3%
60. Hedging derivatives	11,585,293	28,642,822	(17,057,529)	-59.6%
80. Tax liabilities	25,348,300	20,597,728	4,750,572	23.1%
a) current tax liabilities	25,325,950	20,491,635	4,834,314	23.6%
b) deferred tax libilities	22,351	106,092	(83,742)	-78.9%
100.Other liabilities	254,534,810	182,383,094	72,151,717	39.6%
110. Provision for employee severance pay	3,307,634	3,638,628	(330,994)	-9.1%
120. Provisions for risks and charges	25,919,696	21,529,716	4,389,980	20.4%
b) Other reserves	25,919,696	21,529,716	4,389,980	20.4%
130. Revaluation reserves	(588,994)	(1,608,309)	1,019,315	-63.4%
160. Reserves	40,222,665	(43,883,002)	84,105,667	-191.7%
170. Share premium	632,586	632,586		0.0%
180. Share capital	573,000,000	573,000,000		0.0%
200. Net profit (loss) for the year (+/-)	66,484,076	35,105,667	31,378,409	89.4%
Total liabilities and Shareholders' Equity	**6,109,353,178**	**6,025,298,803**	**84,054,375**	**1.4%**

Income Statement

In euros

Items	12/31/2016	12/31/2015	Changes	
			absolute	%
10. Interest and similar income	275,251,928	301,235,600	(25,983,672)	-8.6%
20. Interest expense and similar charges	(62,386,687)	(75,319,599)	12,932,912	-17.2%
30. Net interest income	**212,865,241**	**225,916,002**	**(13,050,761)**	**-5.8%**
40. Commissions income	82,327,744	102,061,798	(19,734,054)	-19.3%
50. Commissions expense	(50,271,579)	(64,615,292)	14,343,713	-22.2%
60. Net commission income	**32,056,165**	**37,446,506**	**(5,390,341)**	**-14.4%**
80. Net trading income	1,603,927	(6,727,435)	8,331,362	-123.8%
90. Net hedging gains (losses)		(872,160)	872,160	-100.0%
100. Gains (losses) on disposal or repurchase of:	256,213	(3,567,829)	3,824,042	-107.0 %
a) loans	(4,992)	(3,567,829)	3,562,838	-99.9%
b) available-for-sale financial assets	261,204		261,204	0.0%
120. Net banking income	**246,781,546**	**252,195,084**	**(5,413,537)**	**-2.0%**
130. Net losses / recoveries on impairment of:	(40,967,023)	(82,820,196)	41,853,173	-50.5%
a) loans	(40,721,558)	(96,799,040)	56,077,482	-57.9%
b) available-for-sale financial assets	(245,465)		(245,465)	0.0%
d) other financial assets		13,978,844	(13,978,844)	-100.0 %
140. Net income from financial activities	**205,814,523**	**169,374,888**	**36,439,635**	**21.5%**
150. Administrative costs:	(110,334,797)	(105,909,503)	(4,425,294)	4.2%
a) payroll costs	(41,183,256)	(38,547,761)	(2,635,495)	6.8%
b) other administrative costs	(69,151,541)	(67,361,742)	(1,789,800)	2.7%
160. Net provisions for risks and charges	(11,436,012)	(14,347,811)	2,911,799	-20.3%
170. Net adjustments / write-backs on tangible assets	(652,433)	(1,512,305)	859,871	-56.9%
180. Net adjustments / write-backs on intangible assets	(3,520,559)	(4,050,992)	530,433	-13.1%
190. Other operating expenses / income	14,937,936	5,177,784	9,760,152	188.5%
200. Operating costs	**(111,005,865)**	**(120,642,827)**	**9,636,962**	**-8.0%**
250. Profit (loss) from continuing operations before tax	**94,808,658**	**48,732,061**	**46,076,597**	**94.6%**
260. Income taxes on continuing operations	(28,324,582)	(13,626,393)	(14,698,189)	107.9%
270. Profit (loss) from continuing operations after tax	**66,484,076**	**35,105,667**	**31,378,409**	**89.4%**
290. Net profit (loss) for the year	**66,484,076**	**35,105,667**	**31,378,409**	**89.4%**

Statement of comprehensive income

In euros

		12/31/2016	12/31/2015
10.	**Net Profit (Loss) for the year**	**66,484,076**	**35,105,667**
40.	Defined benefit plans	79,099	5,661
90.	Cash flow hedges	1,079,002	2,025,853
100.	Available-for-sale financial assets	(138,786)	184,021
130.	**Total of other comprehensive income after tax**	**1,019,315**	**2,215,535**
140.	**Comprehensive income (Item 10+130)**	**67,503,391**	**37,321,202**

Statement of changes in shareholders' equity

Financial year 2016

In euros

	Group shareholders' equity at 31.12.15	Changes in opening balances	Balance at 1.1.2016	Allocation of prior year results: Reserves	Allocation of prior year results: Dividends and other allocations	Changes during the year: Changes in reserves	Transactions on shareholders' equity: Issue of new shares	Transactions on shareholders' equity: Purchase of treasury shares	Transactions on shareholders' equity: Extraordinary distribution of dividends	Transactions on shareholders' equity: Changes in equity instruments	Transactions on shareholders' equity: Derivatives on treasury shares	Transactions on shareholders' equity: Stock options	Comprehensive income for 2016	Shareholders' equity at 31.12.2016
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:	(43,883,002)		(43,883,002)	4,105,667		80,000,000								40,222,665
a) retained earnings	(85,252,696)		(85,252,696)	4,105,667		81,457,008								309,979
b) other	41,369,694		41,369,694			(1,457,008)								39,912,687
Valuation reserves	(1,608,309)		(1,608,309)										1,019,315	(588,994)
Equity instruments														
Treasury shares														
Net profit (loss) for the period	35,105,667		35,105,667	(4,105,667)	(31,000,000)								66,484,076	66,484,076
Shareholders' equity	563,246,943		563,246,943	(0)	(31,000,000)	80,000,000							67,503,391	679,750,334

Financial year 2015

In euros

	Balance at 31.12.2014	Changes in opening balances	Balance at 1.1.2015	Allocation of prior year results: Reserves	Allocation of prior year results: Dividends and other allocations	Changes during the year: Changes in reserves	Transactions on shareholders' equity: Issue of new shares	Transactions on shareholders' equity: Purchase of treasury shares	Transactions on shareholders' equity: Extraordinary distribution of dividends	Transactions on shareholders' equity: Changes in equity instruments	Transactions on shareholders' equity: Derivatives on treasury shares	Transactions on shareholders' equity: Stock options	Comprehensive income for 2015	Shareholders' equity at 31.12.2015
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:	(42,246,760)	(10,120,766)	(52,367,526)	8,484,524										(43,883,002)
a) retained earnings	(83,616,454)	(10,120,766)	(93,737,220)	8,484,524										(85,252,696)
b) other	41,369,694		41,369,694											41,369,694
Valuation reserves	(3,695,196)	(128,648)	(3,823,844)										2,215,535	(1,608,309)
Equity instruments														
Treasury shares														
Net profit (loss) for the period	8,484,524		8,484,524	(8,484,524)									35,105,667	35,105,667
Shareholders' equity	536,175,154	(10,249,414)	525,925,740										37,321,202	563,246,943

Cash flow statement (indirect method)

In euros

A. OPERATING ACTIVITIES	Amount 12/31/2016	Amount 12/31/2015
1. Cash generated from operations	**113,483,589**	**162,659,954**
- net profit for the year (+/-)	66,484,076	35,105,666
- net gains/losses on financial assets held for trading and financial assets/liabilities designated at fair value through profit and loss (+/-)		(991,377)
- gains (losses) from hedging activities (+/-)	1,581,266	872,160
- net adjustments for impairment (+/-)	41,020,236	82,751,232
- impairment/recoveries to property and equipment and intangible assets (+/-)	5,226,152	4,159,758
- net provisions for risks and charges and other costs/income (+/-)	7,669,828	19,273,024
- net premiums not collected (-)		
- other income insurance income/expense not collected (-/+)		
- unsettled taxes (+)	23,521,420	15,761,218
- impairment/recoveries to disposal groups net of tax effect (-/+)		
- other adjustments (+/-)	(32,019,389)	5,728,273
2. Cash generated/absorbed by financial assets	**(15,996,684)**	**(221,352,438)**
- financial assets held for trading		15,356,195
- financial assets designated at fair value through profit and loss		
- financial assets available for sale	(3,217,769)	(406,517,019)
- due from banks: on demand	(9,384,421)	130,493
- due from banks: other receivables	17,350,000	3,750,000
- loans to customers	(36,096,289)	188,529,804
- other assets	15,351,795	(22,601,911)
3. Cash generated/absorbed by financial liabilities	**(51,123,018)**	**62,631,491**
- due to banks: on demand	(10,638,090)	
- due to banks: other debts	(521,073,000)	(300,713,682)
- due to customers	414,691,636	164,988,966
- debt securities issued	12,992,140	163,723,071
- financial liabilities held for trading		
- financial liabilities designated at fair value through profit and loss		
- other liabilities	52,904,296	34,633,136
Net cash generated/absorbed by operating activities	**46,363,887**	**3,939,007**
B. INVESTING ACTIVITIES		
1. Cash generated by	**71,398**	**1,707,796**
- sale of equity investments		
- dividends collected on equity investments		
- sale of financial assets held to maturity		
- sale of property and equipment	71,398	1,707,796
- sale of intangible assets		
- sale of lines of business		
2. Cash absorbed by	**(95,435,518)**	**(5,652,157)**
- purchase of equity investments		
- purchase of financial assets held to maturity		
- purchase of property and equipment	(385,025)	(528,157)
- purchase of intangible assets	(3,610,782)	(5,124,000)
- purchase of lines of business	(91,439,712)	
Net cash generated/absorbed by investing activities	**(95,364,120)**	**(3,944,361)**
C. FINANCING ACTIVITIES		
- issue/purchase of treasury shares		
- issue/purchase of equity instruments	80,000,000	
- dividends distributed and other allocations	(31,000,000)	
Net cash generated/absorbed by financing activities	**49,000,000**	
NET CASH GENERATED/ABSORBED IN THE YEAR	**(233)**	**(5,354)**

Key:
(+) generated
(-) absorbed

RECONCILIATION

Items	Amount	Amount
	12/31/2016	12/31/2015
Cash and cash equivalents at beginning of year	3,928	9,282
Net increase (decrease) in cash and cash equivalents	(233)	(5,354)
Cash and cash equivalents: effect of change in exchange rates		
Cash and cash equivalents at end of year	3,695	3,928

Notes to the financial statements

Part A - Accounting policies

A.1 – General information

Section 1 – Declaration of compliance with International Financial Reporting Standards

Pursuant to Legislative Decree 38 of 28 February 2005, the Separate Financial Statements of Santander Consumer Bank have been prepared in compliance with the IAS/IFRS issued by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission, as established by Regulation no. 1606 of 19 July 2002.
The Separate Financial Statements for the year ended 31 December 2016 have been prepared in accordance with Circular 262/05 as subsequently amended by the 4th update of 15 December 2015 “Guidelines for the preparation of the financial statements and the consolidated financial statements of banks and finance companies of banking groups” issued by the Bank of Italy, in the exercise of the powers established by art. 9 of Legislative Decree no. 38/2005 and with the Regulation of 22 December 2005. These Instructions establish binding rules governing the financial statements and how they are to be prepared, including the contents of the notes.
In preparing the financial statements the IAS/IFRS in force at 31 December 2016 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 changes in shareholders’ equity, statement of comprehensive income, cash flow statement and the notes to the financial statements and are also accompanied by the directors’ report on the operations, results and financial position of Santander Consumer Bank.
In accordance with the provisions of art. 5 of Legislative Decree 38/2005, the financial statements have been prepared using the euro as the functional currency.
The amounts in the financial statements are expressed in euros, whereas unless otherwise specified, those in the notes and the report on operations are expressed in thousands of euros.
The financial statements are prepared in accordance with the general principles laid down in IAS 1 and the specific accounting standards endorsed by the European Commission, as described in Part A.2 of these notes. In particular, these Financial Statements have been prepared on a going concern basis (IAS 1 para. 25 and para. 26), in accordance with the principle of accrual accounting (IAS 1 para. 27 and para. 28) and in compliance with the consistency of presentation and classification of items in the financial statements (IAS 1 para. 29). The assets and liabilities, income and expenses have not been offset unless required or permitted by a standard or interpretation (IAS 1 para. 32).
No exceptions have been made to the application of IAS/IFRS.
In addition to the figures for the reporting period, the financial statements and notes also provide comparatives at 31 December 2015.
The report on operations and the notes provide the information required by International Accounting Standards, by Italian law and by the Bank of Italy, as well as other non-mandatory information considered necessary to give a true and fair view of the Bank’s situation.
The preparation of financial reports requires the use of estimates and assumptions that may have a significant effect on the amounts recognised in the balance sheet and income statement, and on the disclosure of contingent assets and liabilities reported in the financial statements. The development of such estimates involves the use of available information and the adoption of subjective judgements based on past experience, which are used to formulate reasonable assumptions for recording corporate events. By their nature, the estimates and assumptions used can vary from year to year, which means that it cannot be excluded that in future years the figures in the financial statements may differ significantly due to changes in the subjective judgements used.
The main situations in which management has to make subjective judgements include the following:

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

Contents of the consolidated financial statements

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

Statement of comprehensive income
The statement of changes in comprehensive income is presented in the manner prescribed by the Bank of Italy, based on the information required by IAS 1.
“Net profit (loss)” is the same amount shown in item 320 of the income statement.

The “other elements of income, net of taxes” include 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 17 February 2017.
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 2016.

Section 4 - Other aspects

With reference to the analysis of the changes occurring in the course of the year to the international standards or the related interpretations, approved by the European Commission, please refer to the corresponding section of the Consolidated Financial Statements.
Complete copies of the last financial statements with the reports on operations of the companies that at 31 December 2016 were subsidiaries or associates, and that their respective Boards of Directors will submit for approval of their shareholders’ meeting by 30 April 2017, 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 2016 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.
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A.2 – Main captions in the financial statements

This section explains the accounting policies used to prepare the 2015 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 held for trading

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
Derivatives traded in connection with securitisations are classified within this category. Derivatives are recognised as an asset if the fair value is positive and as a liability if the fair value is negative. These contracts are not subject to net settlement by either counterparty.
Reclassifications to other categories of financial assets are not allowed unless rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Measurement and recognition of components affecting the income statement

Subsequent to initial recognition, assets available for sale 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.

2. Available-for-sale financial assets

Recognition
Financial assets represented by debt or equity instruments are initially recognised on the settlement date, while loans are recognised on the payout date.
Upon initial recognition, financial assets are measured at fair value, including transaction costs and income directly attributable to the instrument. If, when permitted by the accounting standards, recognition occurs as a result of reclassification from "Financial assets held to maturity", the carrying amount is the fair value at the time of the transfer.

Classification
This category includes financial assets that are not otherwise classified as Loans, Assets held for trading, Assets held to maturity, or Assets designated at fair value through profit and loss.
In particular, this category comprises debt securities that are not held for trading and that are not classified as Assets held to maturity or designated at fair value through profit and loss or which are classified as Loans.

Measurement
Subsequent to initial recognition, "Financial assets available for sale" are measured at fair value, with recognition in the income statement of the corresponding value at amortised cost, while gains or losses arising from changes in fair value are recorded in a specific equity reserve until the financial asset is derecognised or an impairment loss is recognised. Upon disposal, in whole or in part, or on recognition of impairment, the accumulated gains or losses are recognised in profit or loss.
For the determination of fair value, estimates and valuation models are used based on prices quoted on an active market.
"Financial assets available for sale" are subject to impairment testing to determine whether there is objective evidence of impairment. If such evidence exists, the amount of the loss is measured as the difference between the carrying amount of the assets and their fair value.
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. The amount of the reversal shall not in any case exceed the amortised cost that the instrument would have had in the absence of previous adjustments.

Derecognition
Financial assets are only derecognised if their disposal 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 legally ownership of the assets has effectively been transferred.
Even if the transfer of essentially all the risks and benefits cannot be demonstrated, financial assets are derecognised if no form of control over them has been retained. Otherwise, even if only part of this control has been retained, the assets have to be kept in the balance sheet at an amount that reflects the residual involvement, measured by the exposure to changes in the value of assets sold and to variations in their cash flows.
Lastly, financial assets that have been sold are derecognised if the company retains the contractual rights to receive the cash flows, with a simultaneous obligation to pay such cash flows, and only them, to third parties.

3. Loans and receivables

Recognition
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 including costs/revenues that are both directly attributable to the individual loans and identifiable from the start of the transaction, even if they are settled at a later time.

Classification
Loans include loans to customers and to banks, whether granted directly or acquired from third parties, with fixed or determinable payments, that are not quoted in an active market and which were not originally classified as "Financial assets available for sale". Loans also include lease receivables, salary assignment and delegation of payment, as well as loans sold in connection with securitisations that do not satisfy the conditions for derecognition.

Measurement and recognition of components affecting the income statement
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 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. These include loans classified as non-performing in compliance with Bank of Italy regulations. These loans are collectively assessed and the adjustment made for the loans equates to the difference between their carrying amount at the time of measurement (amortised cost) and the present value of expected cash flows, discounted using the original effective interest rate. Adjustments are booked to the income statement. The original value of loans 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 such adjustments. The writeback is recorded in the income statement. Loans for which there is no objective evidence of impairment, i.e. those classified as performing loans, are periodically assessed and adjusted if they are deemed to be impaired. This assessment takes place by homogeneous loan categories in terms of their credit risk and the relative loss percentages are estimated taking into account past experience, based on observable elements at the measurement date, which make it possible to estimate the value of the loss for each category of loans. Adjustments that are calculated on a collective basis are charged to the income statement.

Derecognition
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.

4. Hedging derivatives

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 Bank uses cash flow hedging (CFH) to neutralise the exposure of its liabilities to changes in future cash flows arising from unexpected fluctuations in interest rates and fair value hedging (FVH) to neutralise changes in fair value of hedged financial assets and liabilities.

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

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

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

Recognition of components affecting the income statement
In the case of CFH derivatives, as long as the effectiveness of the hedge remains, changes in the fair value of the hedging derivative are recorded in a specific cash flow hedging reserve with these reserves merely being released on expiry of the derivative or the ineffective portion being transferred to the income statement on failing the effectiveness test.
In the case of FVH derivatives, changes in the fair value of the hedging derivative and of the hedged item are recognised in the income statement.
Differentials on hedging derivatives, whether FVH or CFH, are recognised in the income statement on a pro-rata basis.

5. Equity investments

Recognition and measurement
This category includes investments in subsidiaries carried at cost, in accordance with IAS 27. 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. Tangible assets

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

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

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

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

7. Intangible assets

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

Recognition and measurement
Intangible assets are stated at cost, adjusted for any ancillary charges only if it is probable that the future economic benefits attributable to the asset will be realized 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 value 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 and liabilities associated with groups of assets held for sale

Recognition
In this category are recognised non-current assets whose carrying value 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 value 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 value 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 (Circular 262/2005 4th update).

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.

Provisions for risks and charges include the provisions for risks and charges dealt with in IAS 37.

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. Debts and debt securities issued

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, debt securities issued and financial liabilities held for trading represent the various forms of interbank and customer funding.

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

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

12. 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.
On the basis of IAS 19 - Employee Benefits, the accounting treatment of the various components are as follows: personnel charges include interest costs (which correspond to the change in the current value of 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 as well as any

adjustments during the year, due, for example, to extraordinary operations or regulatory changes). Actuarial gains and losses (reflecting any variation in the present value caused by changes in the macroeconomic scenario or in interest rate estimates) have been posted to shareholders' equity.

Provisions for commitments and guarantees given
The Bank has not recognised any provisions for commitments and guarantees given.

Share-based payments
The Bank has not made any share-based payments in the year.

Revenue recognition
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. The characteristics include the following:
- the condition and location of the asset;
- any restrictions on the sale and use of the asset.

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.

For the criteria used for the determination of the fair value of financial assets and liabilities, please see Part A Accounting policies – A.4 Information on fair value.

Method of determining amortised cost
The amortised cost of a financial asset or liability 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 of a financial asset or a liability 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 of the financial asset or liability, 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.
On the cost side, 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 mentioned in the sections on the measurement of loans and debts and debt securities issued, measurement at amortised cost 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
At each reporting date, financial assets classified as "held for trading" are subjected to an impairment test to verify whether there is objective evidence that their carrying amount may not be fully recoverable.
There is impairment if there is objective evidence of a reduction in future cash flows compared with those originally estimated, as a result of specific events; the loss must be quantified in a reliable manner and associated with actual events rather than just expected events.
The assessment of impairment is carried out on an individual basis for financial assets that present specific evidence of impairment and collectively for financial assets for which no analytical assessment is required or for which analytical assessment did not result in an impairment.
Loans to customers and banks are subject to analytical assessment if they have been classified as doubtful, unlikely to pay or past due according to the definitions of the Bank of Italy, which are consistent with IAS/IFRS.

These non-performing loans are assessed analytically and the adjustment made to each position represents the difference between their carrying amount at the time of measurement (amortised cost) and the present value of expected cash flows, discounted using the original effective interest rate.
Expected cash flows take account of the likely recovery period, the estimated realisable value of any guarantees obtained and the probable costs to be incurred to recover the outstanding loan. Cash flows relating to loans whose recovery is expected in the short term are not discounted, as the financial factor is not significant.
Loans for which there is no objective evidence of loss are assessed for impairment on a collective basis.

Intercompany transactions

Banking and commercial transactions with the shareholder, with the subsidiary Santander Consumer Finance Media S.r.l. in liquidation and Banca PSA Italia S.p.A. and with other companies of the Santander Group are regulated on an arm's-length basis.

Securitisations

The provisions of IAS 39 on derecognition allow the derecognition of financial assets and liabilities only when the risks and benefits associated with the asset being sold are transferred to the buyer. 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 caption 20) in the case of market transactions. In the case where securities have been fully subscribed by the originator, recognition is made of a receivable due from the SPE for the cash generated by the securitised portfolio held by the SPE (classified in asset caption 70).
In terms of the income statement, the related income items 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 interest income on the portfolio;
- interest earned on 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: carrying value, fair value and effects on comprehensive income

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

A.3.2 Reclassified financial assets: effects on comprehensive income before transfer

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

A.3.3 Transfer of financial assets held for trading

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

A.3.4 Effective interest rate and cash flows expected from reclassified assets

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 Group are:

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

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

A.4.2 Valuation processes and sensitivity

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

- Cash, bank accounts, demand loans and current amounts due from banks: for these items, it is assumed that their fair value corresponds to their carrying amount.
- Short term amounts due from banks: the fair value is calculated by discounting expected cash flows.
- Derivatives: fair value is determined by means of daily measurement based on expected cash flows.
- Securities portfolio: fair value is based on quoted market prices of financial instruments in active markets, or, if not available, on those for comparable assets.
- Loans to customers:
  - Demand loans. It is assumed that their fair value corresponds to their carrying amount.
  - Other assets. The fair value of the portfolio is calculated by discounting expected cash flows, net of impairment adjustments, using the average interest rate on loans granted in the month on which the valuation is based for each type of product.

