Financial Statements at 31 December 2017

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

General information

General information

Head Office

Corso Massimo d'Azeglio 33/E

Via Nizza 262, 10126 TURIN - Italy (until 28 February 2018)

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 (until 26/07/2017)
Chief Executive Officer	Alberto Merchiori
Directors	Pedro De Elejabeitia Rodriguez
	David Turiel Lopez
	Adelheid Maria Sailer-Schuster
	Emanuela DeMarchi (from 26/07/2017)

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. (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.

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)
- Alberto Merchiori (Chief Executive Officer)
- Pedro De Elejabeitia Rodriguez (Director)
- Emanuela DeMarchi[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.

[1] appointed by the Board of directors' meeting of 26 July 2017, pursuant to art. 2386 of the Italian Civil Code and confirmed by the Shareholders' meeting on 26 October 2017.

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 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 2017, 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:

- Adelheid Maria Sailer-Schuster (Chairman)
- Ettore Gotti Tedeschi
- Pedro De Elejabeitia Rodriguez

Remuneration Committee

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

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

The Remuneration Committee is composed as follows:

- Adelheid Maria Sailer-Schuster (Chairman)
- Pedro De Elejabeitia Rodriguez
- 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)
- Ettore Gotti Tedeschi
- 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 2017, 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), Migeuel Silva (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 and Conduct, the Head of Corporate and Regulatory Affairs, the Head of the Risk Control Unit and the Head of Customer Protection and Anti-Money Laundering.

The Committee's main functions are as follows:

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

The Committee meets on a quarterly basis.

The Executive Risk Control Committee

The activities of the Senior Risk Committee are mainly geared to risk monitoring so as to have a complete overview of business risks (credit, structural and operational). It is made up of: the Chief Executive Officer and General Manager, the Head of Risk, the Head of Sales and Marketing, the Head of Information Technology and Processes, the Head of Institutional Relations, Legal and Compliance, the Head of Collection - CBU, the Head of Administration and Control, the Head of Finance, the Head of the Risk Control Unit, and the Head of Compliance and Conduct.
Where necessary, the meetings are also attended by: the Head of Credit Policies and Credit Decision System, the Head of the Branch Network, the Head of the Agent Network, the Head of the Captive Network, the Head of Treasury, the Head of Financial Management, the Head of the CBU-CQS.

The Committee meets on a quarterly basis.

The Executive Risk Committee

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

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

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

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

The Committee meets regularly, on a weekly basis.

The Financial Risk Management Committee (ALCO)

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

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

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

It normally meets on a monthly basis.

The Internal Audit Committee

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

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

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

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

The Committee meets on a quarterly basis.

The Compliance and Conduct Committee

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

The Committee is also assigned the task of 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 Information Technology and Processes, 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 and Conduct, the Head of Risk Control and the Head of After-Sales Service.

The Committee meets on a quarterly basis.

Internal Control Coordination Committee (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, and the Head of Compliance and Conduct.

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.

The 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 and Conduct.

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

It normally meets on a monthly basis.

The Operational Risk Committee

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

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

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

The Committee meets ten times a year.

The Information Technology Committee

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

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

The Committee meets nine times a year.

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.