With respect to balance sheet liabilities:

- Due to banks: on demand. It is assumed that their fair value corresponds to their carrying amount.
- Short and medium-to-long term amounts due to banks and debt securities issued. The fair value is calculated by discounting expected cash flows based on an interest rate curve observed directly in the market plus the intercompany spread applicable at the measurement date. For floating rate transactions, expected cash flows do not take account of the variable component that is not capable of being determined at the measurement date.
- Due to customers:

- Time deposit accounts. Fair value is determined by discounting expected cash flows using the interest rate actually applied to the customer at the measurement date for the same maturities.
  - Current accounts and deposits. For these items, it is assumed that their fair value corresponds to their carrying amount.
- Hedging derivatives. Please see the assumptions given for hedging derivatives under balance sheet assets.

A.4.3 Fair value hierarchy

To increase consistency and comparability in fair value measurements, IFRS 13 establishes a hierarchy based on inputs used for the various valuation techniques.
The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. More in detail, the inputs used to measure fair value are categorised as follows:

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

A.4.4 Other information

There is no further information that needs to be disclosed to comply with IFRS 13 paragraphs 51, 93 i) and 96.

Quantitative information

A.4.5 Fair value hierarchy

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

Financial assets/liabilities designated at fair value	**12/31/2016**			**12/31/2015**		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading		2,992			4,577	
2. Financial assets at fair value through P&L						
3. Available for sale financial assets	410,229			407,389		
4. Hedging derivative assets						
5. Property, plant and equipment						
6. Intangible assets						
Total	**410,229**	**2,992**		**407,389**	**4,577**	
1. Financial liabilities held for trading						
2. Financial liabilities at fair value through P&L						
3. Hedging derivative liabilities		11,585			28,643	
Total		**11,585**			**28,643**	

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 valued at fair value or valued at fair value on non-recurring basis: distribution by levels of fair value

Assets/liabilities not valued at fair value or valued at fair value on non-recurring basis	12/31/2016				12/31/2015			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Held to maturity financial assets								
2. Due from banks	43,467			43,467	43,779			43,779
3. Loans to customers	5,229,050			5,137,085	5,207,770			5,200,019
4. Investment property								
5. Non-current assets held for sale and discontinued operations	5		5					
Total	**5,272,521**		**5**	**5,180,552**	**5,251,549**			**5,243,798**
1. Due to banks	4,002,448			4,011,390	4,528,969			4,544,447
2. Due to customers	793,423			789,917	376,246			374,799
3. Debt securities in issue	313,037			311,919	300,045			298,032
4. Liabilities associated with non-current assets held for sale								
Total	**5,108,907**			**5,113,226**	**5,205,260**			**5,217,278**

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

A.5 – Information on day one profit/loss

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

Part B - Information on the balance sheet

ASSETS

Section 1 – Cash and cash equivalents – item 10

1.1 Cash and cash equivalents: breakdown

This item shows a balance of Euro 4 thousand (Euro 4 thousand at 31 December 2015) and includes the liquidity held at the head office and at branches throughout the country in the form of cash:

	12/31/2016	12/31/2015
a) Cash	4	4
b) Demand deposits with Central banks		
Total	**4**	**4**

Section 2 – Financial assets held for trading – item 20

2.1 Financial assets held for trading: breakdown by type

These amount to Euro 2,992 thousand (Euro 4,577 thousand at 31 December 2015) and include the fair value of derivatives entered into in connection with securitisations with Banco Santander Group.

Items/Values	12/31/2016			12/31/2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities						
1.1 Structured securities						
1.2 Other						
2. Equity securities						
3. Units in investment funds						
4. Loans						
4.1 Repos						
4.2 Other						
Total (A)						
B. Derivatives						
1. Financial derivatives:						
1.1 Trading		2,992			4,577	
1.2 Related to fair value option						
1.3 Other						
2. Credit derivatives:						
2.1 Trading						
2.2 Related to fair value option						
2.3 Other						
Total (B)		**2,992**			**4,577**	
Total (A+B)		**2,992**			**4,577**	

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

Items/Values	12/31/2016	12/31/2015
A. CASH ASSETS		
1. Debt securities		
a) Governments and Central Banks		
b) Other public-sector entities		
c) Banks		
d) Other issuers		
2. Equity securities		
a) Banks		
b) Other issuers:		
- Insurance companies		
- Financial companies		
- Non-financial companies		
- Other		
3. Units investment funds		
4. Loans		
a) Governments and Central Banks		
b) Other public-sector entities		
c) Banks		
d) Other issuers		
Total A		
B. DERIVATIVES		
a) Banks	2,992	4,577
b) Customers		
Total B	**2,992**	**4,577**
Total (A+B)	**2,992**	**4,577**

Section 3 – Financial assets designated at fair value through profit and loss – item 30

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

Section 4 – Financial assets available for sale – item 40

4.1 Financial assets available for sale: breakdown by type

These amount to Euro 410,229 thousand and include securities issued by the Italian Treasury Ministry that have been classified, for the purpose of the computation of LCR requirements, as high quality liquid assets.

Items/Values	12/31/2016			12/31/2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	410,229			407,389		
1.1 Structured securities						
1.2 Other	410,229			407,389		
2. Equty instruments						
2.1 Designated at fair value						
2.2 Recognised at cost						
3. Units investment funds						
4. Loans						
Total	**410,229**			**407,389**		

4.2 Financial assets available for sale: breakdown by borrower/issuer

Items/Values	12/31/2016	12/31/2015
1. Debt securities	**410,229**	**407,389**
a) Governments and central banks	410,229	407,389
b) Other public-sector entities		
c) Banks		
d) Other issuers		
2. Equity instruments		
a) Banks		
b) Other issuers:		
- insurance companies		
- financial companies		
- non-financial companies		
- other		
3. Units in investment funds (including Private Equity		
4. Loans		
a) Governments and Central Banks		
b) Other public-sector entities		
c) Banks		
d) Other entities		
Total	**410,229**	**407,389**

4.3 Financial assets with specific hedges available for sale

No specific writedowns of financial assets classified as available for sale have been recognised in the year.

Section 5 – Financial assets held to maturity – item 50

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

Section 6 – Due from banks – item 60

6.1 Due from banks: breakdown by type

Amounts due from banks come to Euro 43,467 thousand (Euro 43,779 thousand at 31 December 2015) and are made up as follows:

Type of transaction / Values	12/31/2016				12/31/2015			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Loans to Central Banks	**19,365**			**19,365**	**4,698**			**4,698**
1. Time deposits		X	X	X		X	X	X
2. Compulsory reserves	19,365	X	X	X	4,698	X	X	X
3. Repurchase agreements		X	X	X		X	X	X
4. Other		X	X	X		X	X	X
B. Loans to banks	**24,102**			**24,102**	**39,081**			**39,081**
1. Loans	24,102			24,102	39,081			39,081
1.1 Current accounts and demand deposits	12,078	X	X	X	9,731	X	X	X
1.2 Time deposits		X	X	X		X	X	X
1.3 Other loans:		X	X	X		X	X	X
- Repos		X	X	X		X	X	X
- Finance leases		X	X	X		X	X	X
- Other	12,024	X	X	X	29,350	X	X	X
2. Debts securities								
2.1 Structured		X	X	X		X	X	X
2.2 Other		X	X	X		X	X	X
Total	**43,467**			**43,467**	**43,779**			**43,779**

Key:
BV=book value
FV = Fair value
L1 = Level 1
L2 = Level 2
L3 = Level 3

Amounts due from central banks of Euro 19,365 thousand (Euro 4,698 thousand at 31 December 2015) consist of receivables due from the Bank of Italy relating to the compulsory reserve.
Amounts due from banks refer to current accounts and demand deposits for Euro 2,001 thousand (Euro 9,192 thousand at 31 December 2015) and to the temporary debit balances on current accounts to affiliates for Euro 10,077 thousand (Euro 539 thousand at 31 December 2015).
Other loans relate mainly to the amounts paid as a guarantee deposit to the other party, Banco Santander, 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.

6.2 Due from banks with specific-hedges

As at the reporting date, there were no amounts due from banks with specific hedges.

6.3 Finance leases

As at the reporting date, there were no receivables under finance leases with banks.

Section 7 – Loans to customers – item 70

7.1 Loans to customers: breakdown by type

Loans to customers amount to Euro 5,229,050 thousand (Euro 5,207,770 thousand at 31 December 2015) and are made up as follows:

Type of transaction / Values	12/31/2016						12/31/2015					
	Book Value			Fair Value			Book Value			Fair Value		
	Not impaired	Non - performing loans		L1	L2	L3	Not impaired	Non - performing loans		L1	L2	L3
		Purchased	Other					Purchased	Other			
Loans	**5,171,561**		**57,488**			**5,137,085**	**5,069,663**		**138,106**			**5,200,019**
1. Current accounts	12,339		129	X	X	X	8,498		35	X	X	X
2. Repos				X	X	X				X	X	X
3. Mortgages				X	X	X				X	X	X
4. Credit cards, personal loans and wage assignment	2,416,209		48,610	X	X	X	2,577,446		128,638	X	X	X
5. Financial leasing	45,799		2,472	X	X	X	33,986		99	X	X	X
6. Factoring	262,710			X	X	X	151,884			X	X	X
7. Other loans	2,434,505		6,278	X	X	X	2,297,848		9,334	X	X	X
Debts securities												
8. Structured				X	X	X				X	X	X
9. Other				X	X	X				X	X	X
Total	**5,171,561**		**57,488**			**5,137,085**	**5,069,663**		**138,106**			**5,200,019**

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

In particular, loans to customers include:

- Euro 12,467 thousand (of which, Euro 129 thousand non-performing loans) for current accounts balances to customers and postal current accounts;
- Euro 2,464,819 thousand (of which, Euro 48,610 thousand non-performing loans) for loans to customers arising from financing personal loan transactions, credit cards and loans guaranteed by salary assignment;
- Euro 48,271 thousand (of which, Euro 2,472 thousand non-performing loans) for loans to customers for finance leases, recorded at amortised cost;
- Euro 262,710 for factoring receivables related to operations with automotive companies;
- Euro 2,440,783 thousand (of which, Euro 6,278 thousand non-performing loans) for loans to customers resulting from financing for car loans and other special-purpose loans. This caption also includes the amount due from the SPE for the proceeds arising from the portfolio involved in the self-securitisation (Euro 352,254 thousand).

The total of assets assigned and not derecognised, which, net of impairment adjustments, amounts to Euro 2,982,875 thousand, of which Euro 18,860 thousand is non-performing, was allocated to the various forms of financing, as required by the instructions for preparation of the financial statements.

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

7.2 Loans to customers: breakdown by borrower/issuer

Type of transaction / Values	12/31/2016			12/31/2015		
	Not impaired	Non - performing loans		Not impaired	Non - performing loans	
		Purchased	Other		Purchased	Other
1. Debt securities issued by						
a) Governments						
b) Other public-sector entities						
c) Other issuers						
- non-financial companies						
- financial companies						
- insurance companies						
- other						
2. Loans to:						
a) Governments						
b) Other public-sector entities	10,460			25		
c) Other entities						
- non-financial companies	355,238		3,300	415,474		2,224
- financial companies	571,139		9	391,490		5
- insurance companies	9					
- other	4,234,715		54,180	4,262,674		135,877
Total	**5,171,561**		**57,488**	**5,069,663**		**138,106**

7.3 Loans to customers with specific hedges

There are no loans to customers with specific hedges.

7.4 Finance leases

INFORMATION BY LESSOR	Amounts at 12/31/2016	
	Minimum lease payments	Present value of minimum lease payments
Finance lease instalments due		
Up to 12 months	16,395	15,958
1 to 5 years	36,913	32,086
Beyond 5 years		
Total	**53,309**	**48,044**
of which:		
Unguaranteed residual values accruing to the lessor		
Less: unearned finance income	5,265	X
Present value of minimum lease payments	**48,044**	**48,044**

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

Section 8 – Hedging derivatives – item 80

8.1 Hedging derivatives: breakdown by type of hedge and level

There are no hedging derivatives.

8.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

There are no hedging derivatives.

Section 9 – Fair value change of financial assets in hedged portfolios – item 90

9.1 Remeasurement of hedged assets: breakdown by hedged portfolio

Fair value of hedged assets / values	12/31/2016	12/31/2015
1. Positive fair value changes		
1.1 of specific portfolios:		
a) loans and receivables	9,741	24,246
b) available for sale financial instruments		
1.2 overall		
2. Negative fair value changes		
2.1 of specific portfolios:		
a) loans and receivables		
b) available for sale financial instruments		
2.2 overall		
Total	**9,741**	**24,246**

The above table shows the change in value of the loan portfolio, to which the following table relates, being hedged on the basis of the Fair Value Hedging Model.

9.2 Assets subject to general hedging of interest rate risk

Hedged assets	12/31/2016	12/31/2015
1. Loans	749,855	1,391,653
Total	**749,855**	**1,391,653**

Section 10 – Equity investments – item 100

10.1 Equity investments: disclosures

The Bank's equity investments at 31 December 2016 are made up as follows:

Company name	Registered Office	Head Office	% holding	% of votes
A. Subsidiaries				
1. Santander Consumer Finance Media S.r.l. in liquidazione	Torino	Torino	65%	
2. Banca PSA Italia S.p.A.	Milano	Milano	50%	
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.

10.2 Significant investments: book value, 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.

10.3 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.

10.4 Insignificant investments: accounting information

The Bank does not hold any insignificant investments.

10.5 Equity investments: change in the year

Equity investments in subsidiaries are recognised in the financial statements at 31 December 2016 for Euro 100,990 thousand (Euro 9,550 thousand at 31 December 2015), as shown in the following table:

	Total 12/31/2016	Total 12/31/2015
A. Opening balance	**9,550**	**71,183**
B. Increases	**91,440**	**(61,633)**
B.1 Purchases	91,440	(61,633)
B.2 Writebacks		
B.3 Revaluations		
B.4 Other changes		
C. Decreases		
C.1 Sales		
C.2 Adjustments		
C.3 Other changes		
D. Closing balance	**100,990**	**9,550**
E. Total revaluations		
F. Total adjustments		

Purchases refers to the change to the equity investment in the subsidiary Banca PSA Italia, following the subscription to the capital increase that occurred with the launch of operational activities. For further information thereon, please refer to the Directors' report on the consolidated financial statements.

10.6 Commitments relating to investments in subsidiaries under joint control

The Bank has no equity investments in subsidiaries under joint control.

10.7 Commitments relating to equity investments in companies subject to significant influence

The Bank has no equity investments in companies subject to significant influence.

10.8 Significant restrictions

The equity investments held by the Bank are not subject to any significant restrictions.

10.9 Other information

Based to 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 - Property and equipment – item 110

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

Property and equipment amount to Euro 1,374 thousand (Euro 1,713 thousand at 31 December 2015) and are made up as follows, net of accumulated depreciation:

Activities/Values	12/31/2016	12/31/2015
1.1 Own assets		
a) lands		
b) buildings		
c) office furniture and fitting	143	169
d) electronic system	1,024	1,189
e) other	207	355
1.2 Leased assets		
a) lands		
b) buildings		
c) office furniture and fitting		
d) electronic system		
e) other		
Total	**1,374**	**1,713**

The item "Other" mainly includes telephone systems, appliances and equipment for Euro 125 thousand.

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

Category of assets	Useful life (years)
OFFICE FURNITURE AND FURNISHINGS	9
ORDINARY OFFICE MACHINES	9
DATA PROCESSING MACHINES	5
TELEPHONE SYSTEMS	4
VEHICLES	4
MISCELLANEOUS EQUIPMENT	4
DEFERRED CHARGES TO BE AMORTIZED	6

11.2 Investment property: breakdown of assets measured at cost

No investment property is held.

11.3 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.

11.4 Investment property: breakdown of assets measured at fair value

No investment property is held.

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

Assets/Values	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Opening gross balance			**3,534**	**9,197**	**8,236**	**20,966**
A.1 Total net reduction value			(3,365)	(8,009)	(7,880)	(19,254)
A.2 Opening net balance			**169**	**1,189**	**355**	**1,713**
B. Increase			**20**	**255**	**110**	**385**
B.1 Purchases			20	255	110	385
B.2 Capitalized improvement costs						
B.3 Write-backs						
B.4 Posit. changes in fair value allocated to:						
- a) net equity						
- b) profit & loss						
B.5 exchange difference (+)						
B.6 Transfer from investment properties						
B.7 Other adjustment						
C. Decreases			**46**	**420**	**258**	**724**
C.1 Sales					71	71
C.2 Depreciation			46	420	187	652
C.3 Impairment losses allocated to:						
- a) net equity						
- b) profit & loss						
C.4 Negat.changes in fair value allocated to:						
- a) net equity						
- b) profit & loss						
C.5 exchange difference (-)						
C.6 Trasfers to:						
- a) held-for-sales investments						
- b) assets classified as held-for-sales						
C.7 Other adjustment						
D. Closing net balance			**143**	**1,024**	**207**	**1,374**
D.1 Total net write-down			(3,411)	(8,414)	(7,761)	(19,585)
D.2 Final gross balance			**3,553**	**9,438**	**7,968**	**20,959**
E. Carried at cost						

Each class of assets is measured at cost. Sub-item E (Measurement at cost) shows a zero balance because, in accordance with Bank of Italy's Circular 262/2005, it is only for tangible assets that are carried in the balance sheet at fair value.
The main increases for the year relate to upgrades to data processing equipment (Euro 255 thousand).
Depreciation relates, in particular, to data processing equipment (Euro 420 thousand).

11.6 Investment property: change in the year

No investment property has been recognised in the financial statements.

11.7 Commitments to purchase property and equipment (IAS 16/74 c)

There are no commitments to repurchase property and equipment.

Section 12 - Intangible assets – item 120

12.1 Intangible assets: breakdown by type

Intangible assets amount to Euro 8,178 thousand (Euro 9,141 thousand at 31 December 2015) and are made up as follows:

Assets/Values	Total 12/31/2016		Total 12/31/2015	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	X		X	
A.2 Other intangible assets				
A.2.1 Assets valued at cost:				
a) Internally generated Intangible assets				
b) Other assets	8,178		9,141	
A.2.2 Assets valued at fair value:				
a) Internally generated Intangible assets				
b) Other assets				
Total	**8,178**		**9,141**	

Other intangible assets refer entirely to the Bank's software. The amortisation of software into production is calculated on the basis of a useful life of three years.

12.2 Intangible assets: change in the year

	Goodwill	Other internally generated intangible assets		Other intangible assets: other		Total
		Finite	indefinite	Finite	indefinite	
A. Opening gross balance				**71,802**		**71,802**
A.1 Total net reduction in value				(62,661)		(62,661)
A.2 Opening net balance				**9,141**		**9,141**
B. Increases				**3,611**		**3,611**
B.1 Puchases				3,611		3,611
B.2 Increases in internally generated intagible assets	X					
B.3 Write-backs	X					
B.4 Increases in fair value:						
- net equity	X					
- profit & loss	X					
B.5 Positive exchange differences						
B.6 Other changes						
C. Reductions				**4,574**		**4,574**
C.1 Disposals						
C.2 Write-downs				3,521		3,521
- Amortization	X			3,521		3,521
- Write-downs						
+ in equity	X					
+ profit & loss						
C.3 Reduction in fair value						
- in equity	X					
- through profit or loss	X					
C.4 Transfers to non-current assets held for sale						
C.5 Negative exchange differences						
C.6 Other changes				1,053		1,053
D. Closing net balance				**8,178**		**8,178**
D.1 Total net reduction in value				(66,181)		(66,181)
E. Closing balance				**74,359**		**74,359**
F. Carried at cost						

Each class of assets is measured at cost. Sub-item F (Measurement at cost) shows a zero balance because, in accordance with Bank of Italy's Circular 262/2005, it is only for intangible assets that are carried in the balance sheet at fair value.
The additions in item B.1 relate to the capitalisation of costs incurred for the implementation of EDP application packages and the development of new computer programmes.

12.3 Other information

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

Section 13 – Tax assets and liabilities – asset item 130 and liability item 80

Current tax assets recognised in asset line item 130 amount to Euro 27,785 thousand (Euro 42,113 thousand in 2015), while current liabilities recognised in liability line item 80 amount to Euro 25,326 thousand (Euro 20,492 thousand in 2015).

13.1 Deferred tax assets: breakdown

	12/31/2016	12/31/2015
Deffered tax assets balancing the income statement	209,903	220,309
Deffered tax assets balancing net equity	313	886
Total	**210,216**	**221,195**

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 income statement of Euro 209,903 thousand (Euro 220,309 thousand at 31 December 2015) is mainly attributable to temporary differences arising from the deferred deductibility for IRES and IRAP purposes of loan adjustments (Euro 198,744 thousand), to temporary differences generated mainly by provisions for risks and charges (Euro 10,657) and 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 (Euro 501 thousand) as a result of the merger in 2015 of Santander Consumer Unifin.
With regard to deferred tax assets recorded as a result of the deferred deductibility of the loan write-downs referred to above, it should be stressed that they are fully convertible into tax credits as a result of the exercise of the option referred to in art. 11 of Decree Law 59/2016.
Deferred tax assets through equity of Euro 313 thousand relate to the tax effect of actuarial gains and losses pertaining to termination indemnities.

13.2 Deferred tax liabilities: breakdown

	12/31/2016	12/31/2015
Deffered tax liabilities recognised to the income statement		15
Deffered tax liabilities recognised to the net equity	22	91
Total	**22**	**106**

The Bank has recognised deferred tax liabilities at 31 December 2016 of Euro 22 thousand, relating to changes in fair value of the available-for-sale securities portfolio.

13.3 Changes in deferred tax assets (through income statement)

	12/31/2016	12/31/2015
1. Opening balance	**220,309**	**200,489**
2. Increases	**7,081**	**32,921**
2.1 Deferred tax assets of the year		
a) relating to previous years		
b) due to change in accounting policies		
c) write-backs		
d) other (creation of temporary differences, use of TLCF)	7,081	14,942
2.2 New taxes or increases in tax rates		
2.3 Other increases		17,979
3. Decreases	**17,487**	**13,101**
3.1 Deferred tax assets derecognised in the year		
a) reversals of temporary differences	17,487	13,101
b) write-downs of non-recoverable items		
c) change in accounting policies		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases		
a) conversion into tax credit under L. 214/2011		
b) others		
4. Closing balance	**209,903**	**220,309**

The increase in deferred tax assets included in “Deferred tax assets recognised during the year - other” reflects the temporary IRES and IRAP differences deriving mainly from the provisions for risks and charges made in the year.
“Reversals” refer to the portion deducted in the year of temporary differences from value adjustments on loans allocated in previous years in the amount of Euro 10,500 thousand, to the use of the provisions allocated for other risks and charges in the amount of Euro 6,350 thousand, and to the reversal in the income statement of the portion for the year, equal to Euro 637 thousand, of deferred taxation arising from the merger of the subsidiary Santander Consumer Unifin, as detailed in a footnote to the table 13.1 “Deferred tax assets: breakdown”.

13.3.1 Changes in deferred tax assets as per Law 214/2011 (through the income statement)

	12/31/2016	12/31/2015
1. Opening balance	**209,244**	**195,700**
2. Increases		**13,544**
3. Decreases	**10,500**	
3.1 Reversals of temporary differences	10,500	
3.2 Conversion into tax credits		
a) from year losses		
b) from tax losses		
3.3 Other decreases		
4. Closing balance	**198,744**	**209,244**

The decreases relate to the deductibility in the year of loan adjustments allocated in previous years.

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

	12/31/2016	12/31/2015
1. Opening balance	**15**	
2. Increases		**15**
2.1 Deferred tax liabilities of the year		
a) relating to previous years		
b) due to change in accounting policies		
c) other		
2.2 New taxes or increases in tax rates		
2.3 Other increases		15
3. Decreases	**15**	
3.1 Deferred tax liabilities derecognised in the year	15	
a) reversals of temporary differences	15	
b) due to change in accounting policies		
c) other		
3.2 Reductions in tax rates		
3.3 Other decreases		
4. Closing balance		**15**

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

	12/31/2016	12/31/2015
1. Opening balance	**886**	**1,826**
2. Increases		**64**
2.1 Deferred tax assets of the year		
a) relating to previous years		
b) due to change in accounting principles		
c) other (creation of temporary differences)		
2.2 New taxes or increase in tax rates		
2.3 Other increases		64
3. Decreases	**572**	**1,004**
3.1 Deferred tax assets derecognised in the year		
a) reversals of temporary differences	572	1,004
b) writedowns of non-recoverable items		
c) due to change in accounting principles		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases		
4. Closing balance	**313**	**886**

The decrease relates to the tax effect resulting from the cancellation of the reserve for the valuation at fair value of cash flow hedging derivatives (Cash Flow Hedging Model) for Euro 533 thousand and to the actuarial valuation of employee termination indemnities for Euro 39 thousand.

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

	12/31/2016	12/31/2015
1. Opening balance	**91**	
2. Increases		**91**
2.1 Deferred tax liabilities of the year		91
a) relating to previous years		
b) due to change in accounting principles		
c) Other (creation of temporary differences)		91
2.2 New taxes or increase in tax rates		
2.3 Other increases		
3. Decreases	**69**	
3.1 Deferred tax liabilities derecognised in the year	69	
a) reversal of temporary differences	69	
b) due to change in accounting principles		
c) other		
3.2 Reduction in tax rates		
3.3 Other decreases		
4. Final amount	**22**	**91**

The decreases in deferred tax assets (through shareholders' equity) relate to changes in fair value of available-for-sale securities.

13.7 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 14 - Non-current assets held for sale and discontinued operations and associated liabilities – asset item 140 and liability item 90

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

	12/31/2016	12/31/2015
A. Individual assets		
A.1 Financial assets		
A.2 Equity investments		
A.3 Property and equipment	5	
A.4 Intangible assets		
A.5 Other non-current assets		
Total A	**5**	
of which carried at cost		
of which carried at fair value level 1		
of which carried at fair value level 2	5	
of which carried at fair value level 3		
B. Groups of assets (discontinued operations)		
B.1 Financial assets held for trading		
B.2 Financial assets designated at fair value		
B.3 Available for sale financial assets		
B.4 Held to maturity investments		
B.5 Loans to banks		
B.6 Loans to customers		
B.7 Equity investments		
B.8 Tangible assets		
B.9 Intangible assets		
B.10 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 included in disposal groups classified as held for		
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 included in disposal groups classified as held for		
D.1 Deposits from banks		
D.2 Deposits from customers		
D.3 Debt securities in issue		
D.4 Financial liabilities held for trading		
D.5 Financial liabilties designated at fair value		
D.6 Provisions		
D.7 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		

14.2 Other information

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

14.3 Information on equity investments in companies subject to significant influence not valued at equity

The bank has no equity investments in companies subject to significant influence.

Section 15 - Other assets – item 150

15.1 Other assets: breakdown

The balance of “Other assets”, amounting to Euro 65,324 thousand (Euro 53,822 thousand at 31 December 2015), is made up as follows:

	12/31/2016	12/31/2015
Tax consolidation		17
Advances to suppliers	4,163	1,983
VAT receivables	125	909
Stamp duties	4,945	1,778
Withholding taxes	2,760	4,616
Other tax receivables	3,163	14,506
Due from dealers	1,316	2,416
Due from insurances	15,238	9,893
Accruals and prepaid expenses	447	344
Assets in transit	14,464	15,297
Other items	18,589	2,054
Due from SCFM S.r.l	32	9
Total	**65,243**	**53,822**

“Due from insurances” relate to receivables due for insurance brokerage commission.
“Assets in transit” include items temporarily in transit relating to instalment collection.
“Other items” includes, in addition to loans to the SPE Golden Bar and receivables for guarantee deposits, the receivable relating to the payment made by the Bank following a writ of seizure on a dispute for which a final judgement has not yet been passed In drafting the financial statements, an adverse outcome of the legal proceedings relating to the request of the above-mentioned payment was deemed unlikely and, in accordance with IAS 37, as well as on the basis of opinions issued by third-party professionals, it is considered that the payments made pursuant to the precautionary seizure request, were carried out on a provisional basis only in view of the enforceability of administrative acts and are fully independent from the merit proceedings relating to the counterparty’s claims.

LIABILITIES AND SHAREHOLDERS' EQUITY

Section 1 – Due to banks – item 10

1.1 Due to banks: breakdown by type

Amounts due to banks amount to Euro 4,002,448 thousand (Euro 4,528,969 thousand at 31 December 2015) and are made up as follows:

Type of transaction/Values	12/31/2016	12/31/2015
1. Due to central banks	**1,372,438**	**923,417**
2. Due to banks	**2,630,009**	**3,605,552**
2.1 Other current accounts and demand deposits	29,000	35,409
2.2 Time deposits	160,122	647,881
2.3 Loans		
2.3.1 Repos	412,434	412,544
2.3.2 Other	2,028,273	2,509,387
2.4 Payables for commitments to repurchase own equity instruments		
2.5 Other payables	181	332
Total	**4,002,448**	**4,528,969**
Fair value - level 1		
Fair value - level 2		
Fair value - level 3	**4,011,390**	**4,544,447**
Total Fair value	**4,011,390**	**4,544,447**

"Due to central banks" includes loans received from the Bank of Italy in connection with LTRO and TLTRO operations with the European Central Bank (Euro 1,372,438 thousand).
"Due to banks" consist of:
- overnight financing transactions (Euro 29,000 thousand);
- short-term loans granted by Santander Group companies (Euro 160,122 thousand);
- repo transactions with other banks (Euro 412,434 thousand);
- other loans, relating to subordinated loans, inclusive of interest accrued thereon (Euro 147,714 thousand), loans granted by Santander Group companies as part of ordinary funding operations (Euro 1,877,316 thousand) and deposits offered as collateral against changes in fair value of derivatives linked to securitisation transactions and securities underlying repo transactions (Euro 3,243 thousand);
- accrued amounts due to banks (Euro 181 thousand).

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 Details of item 10 “Due to banks”: subordinated debts

This item, totalling Euro 147,500 thousand (Euro 199,500 thousand at 31 December 2015), includes loans granted by Santander Group companies consisting of:

Type	12/31/2016	12/31/2015
UPPER TIER II subordinated debt to Openbank S.A. - maturing in 2018	32,500	32,500
LOWER TIER II subordinated debt to Openbank S.A. - maturing in 2018	13,000	19,500
UPPER TIER II subordinated debt to Openbank S.A. - maturing in 2016		32,500
LOWER TIER II subordinated debt to Openbank S.A. - maturing in 2016		6,500
UPPER TIER II subordinated debt to Banco Madesant S.A. - maturing in 2019	12,500	12,500
LOWER TIER II subordinated debt to Banco Madesant S.A. - maturing in 2019	7,500	10,000
UPPER TIER II subordinated debt to Santander Benelux S.A. - maturing in 2019	20,000	20,000
LOWER TIER II subordinated debt to Santander Benelux S.A. - maturing in 2019	12,000	16,000
TIER II subordinated debt to Santander Consumer Finance - maturing in 2025	50,000	50,000
Total	**147,500**	**199,500**

1.3 Details of item 10 “Due to banks”: structured debts

The Bank has no structured debts.

1.4 Due to banks with specific hedges

The Bank does not have any amounts due to banks with specific hedges.

1.5 Finance lease payables

The Bank does not have any finance lease obligations.

Section 2 – Due to customers – item 20

2.1 Due to customers: breakdown by type

Due to customers amount to Euro 793,423 thousand (Euro 376,246 thousand at 31 December 2015) and are made up as follows:

Type of transaction/Values	12/31/2016	12/31/2015
1. Current accounts and demand deposits	663,355	321,923
2. Time deposits	130,068	52,183
3. Loans		
3.1 Repos		
3.2 Other		
4. Payables for commitments to repurchase own equity instruments		
5. Other payables		2,140
Total	**793,423**	**376,246**
Fair value - level 1		
Fair value - level 2		
Fair value - level 3	**789,917**	**374,799**
Fair value	**789,917**	**374,799**

“Current accounts and demand deposits” include demand deposits from customers (Euro 636,336 thousand), the current account held by the subsidiary Santander Consumer Finance Media S.r.l. (for a total of Euro 1,825 thousand), the ordinary current accounts for affiliates (Euro 23,030 thousand) and payments in transit to customers (Euro 2,164 thousand).

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.

2.2 Details of item 20 “Due to customers”: subordinated debts

The Bank does not have any subordinated debts with customers.

2.3 Details of item 20 “Due to customers”: structured debts

The Bank does not have any structured debts with customers.

2.4 Due to customers with specific hedges

The Bank does not have any amounts due to customers with specific hedges.

2.5 Finance lease payables

The Bank does not have any finance lease obligations.

Section 3 – Debt securities issued – item 30

3.1 Debt securities issued: breakdown by type

Type of securities/Values	12/31/2016				12/31/2015			
	Book Value	*Fair Value*			Book Value	*Fair Value*		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities	**313,037**			**311,919**	**300,045**			**298,032**
1. Bonds								
1.1 structured								
1.2 other	313,037			311,919	300,045			298,032
2. Other structured securities								
2.1 structured								
2.2 other								
Total	**313,037**			**311,919**	**300,045**			**298,032**

"Debt securities issued" relate to securities underlying a medium-to-long term bond issue programme that have been placed with institutional customers. This item also includes accrued interest.
For further details relating to the issues, please see the information provided on funding in the report on operations.

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

3.2 Details of item 30 "Debt securities issued": subordinated securities

The Bank has not issued any subordinated securities.

3.3 Debt securities issued with specific hedges

The Bank has not issued any securities with specific hedges.

Section 4 – Financial liabilities held for trading – item 40

The Bank has not designated financial liabilities under this category.

Section 5 – Financial liabilities designated at fair value through profit and loss - item 50

The Bank has not designated financial liabilities under this category.

Section 6 – Hedging derivatives – item 60

6.1 Hedging derivatives: breakdown by type of hedge and hierarchical level

	Fair Value 12/31/2016			NV	Fair Value 12/31/2015			NV
	L1	L2	L3	12/31/2016	L1	L2	L3	12/31/2015
A. Financial derivatives								
1) Fair value		11,585		748,387		26,642		1,380,887
2) Cash flows						2,000		400,000
3) Net investments in foreign operations								
B. Credit derivatives								
1) Fair value								
2) Cash flows								
Total		**11,585**		**748,387**		**28,643**		**1,780,887**

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 2016 (in euros):

Notional (euro)	Start date	Settlement date	Counterparty	Fair value (euro)
35,000,000	09/29/2010	03/29/2017	Banco Santander	109,407
11,800,000	10/25/2010	07/25/2017	Banco Santander	112,161
11,800,000	10/27/2010	07/27/2017	Banco Santander	112,259
14,250,000	11/17/2010	11/17/2017	Banco Santander	160,912
14,250,000	11/25/2010	11/27/2017	Banco Santander	157,743
31,937,000	12/27/2010	04/27/2018	Banco Santander	542,923
6,000,000	01/07/2011	07/07/2017	Banco Santander	74,859
37,500,000	02/14/2011	03/14/2019	Banco Santander	942,248
18,000,000	03/17/2011	09/18/2017	Banco Santander	270,481
53,000,000	05/27/2011	02/27/2018	Banco Santander	1,434,720
38,000,000	06/21/2011	03/21/2018	Banco Santander	862,226
43,500,000	07/14/2011	01/14/2019	Banco Santander	1,338,656
28,000,000	08/12/2011	08/12/2019	Banco Santander	803,308
23,600,000	07/06/2012	10/08/2018	Banco Santander	331,013
9,000,000	07/12/2012	10/12/2018	Banco Santander	162,654
66,000,000	08/02/2012	11/02/2018	Banco Santander	800,946
59,000,000	09/25/2012	03/25/2019	Banco Santander	681,681
72,250,000	11/09/2012	06/10/2019	Banco Santander	887,017
58,000,000	06/10/2013	04/10/2018	Banco Santander	381,120
61,000,000	06/21/2013	03/21/2019	Banco Santander	714,793
56,500,000	07/01/2013	02/01/2019	Banco Santander	704,167
748,387,000				**11,585,293**

6.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

Transactions/Type of hedge	Fair Value						Cash flow		Net investments in foreign operations
	Micro-hedge					Macro-hedge	Micro-hedge	Macro-hedge	
	Interest rate risk	Exchange risk	Credit risk	Price risk	Multiple risks				
1. Available for sale financial assets						X		X	X
2. Loans and receivables				X		X		X	X
3. Held to maturity investments	X			X		X		X	X
4. Porrfolio	X	X	X	X	X	11,585	X		X
5. Others						X		X	
Total assets						**11,585**			
1. Financial liabilities				X		X		X	X
2. Portfolio	X	X	X	X	X		X		X
Total liabilities									
1. Forecasted transactions	X	X	X	X	X	X		X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X		X		

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

Section 7 – Remeasurement of financial liabilities with general hedges – item 70

No financial liabilities with general hedges have been recognised in the financial statements.

Section 8 – Tax liabilities – item 80

Please refer to Section 13 of Assets.

Section 9 - Liabilities associated with non-current assets held for sale – item 90

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

Section 10 - Other liabilities - item 100

10.1 Other liabilities: breakdown

Other liabilities amount to Euro 254,535 thousand (Euro 182,383 thousand at the end of 2015) and consist of:

	12/31/2016	12/31/2015
Tax consolidation	153	207
Due to suppliers	21,807	15,105
Due to dealers	24,634	24,523
Payables to employees	5,548	4,789
Due to Social Security institutions	2,452	2,193
Tax payables	3,436	2,645
Other amounts due to customers	15,202	9,936
Due to insurances	12,702	12,730
Factoring payables	115,717	61,572
Accruals and deferred income	129	128
Items in transit	32,048	25,051
Other liabilities for commissions	7,888	9,107
Other payables	12,817	14,485
Due to SCFM S.r.l.	1	2
Total	**254,535**	**142,845**

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

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

“Other payables” mainly consists of the provision for agents’ leaving indemnities.

Further details have been provided of prior year comparatives to enhance the clarity of disclosures.

Section 11 – Provision for employee termination indemnities – item 110

11.1 Provision for employee termination indemnities: change in the year

	12/31/2016	12/31/2015
A. Opening balance	**3,639**	**3,586**
B. Increases	**60**	**648**
B.1 Provision of the year	60	10
B.2 Other increases		637
C. Decreases	**391**	**595**
C.1 Payments made	273	586
C.2 Other decreases	118	8
D. Closing balance	**3,308**	**3,639**

The provision for employee termination indemnities amounts to Euro 3,308 thousand (Euro 3,639 thousand at 31 December 2015) and, as required by IAS 19, this coincides with its actuarial valuation (Defined Benefit Obligation – DBO).
The actuarial assumptions adopted for the valuation of the provision at the reporting date are the following:

- discount rate: 1.30%;
- expected inflation rate: 1.75%;
- frequency of advances: 5%;
- number of retirements: 6.50%.

The following demographic assumptions were used:

- Death: ISTAT 2014 mortality tables;
- Disability: 1998 INPS tables;

- Retirement: in accordance with law 214/2011.

With the introduction of the reform envisaged by Law 296/2006 (2007 Finance Act) on supplementary pensions, amounts provided relate to interest cost, corresponding to interest cost accrued at the beginning of the period and interest cost pertaining to movements in the year
In addition, in line with the amendment to IAS 19 regarding the recognition of actuarial gains and losses accrued at the balance sheet date, they have been recognised with the OCI method as decreases or increases under item "other changes" (Euro 118 thousand at 31 December 2016).

11.2 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 3,308 thousand at the reporting date. Excluding the components relating to actuarial gains and losses, the provision amounts to Euro 2,360 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	**12/31/2016**
Sensitivity to the discount rate	
a. Assumption (+25 bps)	1.55%
b. DBO	3,250
c. Interest cost and expenses for the year	48
d. Assumption (-25 bps)	1.05%
e. DBO	3,367
f. Interest cost and expenses for the year	33

Section 12 – Provisions for risks and charges – item 120

12.1 Provisions for risks and charges: breakdown

Items / Values	12/31/2016	12/31/2015
1. Provisions for pensions and similar obligations		
2. Other provisions for risk and charges	25,920	21,530
2.1 Legal disputes	11,069	10,017
2.2 Staff expenses		
2.3 other	14,850	11,512
Total	**25,920**	**21,530**

For further details of the items in the table, please see 12.2 below.

12.2 Provisions for risks and charges: change in the year

	12/31/2016		
	Pensions and post retirement benefit obligations	**Other provisions**	**Total**
A. Opening balance		**21,530**	**21,530**
B. Increases		**16,697**	**16,697**
B.1 Provision for the year		16,697	16,697
B.2 Time value change			
B.3 Difference due to discount-rate changes			
B.4 Other increases			
C. Decreases		**12,307**	**12,307**
C.1 Utilisations during the year		5,261	5,261
C.2 Difference due to discount-rate changes			
C.3 Other decreases		7,046	7,046
D. Closing balance		**25,920**	**25,920**

The main increases in item "B.1 - Provisions for the year" relate to provisions for legal disputes with customers and dealers, as well as allocations to provisions for customer disputes relating to the salary assignment loan portfolio. These provisions cover fees that are a matter of dispute. For further details, please refer to the corresponding income statement table.

Item C.1 "Utilisations during the year" relates to reversals of provisions through line item 160 of the income statement, set up in prior years for lawsuits, whereas item C.4 "Other changes" relates to utilisations of provisions set up in prior years as a result of disbursements made.

12.3 Defined-benefit pension plans

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

12.4 Provisions for risks and charges - other provisions

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

Section 13 – Redeemable shares – item 140

The Bank has not approved any share redemption plans.

Section 14 – Shareholders' equity – items 130, 150, 160, 170, 180, 190 and 200

Shareholders' equity: breakdown

Shareholders' equity amounts to Euro 679,750 thousand (Euro 563,247 thousand at 31 December 2015) broken down as follows:

Items/Amounts	12/31/2016	12/31/2015
1. Share capital	573,000	573,000
2. Share premium reserve	633	633
3. Reserves	40,223	(43,883)
4. (Treasury shares)		
5. Valuation reserve	(589)	(1,608)
6. equity instruments		
7. Profit (loss) of the year	66,484	35,106
Total	**679,750**	**563,247**

Retained earnings are described later in this section.
Valuation reserves relate to positive changes in fair value of available-for-sale financial assets (Euro 45 thousand) and the impact of measurement in accordance with IAS 19 of the provision for termination indemnities (Euro -634 thousand).

14.1 "Share capital" and "Treasury shares": breakdown

For information on this section, please refer to paragraph 14.2.

14.2 Share capital – Number of shares: change in the year

Items/Types	Ordinary	Other
A. Outstanding shares at the beginning of the year	**573,000**	
- fully paid	573,000	
- not fully paid		
A.1 Treasury shares (-)		
A.2 Outstanding shares: opening balance	**573,000**	
B. Increases		
B.1 New issues		
- against payment		
- business combinations		
- bonds converted		
- warrants exercised		
- other		
- free		
- to employees		
- to Directors		
- other		
B.2 Sales of treasury shares		
B.3 Other changes		
C. Decreases		
C.1 Cancellation		
C.2 Purchase of treasury shares		
C.3 Disposal of companies		
C.4 Other changes		
D. Outstanding shares: closing balance	**573,000**	
D.1 Treasury Shares (+)		
D.2 Outstanding shares at the end of the year		
- fully paid		
- not fully paid		

14.3 Share capital: other information

At 31 December 2016, the share capital of the Bank amounts to Euro 573 million.

	Total 12/31/2016	Total 12/31/2015
Par value per share (zero if the shares have no par value)	1,000	1,000
Fully paid		
Number	573,000	573,000
Amount	573,000,000	573,000,000
- Agreed sale of shares:		
Number of shares under contract		
Total amount		

14.4 Profit reserves: other information

The Bank's profit reserves at 31 December 2016 consist mainly of the legal reserve of Euro 2,180 thousand, the extraordinary reserve of Euro 435 thousand and negative merger reserve of Euro -2,304 thousand.

14.5 Equity instruments: breakdown and change in the year

The Bank has not issued any equity instruments.

14.6 Other information

The Bank has not issued any puttable financial instruments (“financial instruments repayable on demand”) and has not approved any distribution of dividends.

As required by art. 2427, paragraph 7-bis of the Italian Civil Code, the following table describes in detail the items of shareholders’ equity with an indication of their origin, extent to which they are available for use or for distribution, as well as how they have been used in previous years.

Items	Amount	Permitted uses (*)	Available portion	Summary of use in the three previous fiscal year	
				to cover losses	for other reasons
Share capital	**573,000**				
Share premium reserve	**633**				
Reserves	**40,223**			**1,457**	
Legal reserve	*2,180*	A(1), B			
Extraordinary reserve	*435*	A, B, C	*435*		
FTA reserve					
Changes in previus period earning		(2)			
Reserve Earning	*(2,304)*				
Capital reserve	*39,913*	A, B		1,457	
Merger reserve					
Other reserve					
Revaluation reserves	**(589)**				
Cash flow hedges reserves		(2)			
Revaluation reserves available for sale financial assets	*45*	(2)			
Actuarial gains(losses) on defined benefit plans	*(634)*	(2)			
Net income (loss)	**66,484**			**9,976**	**31,000**
Total	**679,750**				

(*) 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 2015 has been allocated to the legal reserve (Euro 1,755 thousand), to the extraordinary reserve (Euro 435 thousand), and to cover accumulated losses (Euro 1,916 thousand), and dividends were distributed (Euro 31,000 thousand).

OTHER INFORMATION

1. Guarantees given and commitments

Operations	12/31/2016	12/31/2015
1) Financial guarantees given to		
a) Banks		
b) Customers		
2) Commercial guarantees given to		
a) Banks		
b) Customers		
3) Irrevocable commitments to disburse funds		
a) Banks		
i) certain to be called		
ii) not certain to be called		
b) Customers		
i) certain to be called	103,610	108,720
ii) not certain to be called		
4) Commitments underlying credit derivatives: protection sales		
6) Assets formed as collateral for third-party obligations		
6) Other commitments		
Total	**103,610**	**108,720**

Irrevocable loan commitments relate to factoring arrangements with car manufacturers.

2. Assets used to guarantee own liabilities and commitments

There are no assets used to guarantee own liabilities or commitments.

3. Information on operating leases

The Bank does not have any operating leases.

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

Technical forms	Gross amounts of financial assets (a)	Financial liabilities offset in Balance Sheet (b)	Net Balance Sheet values of fiinancial asset (c=a-b)	Related amounts not subject to offsetting in Balance Sheet		Net amount 12/31/2016 (f=c-d-e)	Net amount 12/31/2015
				Financial instruments (d)	Cash deposits posted as collateral (e)		
1) Derivatives	2,992		2,992		2,960	32	(47)
2) Repos							
3) Securities							
4) Others							
Total 12/31/2016	**2,992**		**2,992**		**2,960**	**32**	**X**
Total 12/31/2015	**(4,577)**		**(4,577)**		**(4,530)**	**X**	**(47)**

As required by IFRS 7, it is hereby disclosed that the derivative contract entered into with the Spanish Group company Abbey National Treasury Services Plc, the amount of which at 31 December 2016 is shown in “column c)” of the above table, is subject to an ISDA based framework agreement. The effects of the potential offsetting of exposures for which cash collateral has been provided are shown in column e) “Cash deposits received/offered as collateral”.

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

Technical forms	Gross amounts of financial liabilities (a)	Financial assets offset in Balance Sheet (b)	Net Balance Sheet values of fiinancial liabilities (c=a-b)	Related amounts not subject to offsetting in Balance Sheet		Net amount 12/31/2016 (f=c-d-e)	Net amount 12/31/2015
				Financial instruments (d)	Cash deposits posted as collateral (e)		
1) Derivatives	11,585		11,585		11,585		
2) Repos	412,434		412,434	412,434			
3) Securities lending							
4) Others							
Total 12/31/2016	**424,019**		**424,019**	**412,434**	**11,585**		**X**
Total 12/31/2015	**(439,631)**		**(439,631)**		**(439,631)**	**X**	

As required by IFRS 7, it is hereby disclosed that derivatives entered into with Banco Santander, the amount of which at 31 December 2016 is shown in “column c)” of the above table, 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, which, at the reporting date, are recognised as assets (with positive fair values), against derivatives, which are recognised as liabilities (with negative fair values). The effects of the potential offsetting of exposures for which cash collateral has been provided are shown in column e) “Cash deposits received/offered as collateral”.

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 - Interests - items 10 and 20

1.1 Interest and similar income: breakdown

Interest and similar income amounts to Euro 275,252 thousand (Euro 301,236 thousand at 31 December 2015) and is made up of:

Items/Technical forms	Debt securities	Loans	Other transactions	Total 12/31/2016	Total 12/31/2015
1. Financial assets held for trading					
2. Available-for-sale financial assets					**76**
3. Held-to-maturity investments					
4. Due from banks		598	1	**598**	**75**
5. Loans to customers		274,195		**274,195**	**301,084**
6. Financial assets designated at fair value through P&L					
7. Hedging derivatives	X	X			
8. Other assets	X	X	458	**458**	
Total		**274,793**	**459**	**275,252**	**301,236**

Against a background of negative rates, the item "Due from banks" mainly consists of interest income accrued on financing transactions through TLTRO-II with the European Central Bank (Euro 562 thousand) and repos with third-party banks (Euro 31 thousand). For more details, refer to the Financial Management section of the Report on Operations.
The value of interest on loans to customers mainly relates to the economic effects of customer loans, inclusive of the portfolio of securitised loans entered in the financial statements according to IAS 39 on reversal derecognition.
The item "Other assets" consists of the interest income relating to tax settlements concluded for the tax years 2008-2010 and 1999.

Interest on non-performing loans relates to interest on loans and advances to customers and amounts to Euro 200 thousand.

1.2. Interest and similar income: differentials on hedging transactions

The balance of differentials on hedging interest rate swaps is negative (as in 2015).
For details, reference should be made to paragraph 1.5.

1.3 Interest and similar income: other information

1.3.1 Interest and similar income on foreign currency assets
The Bank does not hold any financial assets in foreign currency.

1.3.2 Interest and similar income on finance lease transactions
Interest income on finance lease transactions for the year 2016 amounts to Euro 1,927 thousand (Euro 1,793 thousand in 2015).

Items	12/31/2016	12/31/2015
Interest income on financial leasing activities	1,927	1,793

1.4 Interest and similar expense: breakdown

Interest and similar expense amounts to Euro 62,387 thousand at 31 December 2016 (Euro 75,320 thousand at 31 December 2015) and is made up of:

Items/Technical forms	Payables	Securities	Other transactions	Total 12/31/2016	Total 12/31/2015
1. Due to central banks	277	X		277	510
2. Due to banks	29,772	X		29,772	41,503
3. Due to customers	11,218	X	2,328	13,546	4,996
4. Debt securities issued	X	326		326	406
5. Financial liabilities held for trading					
6. Financial liabilities at fair value through					
7. Other liabilities and provisions	X	X	278	278	1
8. Hedging derivatives	X	X	18,187	18,187	27,904
Total	**41,268**	**326**	**20,793**	**62,387**	**75,320**

Interest payable to central banks relates to lending operations (TLTRO-I) with the Bank of Italy.
Interest expense on amounts due to banks mainly derives from loans granted by Santander Group companies as part of ordinary funding operations (Euro 27,519 thousand) and by other banks (Euro 2,253 thousand).
Interest expense on amounts due to customers consists of the cost of funding provided by customers through current and deposit accounts (Euro 11,218 thousand). Again with reference to amounts due to customers, shown under other transactions are the income statement components attributable to cash generated by the securitisation portfolio.
Interest expense on debt securities issued relates to securities issued under EMTN Programmes.
The item “Other liabilities and provisions” consists mainly of interest accrued on treasury bonds classified under financial assets available for sale.
“Hedging derivatives” include the net balance of differentials on hedging derivatives as reported in table 1.5 below.

1.5 Interest and similar expense: differentials on hedging transactions

Items	12/31/2016	12/31/2015
A. Positive differentials related to hedging operations		
B. Negative differentials related to hedging operations	(18,187)	(27,904)
C. Net differentials (A-B)	**(18,187)**	**(27,904)**

1.6 Interest and similar expense: other information

1.6.1 Interest and similar expense on foreign currency liabilities
The Bank has no liabilities in foreign currency.

1.6.2 Interest and similar expense on finance lease obligations
The Bank has not entered into any purchase leases.

Section 2 – Commissions – items 40 and 50

2.1 Commission income: breakdown

The commission income generated during the year amounts to Euro 82,328 thousand (Euro 102,062 thousand at 31 December 2015) and is broken down as follows:

Type of service/Segments	Total 12/31/2016	Total 12/31/2015
a) guarantees given		
b) credit derivatives		
c) management, brokerage and consulting services:		
1. trading in financial instruments		
2. trading in foreign exchange		
3. portfolio management		
3.1. individual		
3.2. collective		
4. custody and administration of securities		
5. custodian bank		
6. placement of securities		
7. reception and transmission of orders		
8. advisory services		
8.1 related to investments		
8.2 related to financial structure		
9. distribution of third party services		
9.1 portfolio management		
9.1.1. individual		
9.1.2. collective		
9.2 insurance products	35,490	31,091
9.3 other products	31,520	54,873
d) collection and payment services	12,144	12,525
e) securitization servicing		
f) factoring services		
g) tax collection services		
h) management of multilateral trading facilities		
i) management of current accounts		
j) other services	3,173	3,572
Total	**82,328**	**102,062**

Item c) includes commission income on insurance products placed with customers financed of Euro 35,490 thousand and on salary assignments of Euro 31,520 thousand;
Item d) includes commissions generated during the year for collection and payment services provided to customers for Euro 10,951 thousand and servicing fees accrued versus the subsidiary Santander Consumer Finance Media s.r.l. in liquidation for Euro 116 thousand.
Item j) "other services", on the other hand, comprises:

- income recognised in respect of damages and penalties for late payment (Euro 2,115 thousand);
- fees and commission income for the management of credit cards (Euro 215 thousand);
- commission income on stock financing (Euro 673 thousand);
- commissions for other services (Euro 170 thousand).

2.2 Commission income: distribution channels for products and services

Channels/Values	Total 12/31/2016	Total 12/31/2015
a) through Group bank branches		
1. portfolio management		
2. placement of securities		
3. third-party services and products	67,010	85,964
b) off-site		
1. portfolio management		
2. placement of securities		
3. third-party services and products		
c) other distribution channels		
1. portfolio management		
2. placement of securities		
3. third-party services and products		

Of the amount shown in the table, Euro 35,490 thousand relates to income from insurance products placed with customers and Euro 31,520 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 50,272 thousand (Euro 64,615 thousand at 31 December 2015) and is broken down as follows:

Services/Amounts	Total 12/31/2016	Total 12/31/2015
a) guarantees received	24	12
b) credit derivatives		
c) management and brokerage services:		
1.trading in financial instruments		
2. trading in foreign exchange		
3. portfolio management:		
3.1 own portfolio		
3.2 third party portfolio		
4. custody and administration securities	92	80
5. financial instruments placement	49	
6. off-site distribution of financial instruments. products and services	47,563	59,909
d) collection and payment services	2,406	4,217
e) other services	138	396
Total	**50,272**	**64,615**

Point 6 in item c) mainly refers to commissions paid on the sale of insurance products (Euro 13,521 thousand) and salary assignment loans (Euro 32,081 thousand), contributions and termination indemnities accrued by the network of agents based on targets for the placement of loans with customers (Euro 1,961 thousand).
The total of item d) in the table refers to the cost incurred for the collection of loan instalments and for payments made.
Item e) mainly includes charges incurred for securitisation transactions.

Section 3 – Dividends and similar income – item 70

3.1 Dividends and similar income: breakdown

In 2016 there were no amounts relating to dividends paid by subsidiaries.

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

4.1 Net trading income (loss): breakdown

Transactions / Income components	Unrealized profits (A)	Realized profits (B)	Unrealized losses (C)	Realized losses (D)	Net Profit (A+B)-(C+D) 12/31/2016
1. Held for trading Financial assets					
1.1 Debt securities					
1.2 Equity					
1.3 Units in investment funds					
1.4 Loans					
1.5 Other					
2. Held for trading Financial liabilities					
2.1 Debt securities					
2.2 Debts					
2.3 Other					
3. Financial assets and liabilities in foreign currency: exchange differences	**X**	**X**	**X**	**X**	
4. Derivatives					
4.1 Financial derivatives:					
- on debt securities and interest rates	1,632			(28)	1,604
- on equity securities and shares indexes					
- On currencies and gold	X	X	X	X	
- Other					
4.2 Credit derivatives					
Total	**1,632**			**(28)**	**1,604**

The above table includes the net positive result arising from financial derivatives held to hedge interest rate risk associated with securitisations that do not meet the requirements under IAS 39 for classification as hedging derivatives (Euro 1,632 thousand), as well as the losses arising from the early redemption of a financing operation (Euro 28 thousand).

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.

Items / Income components	Total 12/31/2016	Total 12/31/2015
A. Income relating to:		
A.1 Fair value hedges	14,506	18,535
A.2 Hedged asset items (in fair value hedge relationships)		
A.3 Hedged liability items (in fair value hedge relationship)		
A.4 Cash-flow hedging derivatives (including ineffectivness of net investment hedge)		
A.5 Foreign currency assets and liabilities		
Total income from hedging activity (A)	**14,506**	**18,535**
B. Expenses relating to:		
B.1 Fair value hedges		
B.2 Hedged asset items (in fair value hedge relationship)	(14,506)	(19,407)
B.3 Hedged liabilities items (in fair value hedge relationships)		
B.4 Cash-flow hedging derivatives (including ineffectivness of net investment hedge)		
B.5 Foreign currency assets and liabilities		
Total charges from hedging activity (B)	**(14,506)**	**(19,407)**
C. Net profit from hedging activity (A-B)		**(872)**

Section 6 - Gains (losses) on disposal or repurchase - item 100

6.1 Gains (losses) on disposal or repurchase: breakdown

Items / Income components	Total 12/31/2016			Total 12/31/2015		
	Gains	Losses	Net profit	Gains	Losses	Net profit
Financial assets						
1. Due from banks						
2. Loans to customers		(5)	(5)		(3,568)	(3,568)
3. Financial assets available for sale	261		261			
3.1 Debt securities	24		24			
3.2 Equity Instruments	237		237			
3.3 Units in investment funds						
3.4 Loans						
4. Financial assets held to maturity						
Total assets	**261**	**(5)**	**256**		**(3,568)**	**(3,568)**
Financial liabilities						
1. Due to banks						
2. Due to customers						
3. Debt Securities in issue						
Total financial liabilities						

The item Loans to customers includes receivables sold without recourse during the year, net of related writedowns.
The item financial assets available for sale mainly includes gains and losses arising from sales of government securities held in the portfolio.

Section 7 – Net result on financial assets and liabilities designated at fair value - item 110

The Bank does not hold any financial assets or liabilities designated at fair value.

Section 8 – Net losses/recoveries on impairment – item 130

8.1 Net losses/recoveries on impairment of loans and receivables: breakdown

Transactions/Income components	Adjustments (1)			Write - backs (2)				Total	
	Specific		Portfolio	Specific		Portfolio		12/31/2016	12/31/2015
	Write - offs	Others		A	B	A	B		
A. Due from banks									
- Loans									
- Debt securities									
B. Loans to customers	646	68,420	27,989		(25,783)		(30,550)	40,722	96,799
Non-performing purchased loans									
- Loans			X			X	X		
- Debt securities			X			X	X		
Other receivables									
- Loans	646	68,420	27,989		(25,783)		(30,550)	40,722	96,799
- Debt securities									
C. Total	**646**	**68,420**	**27,989**		**(25,783)**		**(30,550)**	**40,722**	**96,799**

8.2 Net impairment losses to financial assets available for sale: breakdown

Transactions/Income	Adjustments (1)		Reversals of impairment losses (2)		Total 12/31/2016	Total 12/31/2015
	Specific		Specific			
	Write-off	Others	A	B		
Debt securities						
B. Equity instruments		(245)			(245)	
C. Units in investments funds			x	x		
D. Loans to banks			x			
E. Loans to customers						
F. Total		**(245)**			**(245)**	

8.3 Net impairment losses to financial assets held to maturity: breakdown

The Bank has no financial assets held to maturity.

8.4 Net impairment adjustments to other financial transactions: breakdown

Transactions / Income	Adjustments (1)			Reversals of impairment losses (2)				Total	
	Specific		Portfolio	Specific		Portfolio		12/31/2016	12/31/2015
	Write - offs	Other		A	B	A	B		
A. Guarantees given									(13,979)
B. Credit derivatives									
C. Commitments to disburse funds									
D. Other transactions									
E.Total									**(13,979)**

Key
A = from interests
B = other recoveries

Section 9 - Administrative expenses - item 150

9.1 Payroll: breakdown

Payroll amounts to Euro 41,183 thousand (Euro 38,548 thousand at 31 December 2015) and is split as follows:

Type of expense/Amounts	Total 12/31/2016	Total 12/31/2015
1) Employees		
a) wages and salaries	28,962	27,089
b) social security contributions	7,417	7,320
c) Severance pay (only for Italian legal entities)		1
d) Social security costs		
e) allocation to employee severance pay provision	60	10
f) provision for retirements and similar provisions:		
- defined contribution		
- defined benefit		
g) payments to external pension funds:		
- defined contribution_old	1,996	1,803
- defined benefit		
h) Expenses resulting from share based payments		
i) other employee benefits	1,597	1,472
2) Other staff	676	628
3) Directors and Statutory Auditors	392	516
4) Early retirement costs		
5) Recovery of expenses for employees seconded to other companies	(17)	(291)
6) Reimbursement of cost of third-party employees seconded to the Bank	99	
Total	**41,183**	**38,548**

"Social security charges" include pension costs incurred by the Bank in 2016.

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 216 thousand, while fees relating to members of the Board of Statutory Auditors amount to Euro 176 thousand.

9.2 Average number of employees by category

	Total 12/31/2016	Total 12/31/2015
2) Employees		
a) Senior managers	10	13
b) Managers	157	151
of which 3rd and 4th level	66	62
c) Remaining employees staff	427	423
Total	**594**	**588**
Other personnel	**20**	**20**

9.3 Post-retirement defined benefit plans: costs and revenues

The Bank has not allocated post-retirement defined benefit plans.

9.4 Other personnel benefits

	12/31/2016	12/31/2015
Ancillary staff expenses (contributions to rent and health insurance, luncheon vouchers and other minor benefits)	1,589	1,468
Incentive plan reserved for managers and middle managers	8	4
Total	**1,597**	**1,472**

The "incentive plan reserved for managers and middle managers" relates to the cost incurred for the distribution of shares of the parent company Banco Santander to persons with strategic responsibilities within the Group.

9.5 Other administrative expenses: breakdown

Other administrative expenses amount to Euro 69,152 thousand (Euro 67,362 thousand at 31 December 2015) and are made up as follows:

Type of service/Amounts	Total 12/31/2016	Total 12/31/2015
Indirect taxes and duties	10,270	9,077
Telephone, broadcasting and postal	4,656	5,113
Maintenance, cleaning and waste disposal	916	1,286
Property lease, removals and condominium expenses	3,179	3,249
Professional fees and corporate expenses	8,073	7,684
Travel and accomodation	3,797	2,439
Stamp duty and flat-rate substitute tax	3,861	1,379
Insurance charges	71	351
Forms, stationery and consumables	310	216
Supplies, licences EDP consulting and maintenance	8,510	10,780
Debt recovery charges	13,077	14,275
Legal fees	3,059	3,042
Advertising, promotion and representation	1,354	1,099
Commercial information and searches	3,089	2,662
Other expenses	4,929	4,708
Total	**69,152**	**67,362**

Section 10 – Net provisions for risks and charges - item 160

10.1 Net provisions for risks and charges: breakdown

	Total 12/31/2016	Total 12/31/2015
Net provision for legal disputes	2,828	5,170
Other provisions	8,608	9,178
Total	**11,436**	**14,348**

"Provisions for legal risks" mainly include provisions for risks and charges made during the year for litigation with customers and dealers, based on a reliable assessment of the expected financial outlay.
"Provisions for other liabilities" relate to an amount provided for a dispute over the criteria applied for the early redemption of loans guaranteed by salary and pension assignment. For further information thereon, please see the section on "Other facts worth mentioning" in the Report on Operations.

Section 11 – Net adjustments to/recoveries on property and equipment – item 170

11.1 Net adjustments to/recoveries on property and equipment: breakdown

Assets/Income items	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b + c) 12/31/2016
A. Property and equipment				
A.1 Owned				
- For business purposes	652			652
- For investment purposes				
A.2 Held under finance lease				
- For business purposes				
- For investment purposes				
Total	**652**			**652**

Net adjustments to property and equipment refer to the depreciation of the Bank's fixed assets, classified under item 110 of assets for Euro 652 thousand.

Section 12 – Net adjustments to intangible assets – item 180

12.1 Net adjustments to/recoveries on intangible assets: breakdown

Net adjustments to intangible assets amount to Euro 3,521 thousand and relate to the amortisation of the year.

Assets/Income items	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net risult (a + b + c) 12/31/2016
A. Intangible assets				
A.1 Owned				
- Internally generated				
- Other	3,521			3,521
A.2 Held under finance lease				
Total	**3,521**			**3,521**

Section 13 – Other operating expenses/income - item 190

13.1 Other operating expenses: breakdown

Other operating expenses amount to Euro 2,654 thousand (Euro 5,499 thousand at 31 December 2015) and are divided as follows:

	Total 12/31/2016	Total 12/31/2015
Rebates and discounts	55	53
Losses on disposal	10	287
Miscellaneous expenses	481	253
Expenses related to leasing activities	842	598
	1,266	4,307
Total	**2,654**	**5,499**

The item “expenses related to leasing transactions” mainly includes administrative expenses and other costs related to the leasing business.
“Other” mainly relates to out-of-period expenses for legal disputes (Euro 440 thousand), miscellaneous out-of-period expenses (Euro 148 thousand) and compensation for customer appeals and claims (Euro 89 thousand).

13.2 Other operating income: breakdown

Other operating income amounts to Euro 17,592 thousand (Euro 10,677 thousand at 31 December 2015) and can be broken down as follows:

	Total 12/31/2016	Total 12/31/2015
Recovery of taxes	5,643	3,851
Other income for services rendered to Group companies	160	8
Recovery of lease instalments	66	66
Recovery of other expenses	508	591
Recovery of preliminary expenses	10,254	4,146
Rebates and discounts received	4	4
Insurance reimbursements	52	90
Gains on disposal	268	615
Income related to leasing transactions	518	1,095
Revenues from operating leases - rentals		
Other income	120	211
Total	**17,592**	**10,677**

“Income related to leasing transactions” includes, among other things, the recovery of car lease expenses charged to customers for Euro 361 thousand, and recovery of provincial transcription tax (IPT) for Euro 120 thousand.
“Recovery of taxes” relates to the recovery of stamp duty.

Section 14 – Profit (loss) from equity investments - item 210

14.1 Profit (loss) from equity investments: breakdown

There were no profits or losses on equity investments in 2016.

Section 15 - Net gains (losses) arising on fair value measurement of property and equipment and intangible assets - item 220

15.1 Net gains (losses) arising on fair value (or revalued) measurement of property and equipment and intangible assets: breakdown

The Bank’s property and equipment and intangible assets have not been measured at fair value.

Section 16 – Adjustments to goodwill - item 230

16.1 Adjustments to goodwill: breakdown

The Bank has not recognised any goodwill.

Section 17 – Gains (losses) on disposal of investments - item 240

17.1 Gains (losses) on disposal of investments: breakdown

The Bank has not recorded gains or losses on disposal of investments.

Section 18 - Income tax for the year on current operations - item 260

18.1 Income taxes for the year on current operations: breakdown

The item "Income tax for the year" shows a balance of Euro -28,325 thousand (Euro -13,626 thousand at 31 December 2015) and represents the provision made during the year in accordance with current tax law. It is made up as follows:

Income/Value	Total 12/31/2016	Total 12/31/2015
1. Current taxes (-)	(17,934)	(15,467)
2. Change in prior period income taxes (+/-)		
3. Reduction in current tax expense for the period (+)		
3.bis Reduction in current taxes for tax credits as per Law 214/2011 (+)		
4. Change in deferred tax assets (+/-)	(10,406)	1,841
5. Change in deferred tax liabilities (+/-)	15	
6. Income tax for the year (-) (-1+/-2+3+3bis+/-4+/-5)	**(28,325)**	**(13,626)**

The subheadings "Changes in deferred tax assets" and "Changes in deferred tax liabilities" correspond respectively to the changes between the initial and final balances of tables 13.3 and 13.4 of Part B - Information on the Balance Sheet. For further details, see Section 13 of Part B - Information on the balance sheet.

18.2 Reconciliation between the theoretical and effective tax charge

The following table shows the effects on current taxes recognised in the financial statements arising from the presence of permanent differences that increase taxable income with respect to the operating profit, thereby aggravating the tax burden.

	12/31/2016	12/31/2015
Profit (loss) from continuing operations before tax	94,809	48,732
Profit before tax on discontinuing operations		
Theoretical taxable income	**94,809**	**48,732**
IRES - Theoretical tax charge	(26,072)	(13,401)
- effect of income and expenses that do not contribute to the tax base	3,863	3,722
- effect of expenses that are wholly or partially non-deductible	472	(2,635)
IRES - Effective tax burden	**(21,737)**	**(12,314)**
IRAP - Theoretical tax charge	(5,281)	(2,714)
- portion of non-deductible administrative expenses, depreciation and amortisation	(2,702)	(2,553)
- portion of non-deductible interest expense	(103)	(115)
- effect of income and expenses that do not contribute to the tax base	2,202	4,301
- effect of income and expenses that are wholly or partially non-deductible	(704)	(231)
IRAP - Effective tax burden	**(6,588)**	**(1,312)**
Effective tax burden as shown in the financial statements	**(28,325)**	**(13,626)**

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 19 – Profit (loss) after tax on non-current assets held for sale - item 280

The Bank has not recognised any gains or losses on disposal groups classified as held for sale.

Section 20 - Other information

No further information has to be given in addition to what has already been provided in the previous sections.

Section 21 – Earnings per share

21.1 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.

21.2 Other information

There is no further information to be disclosed in this section.

Part D - Comprehensive income

Statement of comprehensive income

		12/31/2016		
		Gross Amount	**Tax Effects**	**After tax effects**
10.	**Net Profit (Loss) for the year**	**X**	**X**	**66,484**
	Other comprehensive income after tax not to be recycled to income statement			
20.	Tangible assets			
30.	Intangible assets			
40.	Defined benefit plans	118	(39)	79
50.	Non current assets classified as held for sale			
60.	Valuation reserves from investments accounted for using the equity method			
	Other comprehensive income after tax to be recycled to income statement			
70.	**Hedge of foreign investments:**			
	a) changes in fair value			
	b) reclassification through profit or loss			
	c) other variations:			
80.	**Exchange differrences:**			
	a) value changes			
	b) reclassification through profit or loss			
	c) other variations:			
90.	**Cash flow hedges:**	**1,612**	**(533)**	**1,079**
	a) changes in fair value	1,612	(533)	1,079
	b) reclassifications through profit or loss			
	c) other variations:			
100.	**Available-for-sale financial assets:**	**(207)**	**69**	**(139)**
	a) changes in fair value	82	(27)	55
	b) reclassifications trough profit or loss	(290)	96	(194)
	- impairment losses			
	- following disposal	(290)	96	(194)
	c) other variations:			
110.	**Non current assets classified as held for sale:**			
	a) changes in fair value			
	b) reclassifications through profit or loss			
	c) other variations:			
120.	**Valutation reserves from investments accounted for using the equity method;**			
	a) changes in fair value			
	b) reclassifications trough profit or loss			
	- impairment losses			
	- following disposal			
	c) other variations:			
130.	**Total of other comprehensive income after tax**	**1,523**	**(504)**	**1,019**
140.	**Comprehensive income (Items 10+130)**			**67,503**

Part E - Information on risks and related hedging policies

Introduction

Santander Consumer Bank (the Bank) places great importance on the management and control of risks as a means of ensuring reliable and sustainable value creation in a context of controlled risk.
Risk management strategy focuses on a complete and consistent overview of risks. It takes account of the macro-economic scenario and risk profile, it stimulates a growing risk culture and encourages a transparent and accurate presentation of the risks associated with the portfolios held.

The Bank's risk appetite is shown in the Risk Appetite Framework (RAF), a strategically important tool, organised and structured to present to the Board of directors and senior management the main risks to which a company is exposed and the level of such risks that it is willing to assume under normal and stressed conditions.

The Risk Appetite Framework therefore defines the risk objectives and limits, the reference processes, the monitoring and control mechanisms and the relevant governance. It includes the definition of the maximum level of risk—including the possible undesirable effects (risk capacity)—that can technically be assumed by the Bank in carrying out its business plans, without compromising regulatory requirements, commercial viability or other constraints imposed (by the Supervisory Body, by the Supervisory Authority, etc.) and subsequently sets out:

- the level of overall risk, by type, that the bank intends to assume, within the framework of its risk capacity, in order to pursue its strategic and commercial objectives (propensity to risk);
- the overall risk profile actually assumed by the Bank;
- the main specific risks.

The overall risk profile stems from the general principles defined by the risk policies and consists of a structure of limits suitable to ensure that, even under stressed conditions, minimum levels of solvency, liquidity and earnings are met.

Credit risk is the main type of risk to which the Bank is exposed and is associated with the probability that a borrower may be unable to meet its contractual obligations thereby resulting in possible future losses.

The Bank's operations in Italy are mainly focused on retail customers, where the risk in question is highly differentiated and fragmented. In fact, overall, the Group's assets are characterised by a very high average number of customers, a low average exposure and a limited average residual duration. So in general, credit risk exists, but in a situation of high fragmentation.

The Board of Directors, in its capacity as a strategic oversight body, approves the risk objectives, the tolerance thresholds (where identified) and the risk management policies. It also ensures that the implementation of the RAF is consistent with the risk objectives and the approved tolerance thresholds.

The Bank's risk appetite is based on the following requisites and features:

- it reflects an aggregated view and applies to all functional areas of the Bank;
- it considers the main types of risk that impact the Bank's business development;
- it takes a prospective view of the Bank's risk profile in certain circumstances, with the use of stress tests and scenario analysis;
- it is not static and adapts to the changing business environment;
- it combines quantitative and qualitative standards;
- it is concise and easy to communicate to senior management and external stakeholders;
- it enables a structured comparison of risk profile against risk appetite;
- it is connected to the overall corporate strategy and to other instruments or business processes that help with planning, evaluating and monitoring risks, including those aimed at defining the budget, liquidity/financing and capital;
- it is integrated with risk management of the Bank's ordinary activities, given that it was designed to take account of existing policies and limits.

The definition of the Risk Appetite Framework and the consequent operational limits for major specific risks, the use of risk measurement tools as part of credit and liquidity management and operational risk control processes and the use of measuring parameters based on capital risk to report corporate performance and the assessment of the adequacy of internal capital, are fundamental steps for the operational application of long term risk strategy along the Bank's decision-making chain, down to each operating unit.

Risk culture
Utmost attention is given 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.

Moreover, the Bank ensures the dissemination of risk culture by means of extensive training aimed at the correct application of internal and external models designed to prevent, mitigate and monitor risks in an effective manner.
The approach to risk management 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.

The Bank's risk management model provides for the involvement of the Board of Directors and Top Management, along with the structures that perform direct risk management activities.
The policies relating to the assumption of risks are defined and approved by the Board of directors, which is supported by specific committees and by the Head of the Risk Control Unit. The latter proposes the Risk Appetite Framework, in line with company strategies and objectives, for the coordination and verification of the implementation of the guidelines and the policies concerning risk management by the various units that fall within the scope thereof. It also ensures there is control over the overall risk profile, by monitoring the exposures to various types of risk.

Organisation and risk governance

The organisational standards applied to ensure the Bank has an effective risk governance system are aimed at:

- ensuring the separation of operational functions from control functions;
- ensuring the identification, measurement and monitoring of risks inherent, or that may be assumed, in the various operational areas;
- guaranteeing that any anomalies, which result from checks performed by the monitoring functions, are rapidly brought to the attention of the appropriate level of management, dealt with promptly and recorded for subsequent checks.

To this end, the risk management and governance process is based on an organisational structure that ensures there is an internal control system that operates on three levels, in line with banking supervisory regulations, consisting of:

- line controls (first-level controls): these are performed by the operating units to verify that the processes and tasks within its competence have been carried out in accordance with internal procedures. Where possible, these types of controls are incorporated in automated IT procedures;
- risk management controls (second-level checks): 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, which verifies compliance with internal and external regulations applicable to the Bank;
- internal audit controls (third-level controls): these are carried out by the Internal Audit department, which has the task of verifying the ordered performance of processes (management/production, business/commercial, support/functional) and their compliance with corporate standards, the substantial correctness of the conduct of operations and the suitability, from the standpoint of its framework and rules governing how it should function, of the internal control system and the adequacy and effectiveness of the monitoring systems, in relation to the various types of risk.

In detail, the structures involved in the overall process of risk management are:

- Board of Directors;
- Chief Executive Officer and General Manager;
- Administration and Control Department;
- Institutional Relations, Legal and Compliance Department;
- Information Technology and Processes Department;
- Finance Department;
- Sales and Marketing Department;
- Risk Management Department;
- Collection Business Unit;
- Human Resources;
- Internal Audit (reports to the Board of Directors through a direct functional relationship with the Chief Executive Officer).

Moreover, as set out in greater detail in the Corporate Governance section, the corporate bodies avail themselves of specific internal committees, which, as far as risk management is concerned, include the following:

- the Management Committee;
- the Operational Risk Committee;
- the Risk Management Committee;
- the Senior Risk Committee;
- the Collection Committee;
- the Legal and Compliance Committee;
- the Financial Risk Management Committee (ALCO);
- the Operational and Technological Risk Committee.

Main Risks

An overview of the risks to which Santander Consumer Bank is mainly exposed, given the nature and characteristics of its business, is summarised in the following table:

	Type of risk	Definition	Classification
Pillar I	Credit risk	The risk associated with the probability that a borrower may be unable to meet its contractual obligations, thus exposing the Bank to possible future losses.	Significant
Pillar I	Market risk	Risk of an unfavourable change in the value of financial instruments, included in the trading portfolio for supervisory purposes, caused by adverse movements in interest rates, foreign exchange rates, inflation rates, volatility, equity prices, credit spread, commodity prices (general risk) and credit standing of the issuer (specific risk).	Not significant
Pillar I	Counterparty risk	Risk that the counterparty in one of the transactions shown below may default prior to settlement of the transaction. Specifically, this applies to the following categories: - Derivatives linked to interest rates, foreign exchange rates and gold and credit derivatives; - repo transactions and securities or commodities lending or borrowing; - transactions with long-term settlement; - margin lending transactions secured by securities or commodities.	Significant
Pillar I	Operational risk	Risk of incurring losses due to inadequate or dysfunctional procedures, human resources or internal systems, or to exogenous events. This type of risk includes legal risk, but does not include strategic and reputational risk.	Significant
Pillar II	Compliance risk	Risk of incurring legal or administrative sanctions, financial losses or reputational damage as a result of violations of obligatory rules (laws or regulations) or of self-regulation (e.g. articles of association, codes of conduct, codes of ethics).	Significant
Pillar II	Country risk	Risk of incurring losses caused by events that occur in countries other than Italy.	Not significant
Pillar II	Transfer risk	Risk that the Bank, exposed to a party that takes out a loan in a currency other than the one in which it receives its main sources of income, incurs losses due to difficulties encountered by the debtor in converting its own currency into the currency of the loan.	Not significant
Pillar II	Interest rate risk in the Banking Book	Risk arising from the possibility that changes in market interest rates will impact assets and liabilities held other than for trading ("banking book"), thus impacting the Bank's earnings or capital.	Significant
Pillar II	Liquidity risk	Risk that the Group will be unable to meet its payment commitments due to the inability to raise funds on the market (funding liquidity risk) or the inability to sell its assets (market liquidity risk)	Significant
Pillar II	Securitisation risk	Risk that the economic substance of a securitisation is not fully reflected in pricing decisions and risk management	Not significant
Pillar II	Strategic risk	Current or prospective risk of a decline in earnings or capital arising from changes in the operating environment or from adverse business decisions, improper implementation of decisions or a lack of responsiveness to changes in the competitive environment.	Significant

Type of risk	Definition	Classification
Reputational risk	Current or prospective risk of a decline in earnings or capital arising from a negative perception of the Bank's image on the part of customers, counterparties, the Bank's shareholders, investors or supervisory authorities.	Significant
Concentration risk	Risk arising from exposures with counterparties, inclusive of central counterparties, groups of connected counterparties and counterparties operating in the same economic sector, in the same geographical area or engaged in the same business or that deal with the same commodities, as well as from the application of credit risk mitigation techniques, comprising, in particular, risks arising from indirect exposures, such as from individual collateral providers.	Significant
Provisioning risk	Risk that adjustments booked by the Bank are underestimated compared to losses potentially or actually present in the loan portfolio.	Significant
Excessive leverage risk	Risk that a particularly high level of debt with respect to capital makes the Bank vulnerable, forcing it to adopt corrective measures in its business plan, such as selling off assets at a loss, which could result in impairment on the part of the remaining assets.	Not significant
Residual Risk	Risk that the recognised techniques for mitigating credit risk used by the Bank are less effective than expected.	Not significant
Business Risk	Risk of changes in earnings and margins, versus budget, generally due to changes in the competitive environment, in customers' behaviour or in technological development (encompassed by the wider risk category of strategic risk).	Significant
Structural foreign exchange rate risk	Risk arising from foreign currency exposures stemming from commercial operations when these are linked to strategic investment decisions (encompassed by the wider risk category of market risks).	Not significant
Risk associated with Goodwill and Intangible assets	Risk that intangible assets, consisting of purchased goodwill or other types of deferred charges, are reduced or fully written down, with a consequent negative impact on the income statement as a result of the performance of impairment tests in compliance with IAS/IFRS.	Not significant
Pension Risk	Risk that an entity, which is a sponsor of a pension plan, is forced to pay additional contributions in order to meet its obligations. This risk is not applicable to the Italian pension system.	Not significant
DTA Risk	Risk that deferred tax assets, which are not capable of being converted to amounts recoverable from the tax authorities, are deducted from own funds with negative consequences in terms of a reduction of total capital.	Not significant

Section 1 – Credit risk

Qualitative information

1. General aspects

The main risk to which the Bank is exposed is credit risk. It is the risk associated with the probability that a borrower may be unable to meet its contractual obligations, thus exposing the bank to possible future losses. The Bank's operations in Italy are mainly focused on retail customers, where the risk in question is highly differentiated and "pulverised". In fact,

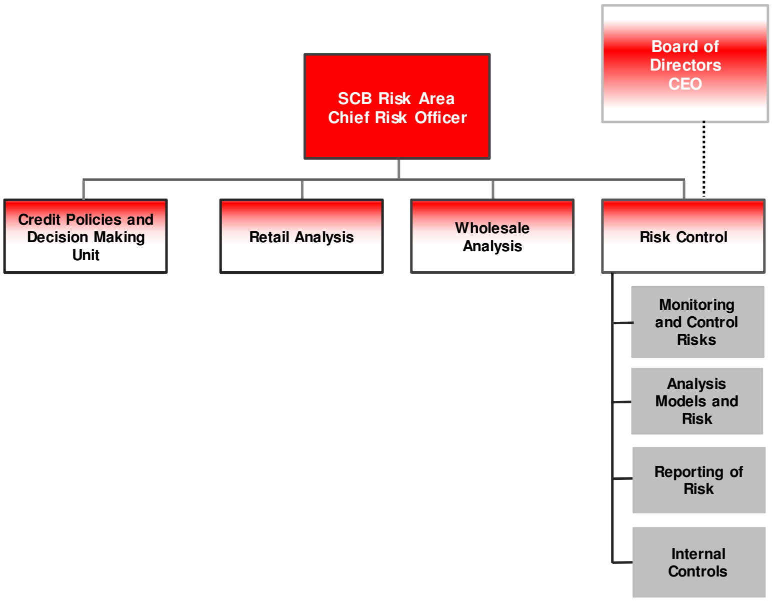
overall, the Group's assets are characterised by a very high average number of customers, a low average exposure and a limited average residual duration. So in general, credit risk exists, but in a situation of high fragmentation;
Credit risk arises from the existence of a contractual relationship relating to the placement of the following products:

- Car loans: specific-purpose loans for the purchase of vehicles, including motorcycles, to persons who apply for loans offered by dealers affiliated with the Bank. The loan amount is granted directly by the affiliated dealer. The customer undertakes to repay the loan in accordance with a fixed rate repayment plan in equal instalments. The customer may take out insurance cover for the loan or the object financed;
- Special-purpose loans: loans granted solely by the agency channel to persons for the purchase of goods other than cars and/or for the provision of services. These have the same repayment / contractual features of car loans;
- Personal loans: loans granted directly to the customer that have the same repayment / contractual features of car loans. It is possible to take out insurance cover for the loan;
- Consumer car leasing: financing transactions offered by the Bank (in its capacity as lessor) for the use for an agreed period of time, upon payment of periodic lease charges, of motor vehicles, commercial vehicles and motorcycles, purchased or constructed by a third party supplier, as requested by the lessor and chosen and indicated by the customer (user with a VAT number); the latter assumes all the risks and retains the right, at the end of the contractual term, to purchase the goods for a predetermined price and to extend the use thereof under predetermined or predeterminable financial conditions. For leasing products, the typical risks of finance leases, apart from those arising from a contractual breach by the customer, are of a contractual and financial nature;
- Credit cards: a line of credit for an unlimited period made available to a customer, who may make use thereof in one or more lots. The user undertakes to repay the amounts utilised and interest payable thereon, complying with the payment of monthly minimum instalments, but with the right to make larger repayments if desired. The repayment of the capital element ensures the availability once again of the full credit facility, which may be reutilised by the customer. Interest rates are generally fixed, but Santander Consumer Bank has the right to modify the financial conditions during the relationship, in compliance with regulations in force. The loan may be guaranteed;
- Salary/pension-backed loans: 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.

2. Credit risk management policies

2.1. Organisational aspects

Santander Consumer Bank's Risk Management Department ensures effective risk management in all key areas, starting with the definition of tools for the analysis and measurement of risks (in collaboration with the Parent Company's methodology functions) and the definition of policies and strategies for the acceptance and control of existing risks, ensuring a correct balance between long term strategic objectives and short term earnings objectives. To ensure the independence of the Risk function, the head of the function hierarchically reports to the Chief Executive Officer and functionally reports to the Chief Risk Officer of the Parent Company's Consumer Finance Division.
The department is structured along four services lines as detailed below.



The mission of the **Credit Policies and Credit Decision System** is to protect the company from credit risk pertaining to customers and affiliates by defining operating policies and strategies concerning affiliation criteria and lending, by staff training and by constant monitoring of lending activities. It verifies that the operability and behaviour of staff comply with internal data acquisition procedures and current regulations.

The functions carried out are the following:

- to define the risk policies, the strategies and internal procedures for the management of products/channels, the monitoring of compliance therewith, ensuring the constant updating thereof and the communication thereof to all relevant areas of the Bank;
- to create (internally or with the help of external suppliers), to monitor, to implement and to update automatic applications for decision-making and support in setting up dossiers;
- to monitor the riskiness of products and channels, highlighting abnormal situations for timely corrective action;
- to prepare an overview of the qualitative trend of corporate loans and any balances showing significant changes in riskiness that need to be analysed;
- to handle relations with official data bases relating to its sphere of operations, especially with regard to changes in the information provided, reporting anomalies and cancellations, and monitoring their bills;
- to assign approval levels according to the degree of experience of staff members and in accordance with the guidelines authorised by the Board of Directors and to organise training sessions needed to ensure that updates are provided on new policies and/or processes, as well as the maintenance of a high level of skills of operating personnel;
- to provide support to the operating units and other corporate functions of other Group companies;
- to prepare a management budget.

Wholesale Analysis prepares motions concerning positions of corporate customers that are subsequently submitted for the attention of the decision-making Committees (Risk Management Committee or Board of directors depending on their signatory powers). The foregoing positions consist entirely of credit lines granted to dealers to finance their showroom cars, given that the Bank has no other corporate customer business.
The main functions assigned to this unit are:

- to prepare positions for submission to the Committees with powers of approval;
- to carry out an annual review of dealers' positions in "non-standardised" products;
- to develop together with the Collection Business Unit debt recovery strategies to be implemented with affiliates (only with respect to "non-standardised" products);
- to manage collaborations with leading automobile brands with regard to wholesale;
- to perform periodic analysis of positions subjected to special monitoring (F.E.V.E - *Firmas en Situaciòn de Vigilancia Especial* - signature powers in special monitoring situations).

The mission of the **Risk Control Unit** is to measure, control and monitor risk. This control must take place efficiently and is essential to facilitate the maximisation of profit in a context of careful and dynamic management of risk situations.
The Unit has to guarantee the comprehensive and organic treatment of risks related to the Bank's activities in order to facilitate their identification, measurement, analysis and definition of measures needed to address them.
The Unit must quantify the overall exposure of the Institution at risk to allow the delegated bodies to define a strategy for the management thereof and to define the desired risk profile (risk appetite).
The main functions are:

- monitoring of the main risk indicators;
- assistance in deciding the provisions to cover current and future losses;

- calculation and monitoring of expected losses;
- ensure the reliability and automatic generation of reports;
- monitor financial risks periodically, with particular reference to interest rate risk and liquidity risk, using Asset & Liability Management (ALM) techniques;
- to liaise with the internal and external control bodies to verify the level of implementation of company policies.

The functions assigned to the unit are performed by four Offices:

- Risk Control and Monitoring: handles the management of second-level controls relating to: control of market risk (liquidity risk and interest rate risk, of operational risk, of credit risk, of technological risk, of concentration risk, of reputational risk, of risk mitigation (collateral) and any other marginal risks of the Bank;
- Risk models and scenario analysis: ensures the control and verification of the use of decision-making tools within the Bank, including stress tests on future loss coverage and budgeting models. It monitors the containment of risks within the limits indicated by the Risk Appetite Framework (RAF);
- Risk reporting: supervises the preparation of the documentation required by the Bank of Italy as a tool for the management and control of risks, such as the Risk Appetite Framework (RAF), the ICAAP report, the activity report and the planning of and reporting on the function's activities;
- Internal Controls: identifies, together with the heads of other units, the risks associated with the major business processes and maps the related mitigating controls; develops and maintains the Internal Control Model, based on changes in relevant legislation and the organisational structure of the Company; supervises the implementation of internal control indicators and performs the monitoring thereof. It identifies weaknesses (weaknesses in the internal control model and recommendations made by internal audit, the Independent Auditors or the Supervisory Authority) in collaboration with Internal Audit, it provides support to business functions for the definition of action plans for the resolution thereof and regularly monitors their status. It coordinates the certification process for the local internal control model as required by the Sarbanes-Oxley Act (SOX).

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.

Internal Control System

The Internal Control System is a key element for the operation and management of the Bank and plays a central role in the Company's organisation. It is a set of rules, functions, structures, resources, processes and policies that aim to—in the context of a sound and prudent management of risk—pursue the following objectives:

- verification of the implementation of business strategies and policies;
- the containment of risk within the limits indicated by the Bank's Risk Appetite Framework (RAF);
- safeguarding of the value of assets and protection from loss;
- effectiveness and efficiency of company processes;
- the reliability and security of business information and IT procedures;
- prevention of the risk that the bank is involved, even unintentionally, in illegal activities (with particular reference to those connected with money laundering, usury and the financing of terrorism);
- compliance of operations with the law and the supervisory regulations, as well as with policies, regulations and internal procedures;
- verification of the implementation of correct interaction between all control functions/bodies.

The Santander Group Internal Control System is based on the following pillars, in accordance with the current applicable regulations of the Bank of Italy:

- identification of all applicable risks (in line with Basel II) and clear definition of responsibilities for each of them;
- separation between business activities and support activities;
- existence of independent risk control, compliance and audit functions;
- existence of control bodies (Supervisory Board, Board of Statutory Auditors and Independent Statutory Auditors) that facilitate information flows;
- structure of internal committees that facilitates the flow of information and interaction between the various functions;
- the processes and methodologies used for the assessment of the Bank's activities, including accounting activities, are reliable and are integrated with the risk management processes;
- Internal Control Model (based on Sarbanes-Oxley Act) built according to a process, risk and control documentation method, as well as a control indicator calculation method.

It is structured as follows:

- first-level controls (or "line controls"), under the remit and responsibility of the operational functions;
- second-level controls, i.e. checks on compliance and risks (risk management), entrusted to functions other than production functions;
- third-level controls, (or internal audit), aimed at the ongoing testing and assessment of the effectiveness, efficiency and reliability of the internal control system and the IT system.

The Internal Control Model meets regulatory and corporate requirements, applies to all Santander Group companies and sets out a common methodology for the documentation and assessment of processes and controls that mitigate potential risks, in line with best practices demanded by the market, by supervisory bodies and by the auditors. Internal control activities are performed by all employees at all staff levels and control is integrated into operational management.
The Internal Control Model is based on four pillars:

- methodology: consists of a common framework for the documentation of processes, risks and controls that are updated and validated at least every six months and also consists of a set of indicators of control that objectively assess the main processes;
- system: consists of a corporate internal control portal used for the dissemination of regulatory requirements and as a centralised archive of continuous, dynamic information and also consists of a local internal control portal used to store evidence of the controls;
- global scope: involves the entire organisational control structure through a scheme that assigns individual responsibilities. The Internal Control Model applies to all the Bank's geographical locations and related businesses;
- structure: this consists of three main players; a corporate team for coordination, control and supervision, a local team for management, control and supervision, and control functions directly implemented at all levels of the organisation.

The coverage of business processes is based, internally, on four levels:

- activities: represent the highest level of the structure and describe macro-activities;
- processes: the procedures that cover the various business areas;
- sub-processes: a description of internal procedures within an office that form part of a business process;
- controls: the basis for the model, consisting of a description of the controls performed by staff and supervisors.

The Internal Control Model is certified once a year, in compliance with Section 404 of the Sarbanes-Oxley Act (which requires every company or group listed in the United States to assess and report on its financial reporting internal control model) by a pyramid structure of rising responsibility, which culminates with the final certification by the Company's Chief Executive Officer, Chief Financial Officer and Chief Risk Officer.

The unit responsible for the coordination, management and monitoring of the Internal Control Model is the Internal Control Office (located within the Company's Risk Management Department), the duties of which have been described above.

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:

1. acceptance of a loan application;
2. monitoring and reporting;
3. 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 Credit Policies and Credit Decision System. Through the use of rating models and policy rules, Credit Scoring provides a summary of the counterparty's credit risk, reflecting the probability of default within a time period of one year. By means of a decision engine, one of the following outcomes will be assigned: Automatic Refusal/Automatic Approval/ Manual Review; the assessment is based both on data provided by the customer at the dossier input phase and certified during the credit analysis phase

and on external data provided by Credit Information Systems. For dossiers subjected to manual review, as well as the usual assessment done with a scoring system, a detailed review is performed by an operator;

- the approval phase is the third phase of the loan application process and is delegated, by the competent corporate bodies, to various persons in the structure based on grids that show the signatory powers, the type of customer, the amount to be lent, the type of product/service and, in certain cases, the asset to be financed.
- once concluded, the origination of a dossier phase may provide for a process of mitigation and collateral management, where the analyst has to analyse in detail all of the items acquired by the applicant and, where necessary, foresee the inclusion of appropriate collateral (in order to minimise the credit risk inherent in lending activities), such as a second signature and/or guarantees, insurance assignment and bills of exchange.

2. The monitoring phase is handled by Credit Policies and Credit Decision System. Its purpose is to identify, analyse, forecast and model the behaviour of all the variables that could potentially result in changes to the asset quality assumed by the Bank. It also makes it possible to recalibrate the acceptance process, given that the information obtained is used to optimise the rules for acceptance and the cut-off levels of the score grids. Further monitoring is performed by the Risk Control Unit as part of its second level control function and is aimed at forming an overall opinion on risk-taking, through checks of compliance with the risk limits or trend analysis or specific analysis. It produces detailed reports of the phenomena analysed that are distributed to the risk-taking functions, both Senior Management and the Board of Directors, in line with the agreed reporting schedule.

3. The credit collection phase is handled by the Collection Business Unit. 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 gets split into the following phases:

1. customer analysis
2. customer's credit rating
3. analysis of credit transactions
4. preparation of resolutions regarding transactions/customers
5. monitoring
   - customer tracking
   - portfolio tracking
   - controls
   - check on production volumes
6. collection.

2.3 Credit risk mitigation techniques

The risk mitigation techniques used in portfolio management are closely linked to the characteristics of the products. The main types of collateral currently in use are:

- 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.

2.4 Impaired financial assets

Impaired financial assets are managed by the Collection Business Unit, which coordinates debt collection activities for the entire country and for all products, in accordance with the law and the operating procedures.
The unit aims for maximum efficiency in the management of the portfolio to be recovered through the application of strategies to assign different priorities depending on the customer's risk profile and the ageing of their balances; this efficiency is achieved thanks to the introduction of valid strategies, the launch of campaigns and the use of appropriate tools.
Collection management, understood as "massive collection", is carried out on dossiers that have at least one instalment past due.

This last activity operates alongside the management of special positions, which require the application of particular procedures. The Bank also makes use of external collection entities that are carefully selected and monitored on an ongoing basis.

For impaired loans, monitoring and classification are performed by the Risk Control Unit via an internal model used by all local Santander Group units. The main monitoring indicator is level of insolvency based on a similar definition to that of impaired financial assets provided by the Supervisory Authority. In particular, this category includes:

- loans that are more than ninety days past due;
- loans affected by “drag” i.e. pertaining to a customer whereby the ratio of impaired loans to total exposure exceeds 5%;
- loans involved in credit restructuring (refinancing, reclassifications, queueing) for which the so-called “cure period” is not yet over;
- dossiers characterised by specific events such as bankruptcy or fraud;
- contracts characterised by loss of benefits and write-off.

The state of insolvency is constantly monitored by the Risk Control Unit with respect to inflows and outflows, in its distribution by overdue periods and broken down by product categories. In particular, outflows are primarily defined on the basis of days overdue (i.e. in case they fall below the ninety-day period), as well as specific operations as listed above. The above composition of the portfolio is also essential for the application of the impairment definition model, based on past due and product type.

Quantitative information

A. Credit quality

A.1 Impaired and unimpaired loans: amounts, adjustments, trends, economic and territorial distribution

A.1.1 Distribution of credit exposure by portfolio and credit quality (book values)

Portfolios/quantity		Non-performing loans	Unlikely to pay	Impaired past due exposures	Not impaired past due exposures	Other not impaired exposures	Total
1. Available-for-sale financial assets						410,229	410,229
2. Held-to-maturity financial instruments							
3. Loans and receivables with banks						43,467	43,467
4. Loans and receivables with customers		3,917	28,540	25,031	91,032	5,080,530	5,229,050
5. Financial assets at fair value through profit or loss							
6. Financial instruments classified as held for sale							
Total	**12/31/2016**	**3,917**	**28,540**	**25,031**	**91,032**	**5,534,226**	**5,682,746**
Total	**12/31/2015**	**18,529**	**40,907**	**78,670**	**180,481**	**5,340,350**	**5,658,938**

A.1.2 Distribution of credit exposure by portfolio and credit quality (gross and net values)

Portfolio / Quality		Impaired assets			Not impaired assets			Total (net exposure)
		Gross exposures	Specific writedowns	Net exposure	Gross exposures	Portfolio adjustments	Net exposure	
1. Available-for-sale financial assets					410,229		410,229	410,229
2. Held-to-maturity financial instruments								
3. Loans and receivables with banks					43,467		43,467	43,467
4. Loans and receivables with customers		355,498	(298,010)	57,488	5,222,223	(50,661)	5,171,561	5,229,050
5. Financial assets at fair value through profit or loss					X	X		
6. Financial instruments classified as held for sale								
Total	**12/31/2016**	**355,498**	**(298,010)**	**57,488**	**5,675,919**	**(50,661)**	**5,625,257**	**5,682,746**
Total	**12/31/2015**	**412,958**	**(274,852)**	**138,106**	**5,574,359**	**(53,527)**	**5,520,832**	**5,658,938**

Portfolio / Quality		Assets of obvious poor credit quality		Other assets
		Cumulated losses	Net exposure	Net exposure
1. Financial assets held for trading				2,992
2. Hedging instruments				
Total	**12/31/2016**			**2,992**
Total	**12/31/2015**			**4,577**

The following is an ageing analysis of performing loans to customers that are past due. The Bank does not have any exposures subject to renegotiation as part of collective agreements.

	Gross exposure	Specific adjustments	Portfolio writedowns	Net exposure	Pastdue amount
Performing exposure with ageing breakdown:					
up to 3 months	79,345		(13,576)	65,769	13,083
from 3 months to 6 months	5,787		(768)	5,019	473
from 6 months to 1 year	4,788		(307)	4,481	548
over 1 year	20,837		(5,073)	15,764	5,361
Total	**110,757**		**(19,725)**	**91,032**	**19,465**

Note that these receivables are classified as performing, in accordance with supervisory instructions, as the total amount of the instalments due or past due is less than 5% of the total exposure.

A.1.3 On- and off-balance sheet exposures to banks: gross and net values and past due time bands

Type of exposure/Amounts	Gross exposure					Specific writedowns	Portfolio adjustments	Net exposure
	Impaired exposures				Not impaired exposures			
	Till 3 months	Between 3 and 6 months	Between 6 months and 1 year	Over 1 year				
A. BALANCE SHEET EXPOSURE								
a) Non-performing loans					X		X	
- of wich forborne exposures					X		X	
b) Unlikely to pay					X		X	
- of wich forborne exposures					X		X	
c) Impaired past due exposures					X		X	
- of wich forborne exposures					X		X	
d) past due not impaired	X	X	X	X	1	X		1
- of wich forborne exposures	X	X	X	X		X		
e) Other not impaired exposures	X	X	X	X	43,466	X		43,466
- of wich forborne exposures	X	X	X	X		X		
TOTAL A					**43,467**			**43,467**
B. OFF-BALANCE SHEET EXPOSURE								
a) Impaired					X		X	
b) Not impaired	X	X	X	X	114,585	X		114,585
TOTAL B					**114,585**			**114,585**
TOTAL (A+B)					**158,052**			**158,052**

On-balance sheet exposures to banks include the assets in asset line item 60, while off-balance sheet exposures include the fair value of derivatives in asset line item 20, net of liquidity pledged as collateral, and counterparty risk linked to repurchase agreements. For details, please refer to the specific sections of the notes.

A.1.4 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.1.5 Cash non-performing credit exposures to banks: dynamics of total writedowns

Exposures to banks are not subject to writedowns.

A.1.6 On- and off-balance sheet exposures to customers: gross and net values and past due time bands

Type of exposure/Amounts	Gross exposure					Specific writedowns	Portfolio adjustments	Net exposure
	Impaired exposures				Not impaired exposures			
	Till 3 months	Between 3 and 6 months	Between 6 months and 1 year	Over 1 year				
A. BALANCE SHEET EXPOSURE								
a) Non-performing loans	3,647	293	820	165,939	X	(166,782)	X	3,917
- of wich forborne exposures	1,909	230	391	37,202	X	(39,443)	X	289
b) Unlikely to pay	34,634	5,415	7,925	78,505	X	(97,939)	X	28,540
- of wich forborne exposures	18,988	4,779	3,578	12,721	X	(34,054)	X	6,012
c) Impaired past due exposures	4,575	30,885	21,897	962	X	(33,289)	X	25,031
- of wich forborne exposures	3	1,068	317		X	(1,110)	X	279
d) past due not impaired	X	X	X	X	110,757	X	(19,725)	91,032
- of wich forborne exposures	X	X	X	X	11,651	X	(3,313)	8,339
e) Other not impaired exposures	X	X	X	X	5,521,695	X	(30,936)	5,490,759
- of wich forborne exposures	X	X	X	X	29,260	X	(977)	28,283
TOTAL A	**42,857**	**36,593**	**30,642**	**245,406**	**5,632,452**	**(298,010)**	**(50,661)**	**5,639,279**
B. OFF-BALANCE SHEET EXPOSURE								
a) Impaired					X		X	
b) Not impaired	X	X	X	X	103,610	X		103,610
TOTAL B					**103,610**			**103,610**
TOTAL (A+B)	**42,857**	**36,593**	**30,642**	**245,406**	**5,736,061**	**(298,010)**	**(50,661)**	**5,742,889**

This table gives details of impaired and performing loans to customers, gross and net of specific and portfolio adjustments.
Non-performing forbearance exposures falling within the time band “Up to 3 months”, which have not matured, have a gross exposure of Euro 12,749 thousand and loan adjustments of Euro 8,468 thousand.
“Off-balance sheet exposures” show the amount of commitments relating to factoring transactions.

A.1.7 Cash credit exposures to customers: dynamics of gross non-performing loans

Description/Category	Non-performing loans	Unlikely to pay	Past due impaired exposures
A. Opening balance (gross amount)	**187,797**	**111,991**	**113,171**
- Sold but not derecognised	48,900	11,305	25,764
B. Increases	**30,586**	**83,816**	**87,575**
B.1 transfers from performing loans	279	21,633	82,411
B.2 transfers from other impaired exposures	29,418	58,052	1,029
B.3 other increases	889	4,131	4,135
C. Decreases	**47,683**	**69,328**	**142,426**
C.1 transfers to perfomorming loans	7,535	19,168	55,954
C.2 write-offs	12,598	5,317	1,657
C.3 recoveries	8,932	14,919	15,591
C.4 sales proceeds	71	22	74
C.5 losses on disposals	106	143	137
C.6 transfers to other impaired exposures	16,120	16,850	55,529
C.7 other decreases	2,321	12,909	13,485
D. Closing balance (gross amounts)	**170,699**	**126,479**	**58,320**
- Sold but not derecognised	21,980	26,799	27,598

A.1.7bis Cash credit exposures to customers: dynamics of gross forbearance exposures by credit quality

Description/Category	Forborne exposures impaired	Forborne exposures not impaired
A. Opening balance (gross amount)	**85,859**	**58,256**
- Sold but not derecognised	11,236	6,505
B. Increases	**26,906**	**30,507**
B.1 Transfers from performing not forborne exposures	4,289	10,758
B.2. Transfers from performing forborne exposures	10,951	X
B.3. Transfers from impaired forborne exposures	X	12,426
B.4 other increases	11,667	7,323
- of which: business combinations		
C. Decreases	**31,579**	**47,852**
C.1 Transfers to performing not forborne exposures	X	22,401
C.2 Transfers to performing forborne exposures	15,394	X
	X	10,378
C.4 write-offs	4,242	15
C.5 recoveries	11,532	14,834
C.6 sales proceeds		
C.7 losses on disposals		
C.8 other decreases	411	223
D. Closing balance (gross amounts)	**81,186**	**40,911**
- Sold but not derecognised	3,674	2,601

A.1.8 Cash non-performing credit exposures to customers: dynamics of total writedowns

Description/Category	Non-performing loans		Unlikely to pay		Impaired Past due exposures	
	Total	Of wich: forborne exposures	Total	Of wich: forborne exposures	Total	Of wich: forborne exposures
A. Opening balance overall amount of writedowns	**169,268**	**40,852**	**71,083**	**24,572**	**34,500**	**588**
- Sold but not derecognised	47,283	6,303	8,666	2,579	18,360	122
B. Increases	**28,002**	**8,204**	**54,943**	**21,533**	**31,339**	**1,111**
B.1 write-downs	7,174	3,711	30,288	18,075	31,120	1,036
B.2 bis losses on disposal	1		1		1	
B.3 transfer from other impaired exposure	20,827	4,493	24,655	3,458	218	75
B.4 other increases						
C. Reductions	**30,488**	**9,612**	**28,087**	**12,051**	**32,551**	**588**
C.1 write-backs from assessments	983	1,153	10,838	4,974	2,902	57
C.2 write-backs from recoveries	5,778	2,215	3,134	1,623	2,149	23
C.3 gains on disposal						
C.4 write-offs	12,298	3,141	5,088	1,019	1,844	20
C.5 transfers to other impaired exposures	11,393	3,103	8,873	4,434	25,433	489
C.6 other decreases	37		154		223	
D. Closing overall amount of writedowns	**166,782**	**39,443**	**97,939**	**34,054**	**33,289**	**1,110**
- Sold but not derecognised	21,906	1,150	19,278	1,988	16,332	168

“Other decreases” include adjustments attributable to portfolio sales.

A.2 Classification of exposures based on external and internal ratings

A.2.1 Distribution of on- and off-balance sheet exposures by external rating class

The table below shows the net amounts of credit exposures to banks corresponding to those shown in the table at A.1.3 and the net amounts of credit exposures to customers shown in the table at A.1.6. Given the nature of the latter customers, they have not been subjected to rating.

Exposures	External rating classes						Unrated	Total
	1	2	3	4	5	6		
A. Cash credit exposures				453,696			5,229,050	**5,682,746**
B. Derivatives								
B.1 Financial derivatives	32							32
B.2 Credit derivatives								
C. Guarantees given								
D. Other commitments to disburse funds							103,610	**103,610**
E. Others	114,553							**114,553**
Total	**114,585**			**453,696**			**5,332,659**	**5,900,940**

A.2.2 Distribution of cash and "off-balance sheet" exposures by internal rating classes

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 exposures by type of guarantee

A.3.1 Guaranteed credit exposures to banks

The Bank has no guaranteed credit exposures to banks.

A.3.2 Guaranteed credit exposures to customers

		Collaterals (1)				Unsecured Guarantees (2)									
						Credit derivatives					Endorsement credits				
							Other derivatives								
	Net exposure	Property Mortgages	Financial leasing property	Securities	Other secured guarantees	CLN	Governments and Central Banks	Other public entities	Banks	Other entities	Governments and Central Banks	Other public entities	Banks	Other parties	Total (1)+(2)
1. Guaranteed cash credit exposures:															
1.1 fully guaranteed	63,884													63,884	63,884
- of which impaired	2,913													2,913	2,913
1.2 partially guaranteed	72													72	72
- of which impaired	33													33	33
2. Guaranteed off-Balance Sheet credit exposures:															
2.1 fully guaranteed															
- of which impaired															
2.2 partially guaranteed															
- of which impaired															

B. Distribution and concentration of credit exposures

B.1 Distribution by sector of on- and off-balance sheet exposures to customers (book value)

Exposures/Counterparts	Goverments			Other public entities			Financial companies			Insurance companies			Non-financial companies			Other entities		
	Net exposure	Specific write-downs	Portfolio adjustments	Net exposure	Specific write-downs	Portfolio adjustments	Net exposure	Specific write-downs	Portfolio adjustments	Net exposure	Specific write-downs	Portfolio adjustments	Net exposure	Specific write-downs	Portfolio adjustments	Net exposure	Specific write-downs	Portfolio adjustments
A. Balance sheet exposures																		
A.1 Non-performing loans			x			x	4	299	x			x	1,595	28,095	x	2,318	138,388	x
- of wich: forborne exposures			x			x			x			x	6	1,374	x	283	38,068	x
A.2 Unlikely to pay			x			x	2	23	x			x	949	4,756	x	27,589	93,160	x
- of wich: forborne exposures			x			x		17	x			x	114	479	x	5,897	33,558	x
A.3 Impaired past due exposures			x			x	3	16	x			x	756	1,638	x	24,272	31,635	x
- of wich: forborne exposures			x			x			x			x	1	12	x	277	1,098	x
A.4 Not impaired exposures	410,229	x		10,460	x	2,152	355,238	x	22	9	x		571,139	x	5,078	4,234,715	x	43,409
- of wich: forborne exposures							37						749		69	35,836		4,221
TOTAL A	**410,229**			**10,460**		**2,152**	**355,247**	**338**	**22**	**9**			**574,439**	**34,489**	**5,078**	**4,288,894**	**263,183**	**43,409**
B. Off-balance sheet exposures																		
B.1 Non-performing loans			x			x			x			x			x			x
B.2 Unlikely to pay			x			x			x			x			x			x
B.3 Other impaired assets			x			x			x			x			x			x
B.4 Not impaired exposures		x			x			x			x		103,610	x			x	
TOTAL B													**103,610**					
Total (A+B) 12/31/2016	**410,229**			**10,460**		**2,152**	**355,247**	**338**	**22**	**9**			**678,049**	**34,489**	**5,078**	**4,288,894**	**263,183**	**43,409**
Total (A+B) 12/31/2015	**407,389**			**25**			**391,495**	**67**	**26**				**526,419**	**36,076**	**3,006**	**4,398,551**	**238,709**	**50,495**

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 (book values)

Exposures / Geographical		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									
A.1 Non-performing loans		925	27,589	305	10,953	900	36,287	1,787	91,954
A.2 Unlikely to pay		5,006	17,923	1,647	7,269	5,052	21,280	16,835	51,467
A.3 Impaired past due		4,486	7,019	1,664	2,490	5,311	7,613	13,569	16,167
A.4 Not impaired		1,630,660	10,475	631,307	4,768	1,455,542	11,197	1,864,282	24,222
TOTAL A		**1,641,077**	**63,005**	**634,923**	**25,479**	**1,466,806**	**76,376**	**1,896,473**	**183,810**
B. Off-balance sheet									
B.1 Non-performing loans									
B.2 Unlikely to pay									
B.3 Other impaired									
B.4 Not impaired		32,111		26,335		19,171		25,993	
TOTAL B		**32,111**		**26,335**		**19,171**		**25,993**	
Total (A+B)	**12/31/2016**	**1,673,188**	**63,005**	**661,258**	**25,479**	**1,485,976**	**76,376**	**1,922,466**	**183,810**
Total (A+B)	**12/31/2015**	**1,670,092**	**59,510**	**597,981**	**24,804**	**1,463,078**	**70,994**	**1,992,729**	**173,071**

The Bank has exposures 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 (book value)

Exposures / Geographical		Italy		Other european countries		America		Asia		Rest of the world	
		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 exposures											
A.1 Non-performing loans											
A.2 Unlikely to pay											
A.3 Impaired past due exposures											
A.4 Not impaired exposuress		31,467		12,000							
TOTAL A		**31,467**		**12,000**							
B. Off-balance sheet exposures											
B.1 Non-performing loans											
B.2 Unlikely to pay											
B.3 Other impaired assets											
B.4 Not impaired exposures				114,585							
TOTAL B				**114,585**							
Total A+B	**12/31/2016**	**31,467**		**126,585**							
Total A+B	**12/31/2015**	**14,429**		**148,149**							

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 balances due from the Spanish Parent Company Banco Santander.
With respect to off balance sheet exposures, please see the information provided in point B.4.

B.4 Large exposures

	12/31/2016
Number	1
Book value	114,553

At the balance sheet date there was only one counterparty classified as a large exposure, relating to the difference between the fair value of securities provided as collateral for repo transactions recognised in the financial statements and the amount of the loan received in connection with the transaction. The amount of the exposure is shown in the table above.

C. Securitisations

In accordance with the Bank of Italy Circular 262, no securitisations have been disclosed in this section, given that the Bank subscribed, at the time of issue, all of the debt issued by the SPE Golden Bar and, as at the reporting date, it was still in possession thereof.

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 fully derecognised

Qualitative information

This section is not applicable given that the Bank has only been involved in self-securitisations.

Quantitative information

E.1 Financial assets sold but not derecognised: book value and full value

Please refer to paragraph A. – Qualitative information.

E.2 Financial liabilities for financial assets sold but not derecognised: book value

Please refer to paragraph A. – Qualitative information.

E.3 Transfers with liabilities that have recourse only against the assets sold: fair value

Please refer to paragraph A. – Qualitative information.

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

Qualitative information

This section is not applicable to sales made by the Bank in the course of the year.

Quantitative information

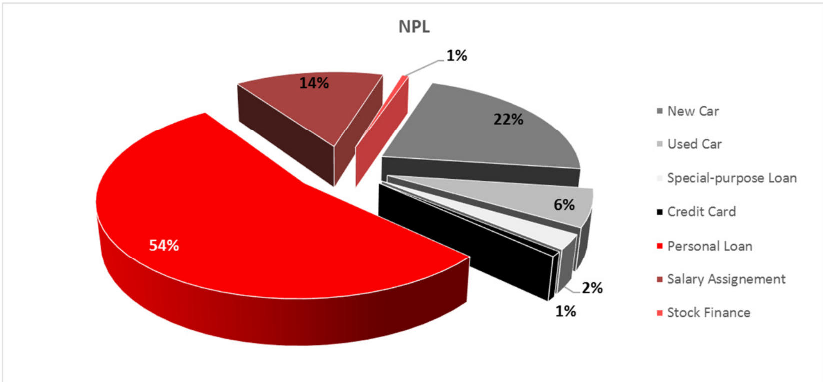
Please see the information provided above.

E.4 Covered bond transactions

The Bank has not carried out any covered bond transactions.

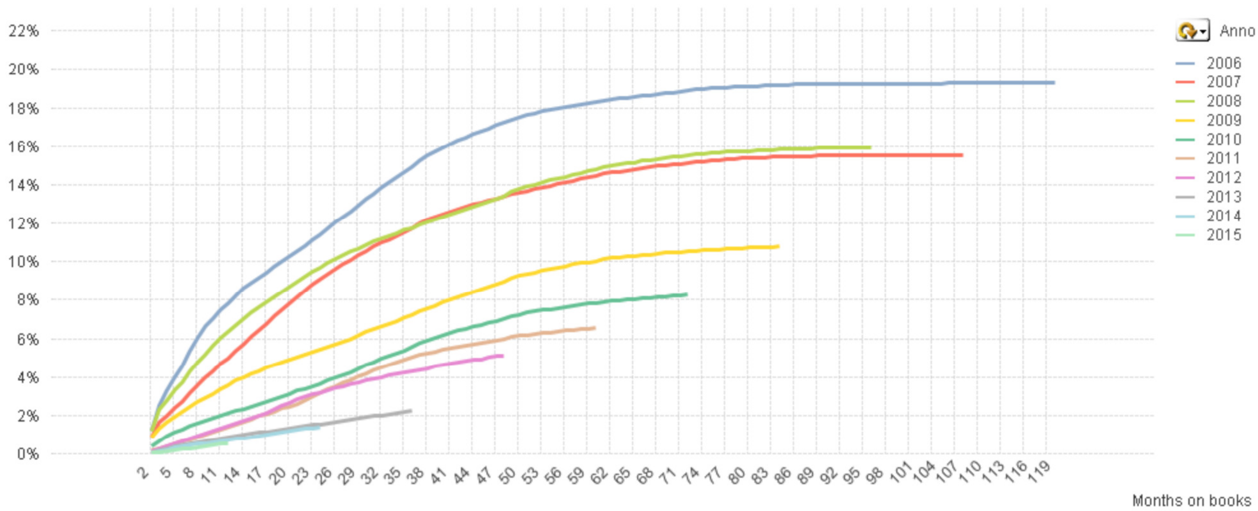
F. Models for the measurement of credit risk

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 2016.

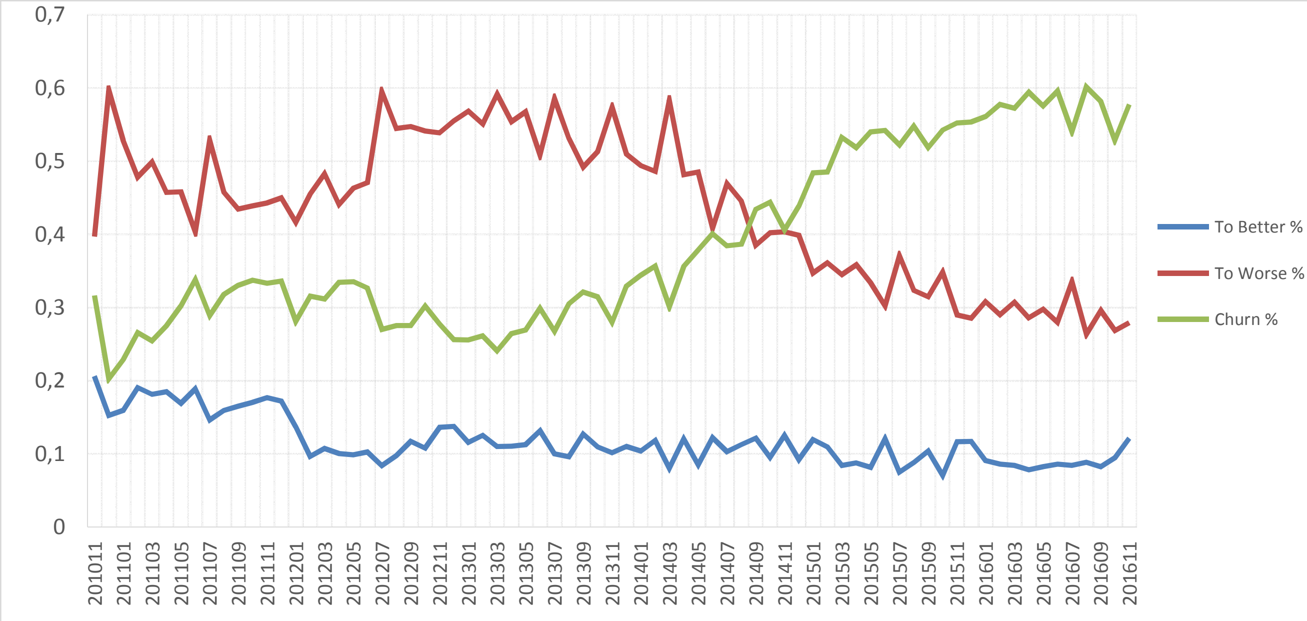


Credit risk is assessed, among other things, by:

- Vintage analysis. This indicator is the ratio of a generation of loans that in any month have been classified as bad to the total of the same loan generation. This is a tool that allows you to make comparisons between different production performances (over the life of the product), according to their segmentation. The comparison is between products with a similar production date, so you can identify any deviations from past performances. Usually, graphic representations are used to keep track of the trend, such as the one that shows the relationship between age and the loss rate;



- Trend analysis (roll rate). Represents the trend of loans observed over a period of time between T0 and T1, with the determination of any status change at T1 of the loans, which at the start of the observation were included in a certain past due band. This indicator is used to identify the roll rate of the loan portfolio.



Polynomial models are used (confidence/R2 ~ 95%) for stress test purposes, also to take account of the trend in default rates with a non-linear trend at the same date of the first instalment.

Please read Section F - *Models for the measurement of credit risk* in the Consolidated Financial Statements for further information on the method used.

Section 2 – Market risks

2.1 Interest rate risk and price risk - Trading portfolio reported for supervisory purposes

The Bank does not hold any trading portfolios reported for supervisory purposes.

2.2 Interest rate risk and price risk – banking book

Qualitative information

A. General aspects, management and measurement of interest rate risk and price risk

The Bank is exposed to fair value interest rate risk (risk that the value of assets and liabilities issued at fixed rates changes as a consequence of a fluctuation in the interest rate curve) and cash flow risk (risk that interest-related cash flow changes as a consequence of a fluctuation in the interest rate curve).

The sources of interest rate risk are mainly related to loans to customers, which are generated by the placement of consumer credit products and services (asset items) and their means of funding (liability items). In fact, the sector in which the Bank operates is characterised by the asset mix, which is typically composed of loans granted mainly at fixed rates; whereas the funding sources are both fixed rate and floating rate. Accordingly, the main interest rate categories to which the Bank is exposed lead to repricing risk.

Interest rate risk is managed by macro-strategies shared at Group level within well defined, formalised exposure limits.

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 Spanish Parent Company policies.
Specific ratios are formalised by the Finance Department and monitored by the Risk Management Department. Specific quantitative limits are set for the following risk metrics:

- Market Value of Equity Sensitivity (MVE Sens.);
- Net interest margin Sensitivity (NIM Sens.).

To mitigate the risk of fluctuations in interest rates, the Bank implements two main forms of mitigation:

- use of financial instruments;
  - derivatives: used to hedge interest rate risk (usually Interest Rate Swaps);
  - medium-term fixed rate financing: used as an alternative to derivatives, to mitigate the exposure to interest rate risk;
- operating limits consistent with the risk objectives established by the Bank.

Of the various types of risk hedges that are acceptable, the Bank has chosen to use derivatives according to the following methods.

B. 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.

C. Cash flow hedges

As regards cash flow hedges, the Parent Company has entered into bullet derivatives to neutralise the exposure of its liabilities to changes in future cash flows arising from unexpected fluctuations in interest rates.
The effectiveness of the hedges is periodically measured and formalised, based on monthly predefined tests (both retrospective and prospective):

- prospective test. The prospective test also involves preparing a report that identifies the correlation between the cash flows (interest) arising from the item being hedged by the hedging instrument;
- retrospective test. The aim of the test is to verify the correlation/relationship between interest expense generated by loans granted and interest income earned from traded derivatives (floating flow).

The observation interval and effectiveness meet the requirements of IAS-IFRS. The metrics are defined/maintained in accordance with the Spanish Parent Company's instructions.

As at 31 December 2016, all cash flow hedges are settled.

Quantitative information

1. Banking book: distribution by residual duration (repricing date) of financial assets and liabilities

This table is not prepared as the next section gives an analysis of the sensitivity to interest rate risk based on internal models and this analysis covers the whole of the banking book.

2. Banking book: internal models and other methodologies for analysing sensitivity

The measurement/quantification of financial risks, especially the interest rate risk, is carried out by analysing the specific synthetic indicators described below. These indicators are calculated on a monthly basis, which involves calculating a final figure at the end of each month, as well as a forecast figure for the next reporting period. The Finance Department of Santander Consumer Bank is responsible for preparing and maintaining adequate, uniform and timely reporting for the monitoring of interest rate risk. When reporting, specific ratios are formalised by that Department and monitored by the Risk Management Department.

Sensitivity indicator “Market Value of Equity” (MVE)

This indicator is aimed at quantifying and monitoring the sensitivity of the interest rate risk; in particular, it quantifies the effect of a parallel and symmetric change in the interest rate curve under various scenarios on shareholders’ equity. The scenarios on which the calculation is performed are ±25, ±50, ±75, ±100, ±200 and +250 b.p. The following paragraph shows the results obtained by applying the scenario +100 basis points on which are based the monthly analysis and the decisions on interest rate risk. 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 2016, the MVE calculated with a shift of +100 basis points was Euro -27.1 million; in 2016, the average figure was Euro -31.2 million, with a minimum of Euro -35.1 million and a maximum of Euro -26.6 million.

Sensitivity indicator “Net Interest Margin” (NIM)

This indicator is aimed at quantifying and monitoring the sensitivity of the interest rate risk; in particular, it quantifies the effect of a parallel and symmetric change in the interest rate curve under various scenarios on net interest income (analysis period: 12 months). As regards interest rate shift scenarios, please see the information provided in the paragraph above.
At 31 December 2016, the NIM was Euro -4.5 million (with a shift of +100 basis points).

+100 bps MM	MVE	NIM
December 16	-27.1	-4.5
Limit	±40	±12

-100 bps MM	MVE	NIM
December 16	8.75	0
Limit	±40	±12

2.3 Exchange risk

The Bank is not exposed to exchange risk.

2.4 Derivatives

A. Financial derivatives

A.1 Trading portfolio for supervisory purposes: period-end notional amounts

The Bank does not have any derivatives classified in the trading portfolio for supervisory purposes.

A.2 Banking book: period-end notional amounts

A.2.1 For hedging

Underlying assets / Type of derivatives	Total 12/31/2016		Total 12/31/2015	
	Over the counter	Clearing House	Over the counter	Clearing House
1. Debt securities and interest rate indexes	**748,387**		**1,780,887**	
a) Options				
b) Swap	748,387		1,780,887	
c) Forward				
d) Futures				
e) Others				
2. Equity instruments and stock indexes				
a) Options				
b) Swap				
c) Forward				
d) Futures				
e) Others				
3. Gold and currencies				
a) Options				
b) Swap				
c) Forward				
d) Futures				
e) Others				
4. Commodities				
5. Other underlyings				
Total	**748,387**		**1,780,887**	
Average	**1,231,808**		**2,632,662**	

For details of interest rate swap transactions, see Part B – Information on the balance sheet, section 2 of assets and section 6 of liabilities.

A.2.2 Other derivatives

Underlying assets / Type of derivatives	Total 12/31/2016		Total 12/31/2015	
	Over the counter	Clearing House	Over the counter	Clearing House
1. Debt securities and interest rate indexes	**404,256**		**646,800**	
a) Options				
b) Swap	404,256		646,800	
c) Forward				
d) Futures				
e) Others				
2. Equity instruments and stock indexes				
a) Options				
b) Swap				
c) Forward				
d) Futures				
e) Others				
3. Gold and currencies				
a) Options				
b) Swap				
c) Forward				
d) Futures				
e) Others				
4. Commodities				
5. Other underlyings				
Total	**404,256**		**646,800**	
Average	**574,479**		**890,777**	

For details of interest rate swap transactions, see Part B – Information on the balance sheet, section 2 of assets and section 6 of liabilities.

A.3 Financial derivatives: positive gross fair value – breakdown by product

Portfolios / Types of derivatives	Positive fair value			
	Total 12/31/2016		Total 12/31/2015	
	Over the counter	Clearing House	Over the counter	Clearing House
A. Regulatory trading portfolio				
a) Options				
b) Interest rate swap				
c) Cross currency swap				
d) Equity Swap				
e) Forward				
f) Futures				
g) Other				
B. Banking book - Hedging derivatives				
a) Options				
b) Interest rate swap				
c) Cross currency swap				
d) Equity Swap				
e) Forward				
f) Futures				
g) Other				
C. Banking book - Other derivatives				
a) Options				
b) Interest rate swap	2,992		4,577	
c) Cross currency swap				
d) Equity Swap				
e) Forward				
f) Futures				
g) Others				
Total	**2,992**		**4,577**	

A.4 Financial derivatives: negative gross fair value – breakdown by product

Portfolios / Types of derivatives	Negative fair value			
	Total 12/31/2016		Total 12/31/2015	
	Over the counter	Clearing House	Over the counter	Clearing House
A. Regulatory trading portfolio				
a) Options				
b) Interest rate swap				
c) Cross currency swap				
d) Equity Swap				
e) Forward				
f) Futures				
g) Others				
B. Banking book - Hedging derivatives				
a) Options				
b) Interest rate swap	11,585		28,643	
c) Cross currency swap				
d) Equity Swap				
e) Forward				
f) Futures				
g) Others				
C. Banking book - Other derivatives				
a) Options				
b) Interest rate swap				
c) Cross currency swap				
d) Equity Swap				
e) Forward				
f) Futures				
g) Others				
Total	**11,585**		**28,643**	

A.5 OTC financial derivatives: trading portfolio for supervisory purposes – notional amounts, positive and negative gross fair values by counterparty – contracts not included in netting agreements

The Bank does not have any positions classified in the trading portfolio for supervisory purposes.

A.6 OTC financial derivatives: trading portfolio for supervisory purposes – notional amounts, positive and negative gross fair values by counterparty – contracts included in netting agreements

The Bank does not have any positions classified in the trading portfolio for supervisory purposes.

A.7 OTC financial derivatives: banking portfolio – notional amounts, positive and negative gross fair values by counterparty – contracts not included in netting agreements

The Bank has not entered into OTC financial derivatives not included in netting agreements.

A.8 OTC financial derivatives: banking portfolio – notional amounts, positive and negative gross fair values by counterparty – contracts included in netting agreements

Contracts included in netting agreement	Governments and central banks	Other public-sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rate indexes							
- notional amount			1,152,643				
- positive fair value			2,992				
- negative fair value			(11,585)				
2. Equity instruments and stock indexes							
- notional amount							
- positive fair value							
- negative fair value							
3. Gold and currencies							
- notional amount							
- positive fair value							
- negative fair value							
4. Other instruments							
- notional amount							
- positive fair value							
- negative fair value							

A.9 Residual life of OTC financial derivatives: notional amounts

Underlying / residual value	Up to 1 year	Over 1 year up to 5 year	Over 5 year	Total
A. Regulatory trading book				
A.1 Financial derivative contracts on debt securities and interest rates				
A.2 Financial derivative contracts on equity securities and stock indexes				
A.3 Financial derivative contracts on exchange rates and gold				
A.4 Financial derivative contracts on other values				
B. Banking portfolio				
B.1 Financial derivative contracts on debt securities and interest rates	644,902	507,742		**1,152,643**
B.2 Financial derivative contracts on equity securities and stock indexes				
B.3 Financial derivative contracts on exchange rates and gold				
B.4 Financial derivative contracts on other values				
Total 12/31/2016	**644,902**	**507,742**		**1,152,643**
Total 12/31/2015	**1,245,850**	**1,181,837**		**2,427,687**

A.10 OTC financial derivatives: counterparty risk/financial risk – Internal models

The Bank does not use EPE-type internal models to calculate counterparty risk and, accordingly, this table has not been completed, although tables A.3 and A.8 have been completed.
For information on the notional value of derivatives by counterparty, please see *Part B – information on the balance sheet,* Assets *Section 8* and Liabilities *Section 6*.

B. Credit derivatives

The Bank does not have any credit derivatives at the date of the financial statements.

C. Financial and credit derivatives

C.1 OTC financial and credit derivatives: net fair value and future exposure by counterparty

	Governments and central banks	Other public-sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1) Bilateral financial derivatives							
- positive fair value			2,992				
- negative fair value			(11,585)				
- future exposure			2,539				
- net counterparty risk			5,530				
2) Bilateral credit derivatives							
- positive fair value							
- negative fair value							
- future exposure							
- net counterparty risk							
3) Cross product agreements							
- positive fair value							
- negative fair value							
- future exposure							
- net counterparty risk							

Section 3 – 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. Santander Consumer Bank has implemented a liquidity policy, approved by the Board of directors, that defines the principles and means for the management of a timing mismatch between maturing assets and liabilities. The Finance Department manages liquidity risk in accordance with the liquidity policy 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.

As well as the above mentioned indicators, the Parent Company also monitors its Liquidity Coverage Ratio defined as:

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

The LCR officially came into force on 1 October 2015 and has to constantly remain above 60% throughout the year, as required by European Commission Regulation 575/2013 and by Directive 2013/36/EU, for Basel III purposes. Santander Consumer Bank's liquidity ratio meets with the above requirement.

Each month a meeting is held of the ALCO (Asset Liability Committee) that comprises 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, with Abbey National Treasury Services plc and with another counterparty with which it has entered into repurchase agreements.

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
On-balance sheet assets	**433,391**	**990**	**48,602**	**46,725**	**378,927**	**717,891**	**905,976**	**2,640,346**	**658,164**	**19,365**
A.1 Government securities					77,812	229,869	102,188			
A.2 Other debt securities										
A.3 Units in investment funds										
A.4 Loans	433,391	990	48,602	46,725	301,114	488,022	803,788	2,640,346	658,164	19,365
- Banks	24,108			23	1					19,365
- Customers	409,283	990	48,602	46,702	301,113	488,022	803,788	2,640,346	658,164	
On-balance sheet liabilities	**695,779**	**178**	**60,426**	**113,166**	**241,011**	**379,658**	**1,114,154**	**2,474,671**	**50,000**	
B.1 Deposits and current accounts	692,355	178	376	803	7,413	153,449	84,209	44,171		
- Banks	29,000			88	119	110,202	50,050			
- Customers	663,355	178	376	715	7,294	43,247	34,159	44,171		
B.2 Debt securities				9	68	112	200,346	113,000		
B.3 Other liabilities	3,424		60,050	112,354	233,529	226,097	829,599	2,317,500	50,000	
Off-balance sheet transactions										
C.1 Physically settled fin. derivatives										
- Long positions										
- Short positions										
C.2 Cash settled Fin. derivatives										
- Long positions					639	39	200,060			
- Short positions		69	174	600	202,169	2,543	3,620			
C.3 Deposit to be received										
- Long positions										
- Short positions										
C.4 Irrevocable commitments to disburse funds										
- Long positions										
- Short positions	103,610									
C.5 Written guarantees										
C.6 Financial guarantees received										
C.7 Physically settled cred. derivatives										
- Long positions										
- Short positions										
C.8 Cash settled Cred. derivatives										
- Long positions										
- Short positions										

With respect to financial assets subject to self-securitisations, at the end of 2016, the Parent Company was involved in three securitisations of performing loans for which it had subscribed all of the securities issued.
The securitisations are stand-alone.
At 31 December 2016 a further securitisation had been launched called Whole Loan Note, given that it involved a single class of securities.

As part of Operation Golden Bar Stand-Alone 2012-1 the company purchased a portfolio of performing consumer loans (special purpose loans and personal loans) for a total of Euro 753,106,836, which was completed on 23 July 2012 with the issuance of a single series of securities for a total of Euro 753,100,000, divided into three classes with decreasing order of priority and subscribed entirely by the originator.
On 28 September 2016 the transaction was terminated ahead of schedule, with the complete redemption of the securities and the transfer to the originator of the entire portfolio of underlying loans.

As part of Operation Golden Bar Whole Loan Note VFN 2013-1 the company purchased a portfolio of performing loans for a total of Euro 425,143,451, which was completed on 23 July 2013. In October 2013 an additional transfer of loans for Euro 66,447,730 was made and a single series of notes was issued for Euro 491,590,000, with a revolving period of 5 years.

In accordance with the variable funding structure, the exchange value of the securities was increased after issuance until the month of August 2015, up to an amount of Euro 570,596,900.
During the year, the SPE made four further acquisitions of performing consumer loans for a total of Euro 239,792,505.

As part of Operation Golden Bar Stand Alone 2014-1 the company purchased a portfolio of performing loans granted for the purchase of new and second-hand cars of Euro 752,046,351, which was completed on 25 June 2014 with the issuance of a single series of securities for a total of Euro 752,000,000, divided into three classes with decreasing order of priority and subscribed entirely by the originator. On the same date, Santander Consumer Bank granted the company a subordinated loan of Euro 18,830,000, so as to guarantee the cash reserve of Euro 18,800,000 required by contract. At the end of the year the subordinated loan has been fully repaid.
During the year, the SPE made one further revolving acquisition of performing loans for a total of Euro 81,657,160. The redemption of Class A securities also began in the year, of an amount of Euro 242,543,532.

As part of Operation Golden Bar VFN 2015-1 the Company purchased a portfolio of performing loans for a total of Euro 700,091,097, which was completed on 9 October 2015 with the issuance of a single series of securities for a total of Euro 700,000,000, divided into three classes with decreasing order of priority and subscribed entirely by the originator. On the same date, Santander Consumer Bank granted the company a subordinated loan of Euro 17,530,000, so as to guarantee the cash reserve of Euro 17,500,000 required by contract. At the end of the year the subordinated loan has been fully repaid. The variable funding structure of the transaction made it possible to increase the value of the securities issued up to an amount of Euro 1,000,000,000.
During the year, the SPE made four further revolving acquisitions of performing loans for a total of Euro 361,241,419.

As part of Operation Golden Bar VFN 2016-1, the company purchased a portfolio of performing loans consisting of loans secured by salary assignment, pension assignment and deductions at source, for a total of Euro 657,053,698, followed by the sale of a further portfolio for a total of Euro 443,034,331. Both acquisitions were finalised with the issuance of a single series of securities on 2 August 2016, for a total amount of Euro 1,100,000,000, divided into six classes with decreasing order of priority and subscribed entirely by the Originator.
On the same date, Santander Consumer Bank granted the company a subordinated loan of Euro 49,500,000, so as to guarantee the cash reserve of Euro 27,500,000 and the liquidity reserve of Euro 22,000,000 required by contract. At the end of the year, the amount of the outstanding subordinated loan is Euro 41,286,909. The variable funding structure of the transaction made it possible to increase the value of the securities issued up to an amount of Euro 1,300,000,000.
During the year, the SPE made one further revolving acquisition of performing loans consisting of loans secured by salary assignment, pension assignment and deductions at source, for a total of Euro 145,215,485.

In the course of the year, the operations Golden Bar Stand Alone 2012-1, Golden Bar Stand Alone 2014-1, Golden Bar VFN 2015-1 and Golden Bar VFN 2016-1 were monitored by Moody's Investors Services and by DBRS.

As the servicer, Santander Consumer Bank handles the management of payments from customers, the immediate crediting of the funds received to the SPE and, where necessary, the activation of debt collection procedures.

	Assets held by the SPE	Senior and Mezzanine Securities subscribed	Junior Securities subscribed	Cash Reserve	Assets held by the Group	Type of collateral	Distribution of collateral by geographical area	Average maturity of the collateral	Rating of the collateral
Golden Bar Whole Loan Note VFN 2013-1	525,120		570,597	4,760	6,770,121	n.a.	n.a.	n.a.	n.a.
Golden Bar Stand Alone 2014-1	500,105	434356.468	75,100	34,835		n.a.	n.a.	n.a.	n.a.
Golden Bar Stand Alone 2015-1	1,008,487	623,000	77,000	37,429		n.a.	n.a.	n.a.	n.a.
Golden Bar VFN 2016-1	1,031,005	1,099,890	110	76,236		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 2016

Breakdown of the excess spread accrued during the year	12/31/2016				
	Golden Bar Stand Alone 2012-1	Golden Bar Whole Loan Note VFN 2013-1	Golden Bar Stand Alone 2014-1	Golden Bar Stand Alone 2015-1	Golden Bar VFN 2016-1
Interest expense on securities issued	(524)	-	(5,455)	(9,667)	(8,803)
- *for servicing*	(386)	(2,593)	(3,449)	(936)	(1,205)
- *for other services*	(11)	(76)	(303)	(114)	(11)
Other charges	(572)	(986)	(3,776)	(270)	(585)
Interest generated by the securitised assets	13,358	42,134	44,366	50,396	45,465
Other revenues	323	1,899	2,948	2,651	88
Total interest income	**12,188**	**40,378**	**34,331**	**42,060**	**34,949**

Financial year 2015

Breakdown of the excess spread accrued during the year	12/31/2015								
	Golden Bar Programme IV	Golden Bar Stand Alone 2011-1	Golden Bar Stand Alone 2011-2	Golden Bar Stand Alone 2012-1	Golden Bar Stand Alone 2012-2	Golden Bar Whole Loan Note VFN 2013-1	Golden Bar Whole Loan Note 2013-2	Golden Bar Stand Alone 2014-1	Golden Bar Stand Alone 2015-1
Interest expense on securities issued	(2,040)	(536)	(384)	(2,087)	(8,654)			(7,640)	(2,220)
- *for servicing*	(568)	(421)	(1,072)	(950)	(3,046)	(2,943)	(953)	(3,799)	(171)
- *for other services*	(10)	(13)	(11)	(22)	(17)	(19)	(11)	(25)	(6)
Other charges	(290)	(2,689)	(4,146)	(942)	(86)	(445)	(8)	(2,496)	(158)
Interest generated by the securitised assets	9,592	4,140	14,686	27,930	34,209	45,341	8,740	50,674	24,069
Other revenues	834	371	489	678	15	1,815	1	3,015	1,154
Total interest income	**7,518**	**852**	**9,562**	**24,607**	**22,421**	**43,749**	**7,769**	**39,729**	**22,668**

Section 4 – 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.
Operational risk is therefore closely linked to the Bank's operations. 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;
- provision;
- after-sale processes;
- back office processes;
- back-end activities;
- marketing activities;
- debt collection activities.

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.

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.

A database is also used to store the losses generated by inadequate processes and information systems, and by fraud, as well as reports of events that could be a source of operational risk and potential losses.

Legal risk includes various types of regulatory violations, illegal behaviour and non-compliant business methods that could result in financial losses for the intermediary. These include, for example, losses resulting from:

- violations of laws or regulations;
- fines and penalties resulting from measures taken by the Supervisory Authority;
- transactions carried out as part of non-traditional activities with non-residents, which the counterparty is banned from entering into by law or regulations;
- use of unacceptable business methods.

Also falling within the definition of legal risk are losses from retroactive changes in the regulatory framework, as well as those resulting from settlements.

The risk of litigation has been the subject of specific and careful analysis by the Bank. In the presence of legal obligations, for which it is probable that there will be an outflow of economic resources for their fulfilment, and for which it is possible to make a reliable estimate of the amount involved, the Bank decided to set up provisions for risks and charges, distinguishing between situations according to the most appropriate Basel II category (i.e. Provision for Legal Risks, categories IV/VII).

These two Basel categories of legal-type risk include the following:

Category IV: practices connected with customers, products and activities such as breach of the fiduciary relationship, abuse of confidential information.
Category VII: executive and procedural compliance such as incorrect data entry, incomplete legal documentation, breach of contract by non-customer counterparties, legal disputes with suppliers.

The provisions for legal risks in place at 31 December 2016 amount to Euro 24,976 thousand, of which Euro 14,153 are set aside for claims and appeals.

Quantitative information

The risk exposure of each unit is identified by the corporate risk matrix. The model used for the self-assessment questionnaires consists of three phases:

- Identification of risks by business areas, with the creation of a specific library containing objectives, activities and root cause that trigger risk events
- measurement of inherent risk: risk associated with an activity/process regardless of the level of control present. The level of risk is given by the combination of probability/frequency of realisation of the asset/process and the potential impact generated by the event. The size of the impact is assessed using different criteria depending on the type of risk being considered
- verification of the presence of appropriate control tools: control systems must be evaluated according to effectiveness (0%-100%), adequacy and possible future developments for the year.
- measurement of residual risk determined by the combination of inherent risk and evaluation of control systems and measured in terms of probability/frequency of realisation of the asset/process and the potential impact generated by the event
- definition of controls for risks deemed acceptable or mitigation plans for risks deemed not acceptable

Details are provided below of gross losses suffered and net provisions made in 2016 by risk category:

	2016			
In thousands of local unit	**Net Losses**	**Net provisions**	**Addition and Uses**	**Net Op Risk Impact**
Internal Fraud	-	-	-	-
External Fraud	224	604	-	828
Employment. Practices & Workplace Safety	-	-	-	-
Clients, Products & Business Practices	6,954	8,804	- 11,345	4,414
Damage to Physical Assets	-	-	-	-
Business Disruption & System Failures	-	-	-	-
Execution, Delivery & Process Management	446	7,893	- 897	7,442
Total	**7,624**	**17,301**	**- 12,242**	**12,684**

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

The following table explains analytically the items in the shareholders' equity of the Bank.

Items/Amounts	Amount 12/31/2016	Amount 12/31/2015
1. Share capital	**573,000**	**573,000**
2. Share premium reserve	**633**	**633**
3. Reserves	**40,223**	**(43,883)**
- income reserves	310	(75,132)
a) legal reserve	2,180	424
b) statutory reserve		
c) reserve for treasury shares		
d) other	(1,870)	(75,556)
- other	39,913	31,249
4. Equity instruments		
5. (Treasury shares)		
6. Revaluation reserves	**(589)**	**(1,608)**
- Financial assets available for sale	45	184
- Property, plant and equipment		
- Intangible assets		
- Foreign investment hedges		
- Cash flow hedges		(1,079)
- Exchange differences		
- Non-current assets held for sale		
- Actuarial gains(losses) on defined benefit plans	(634)	(713)
- Portion of measurement reserves relating to investments carried at equity		
- Special revaluation laws		
7. Net profit (loss)	**66,484**	**35,106**
Total	**679,750**	**563,247**

B.2 Valuation reserves for financial assets available for sale: breakdown

Assets / values	Total 12/31/2016		Total 12/31/2015	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	101	(56)	209	(25)
2. Equity securities				
3. Units in investment fund				
4. Loans				
Total	**101**	**(56)**	**209**	**(25)**

B.3 Valuation reserves for financial assets available for sale: change in the year

	Debt securities	Equity securities	Units in investments funds	Loans
1. Opening balance	**184**			
2. Positive changes	**127**			
2.1 Fair value increases	127			
2.2 Reclassification through profit or loss of negative reserves				
- due to impairment				
- following disposal				
2.3 Other changes				
3. Negative changes	**265**			
3.1 Fair value reductions	71			
3.2 Impairment losses				
3.3 Reclassification throught profit or loss of positive reserves: following disposal	194			
3.4 Other changes				
4. Closing balance	**45**			

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 equal to Euro 79 thousand, and related to gains included in the overall profitability for the period, for a positive amount equal to Euro 118 thousand (Euro 79 thousand net of the corresponding tax effect).

Section 2 – Own funds and capital adequacy ratios

2.1 Own funds

A. Qualitative information

Santander Consumer Bank is subject to capital adequacy requirements set by the Basel Committee, as incorporated into the current regulations of the Bank of Italy. Under these rules, the ratio between capital and risk-weighted assets must be at least 8% or at higher ratios where established; compliance with this requirement is checked by the Supervisory Board quarterly.

Compliance with the capital requirements is verified from two different perspectives.
A forward-looking perspective, at the same time that the Three-Year Plans and Annual Budget are agreed, to identify the main impacts, which are typically the expected growth in loans and quantification of the different elements of risk (credit, market, operational). Based on quantitative information, a capitalisation plan is prepared in consultation with the Shareholder and on a monthly basis, any new capital requirements and the instruments to be used are identified (typically securitisation operations, increases in capital, subordinated "Tier II" deposits).
A backward-looking perspective, to assess on a quarterly basis during the year any significant variances with respect to the capitalisation plan and, where appropriate, to identify suitable corrective measures to ensure compliance with the capital requirements. Even in the case of extraordinary operations, such as acquisitions or the start-up of new business initiatives, a capitalisation plan is prepared which then becomes an integral part of the overall business plan.

1. Common Equity Tier 1 – CET1

Tier 1 capital includes paid-up capital and reserves, net of intangible assets.

2. Additional Tier 1 – AT1

The Bank does not have any instruments classified as Additional Tier 1.

3. Tier 2 –T2

The contracts relating to the subordinated liabilities are not subject to provisions that allow the liabilities to be converted into capital or any other type of liability, and envisage the following:

- in the event of liquidation of the Bank, repayment of the debt only after all the other creditors not equally subordinated have been satisfied;
- early repayment, if foreseen, only on the Bank's initiative and after receiving authorisation from the Bank of Italy.

	Issue date	Amount (Euro)	Interest rate	Duration
UPPER TIER II subordinated debt to Openbank S.A.	06/30/2008	16,250,000	Euribor 6 months + 2.8%	10 years
UPPER TIER II subordinated debt to Openbank S.A.	10/31/2008	16,250,000	Euribor 6 months + 2.8%	10 years
LOWER TIER II subordinated debt to Openbank S.A.	06/30/2008	6,500,000	Euribor 6 months + 1.8%	10 years
LOWER TIER II subordinated debt to Openbank S.A.	10/31/2008	6,500,000	Euribor 6 months + 1.8%	10 years
TIER II subordinated debt to Santander Consumer Finance S.A.	06/30/2015	50,000,000	Euribor 6 months + 3.2%	10 years

The table shows the carrying amounts of subordinated loans outstanding at the balance sheet date, which for the purposes of determining the Tier 2 capital shown in Section B - Quantitative information, are calculated on the basis of a daily repayment schedule.

B. Quantitative information

	Total 12/31/2016	Total 12/31/2015
A. Capital primary Class 1 (Common Equity Tier 1 - CET1) before application of prudential filters of which CET1 instruments subject to transitional provisions	**613,239**	**528,141**
B. Prudential filters CET1 (+/-)		**1,079**
C. CET1 before items to be deducted and the effects of the transitional arrangements (A +/- B)	**613,239**	**529,220**
D. Deductions from CET1	**8,178**	**9,141**
E. Transitional arrangements - Impact on CET1 (+/-)		
F. Total Capital primary Class 1 (Common Equity Tier 1 - CET1) (C - D +/- E)	**605,061**	**520,079**
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 dall'AT1		
I. Transitional arrangements - Impact of 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 of which T2 instruments subject to transitional provisions	**66,670**	**83,189**
N. Deductions from T2		
O. Transitional arrangements - Impact on T2 (+/-)		
P. Total Share of Class 2 (Tier 2 -T2) (M - N +/- O)	**66,670**	**83,189**
Q. Total own funds (F + L + P)	**671,731**	**603,268**

The table shows the amount of capital for supervisory purposes and its fundamental components which correspond to those indicated in supervisory reports.

2.2 Capital adequacy

A. Qualitative information

Please refer to paragraph A - qualitative information.

B. Quantitative information

Categories / Values	Non weighted assets		Weighted assets	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
A. RISK ASSETS				
A.1 Credit and counterparty risk	6,734,340	6,662,135	4,197,591	4,125,892
1. Standardized approach	6,734,340	6,662,135	4,197,591	4,125,892
2. IRB approach				
2.1 Foundation				
2.2 Advanced				
3. Securitizations				
B. CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			335,807	330,071
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			27,589	25,057
1. Basic inidcator approach (BIA)				
2. Traditional standardized approach (TSA)			27,589	25,057
3. Advanced measurement approach (AMA)				
B.6 Other calculation elements				
B.7 Total capital requirements			363,396	355,129
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Weighted risk assets			4,542,451	4,439,108
C.2 Capital primary class1 / Risk			13.32%	11.72%
C.3 Capital Class 1 / Risk-weighted assets (Total capital ratio)			13.32%	11.72%
C.4 Total own funds / Risk-weighted assets (Total capital ratio)			14.79%	13.59%

The table shows the amount of risk assets and capital requirements that is the same as shown in supervisory reports.

Part G - Business combinations

Section 1 – Transactions carried out during the year

In the course of the financial year, a business unit made up of a network of sole agents specialised in consumer loans and salary assignment loans, and the relevant sales agreements with leading companies, was acquired, from a company forming part of a third-party banking group.

Based on the analysis carried out for the purposes of compliance with the requirements of IFRS 3, it was revealed that the transaction did not result in the recognition of goodwill in Santander Consumer Bank's financial statements, whereas it required the recording of the cash conferred and the relative provision for agents' indemnity.

Section 2 – Transactions subsequent to the year end

The Bank has not carried out any business combination after the balance sheet date.

Section 3 – Retrospective adjustments

The Bank has not carried out any business combination after the balance sheet date.

Part H – Related-party transactions

1. Information on the remuneration of directors, auditors and managers

The following table shows the amounts of compensation paid in 2016 to members of the management and control bodies and to managers with strategic responsibilities that fall within the definition of “related party”.

	12/31/2016
Short-term benefits	2,800
Post-employment benefits	847
Other long-term benefits	-
Termination indemnities	-
Share-based payments	-
Total	**3,647**

2. Related party disclosures

All transactions with related parties were concluded at arm’s-length conditions. Details are shown below (amounts in thousands of euros):

	Receivables	Payables	Derivatives	Expenses	Income
Banco Santander	12,000	11,586	748,387	17,303	14,506
Santander Consumer Finance	-	2,106,446	-	25,299	0
Santander Consumer Finance Media	32	1,979	-	-	135
Banca PSA Italia SpA	82	-	-	-	151
Other Santander Group companies	2,992	100,666	404,256	8,322	1,723

Versus the Spanish Parent Company Banco Santander:

- the receivables relate to amounts paid by way of guarantee deposit payments in connection with derivative contracts entered into with the Spanish counterparty;
- the payables relate to the measurement of derivatives and related interest;
- the derivatives refer to interest risk hedging transactions as mentioned in Part E, Section 2. The amount shown in the table is the algebraic sum of the notional amounts;
- the expenses mainly relate to hedging activities (Euro 17,177 thousand) and to brokerage (Euro 126 thousand);
- income relates to hedging activities;

Versus 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 (Euro 2,106,446 thousand);
- the charges relate to interest expenses on loans received (Euro 24,222 thousand) and to negative differentials on the hedging result (Euro 1,077 thousand);

Versus the direct subsidiary Santander Consumer Finance Media:

- the payables mainly relate to the negative balance of the correspondent current account, which amounts to Euro 1,825 thousand and to a payable due to the subsidiary under domestic tax group arrangements of Euro 153 thousand;
- the income refers to interest income on loans of Euro 11 thousand and commissions for the servicing contract for Euro 116 thousand.

in respect of the investee company Banca PSA SpA:

- the receivables relate to outsourcing fees not yet paid by the subsidiary (Euro 82 thousand);
- the income relates to services deriving from the internal audit contract (Euro 151 thousand).

Relationships are also maintained with other companies of the Santander Group. Receivables relate to the measurement of derivatives related to securitisation transactions and related accruals of Euro 2,992 thousand. the derivatives refer to trading transactions as mentioned in Part E, Section 2. The amount shown in the table is the algebraic sum of the notional amounts. The payables mainly consist of subordinated loans and hybrid capital instruments (Euro 97,706 thousand), whereas the expenses mainly consist of interest expense accrued on loans requested (Euro 3,508 thousand) and consulting and services received (Euro 4,786 thousand). The income mainly relates to the result of the derivative towards Abbey for the securitisation transaction (Euro 1,632 thousand) and to the reimbursement of expenses (Euro 77 thousand);

Finally it should be noted that there are credits in the amount of Euro 430 thousand and debits in the amount of Euro 562 thousand in respect of related parties.

Other information

For the information required by art. 2427, paragraph 16 bis of the Italian Civil Code concerning the total amount of fees due to the independent auditors, please refer to *Part H - Related-party transactions – Other information* of the consolidated financial statements of Santander Consumer Bank Group.

Part I – Share-based payments

The Bank has not entered into any payment agreements based on its own equity instruments.

Part L – Segment reporting

Not applicable.

Balance sheet and income statement of Santander Consumer Finance, S.A.

On the basis of the provisions of Legislative Decree no. 6/2003 on the disclosures to be made with regard to direction and coordination activities to which Santander Consumer Bank S.p.A. is subject (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.

SANTANDER CONSUMER FINANCE, S.A.

CONDENSED BALANCE SHEETS AS AT 31 DECEMBER 2015 AND 2014

(Thousands of Euros)

ASSETS	2015	2014	LIABILITIES AND EQUITY	2015	2014
CASH AND BALANCES WITH CENTRAL BANKS	1,069,693	66,210	**LIABILITIES**		
FINANCIAL ASSETS HELD FOR TRADING	-	-			
OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-	FINANCIAL LIABILITIES HELD FOR TRADING	109	2,528
AVAILABLE-FOR-SALE FINANCIAL ASSETS	1,268,006	-	OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-
LOANS AND RECEIVABLES	20,072,951	14,712,080	FINANCIAL LIABILITIES AT AMORTISED COST	23,700,086	14,919,284
HELD-TO-MATURITY INVESTMENTS	-	-	CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	-	-
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	-	-	HEDGING DERIVATIVES	15,631	22,343
HEDGING DERIVATIVES	106,459	128,365	LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE		-
NON-CURRENT ASSETS HELD FOR SALE	9,875	10,959	PROVISIONS	59,720	56,652
INVESTMENTS	10,445,007	8,934,522	TAX LIABILITIES	65,689	204,723
INSURANCE CONTRACTS LINKED TO PENSIONS	-	-	OTHER LIABILITIES	23,378	23,588
TANGIBLE ASSETS	75	38	**TOTAL LIABILITIES**	**23,864,613**	**15,229,118**
INTANGIBLE ASSETS	4,740	722			
TAX ASSETS	245,400	295,498	SHAREHOLDERS' EQUITY	9,360,294	8,926,352
OTHER ASSETS	1,098	2,289	VALUATION ADJUSTMENTS	(1,603)	(4,787)
			TOTAL EQUITY	**9,358,691**	**8,921,565**
TOTAL ASSETS	**33,223,304**	**24,150,683**	**TOTAL LIABILITIES AND EQUITY**	**33,223,304**	**24,150,683**
MEMORANDUM ITEMS:					
CONTINGENT LIABILITIES	1,013,105	1,097,330			
CONTINGENT COMMITMENTS	3,629,640	8,441,299			

SANTANDER CONSUMER FINANCE, S.A.

CONDENSED INCOME STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014

(Thousands of Euros)

	Income/(Expenses)	
	2015	2014
INTEREST AND SIMILAR INCOME	340,557	362,839
INTEREST EXPENSE AND SIMILAR CHARGES	(147,366)	(189,203)
NET INTEREST INCOME	**193,191**	**173,636**
INCOME FROM EQUITY INSTRUMENTS	274,238	41,571
FEE AND COMMISSION INCOME	31,234	34,505
FEE AND COMMISSION EXPENSE	(47,821)	(50,292)
GAINS/LOSSES ON FINANCIAL ASSETS AND LIABILITIES (net)	(369)	7,238
EXCHANGE DIFFERENCES (net)	131	(6,384)
OTHER OPERATING INCOME	434	63
OTHER OPERATING EXPENSES	(6,608)	(1,844)
GROSS INCOME	**444,430**	**198,493**
ADMINISTRATIVE EXPENSES	(55,036)	(52,044)
DEPRECIATION AND AMORTISATION CHARGE	(236)	(392)
PROVISIONS (net)	(7,441)	(6,520)
IMPAIRMENT LOSSES ON FINANCIAL ASSETS (net)	(26,747)	238
PROFIT FROM OPERATIONS	**354,970**	**139,775**
IMPAIRMENT LOSSES ON OTHER ASSETS (net)	-	-
GAINS (LOSSES) ON DISPOSAL OF ASSETS NOT CLASSIFIED AS NON-CURRENT ASSETS HELD FOR SALE	-	267,437
GAINS FROM BARGAIN PURCHASES ARISING IN BUSINESS COMBINATIONS	-	-
GAINS (LOSSES) ON NON-CURRENT ASSETS HELD FOR SALE NOT CLASSIFIED AS DISCONTINUED OPERATIONS	(4,715)	(6,035)
PROFIT BEFORE TAX	**350,255**	**401,177**
INCOME TAX	63,740	(23,170)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**413,995**	**378,007**
PROFIT (LOSS) FROM DISCONTINUED OPERATIONS (net)	-	-
PROFIT FOR THE YEAR	**413,995**	**378,007**

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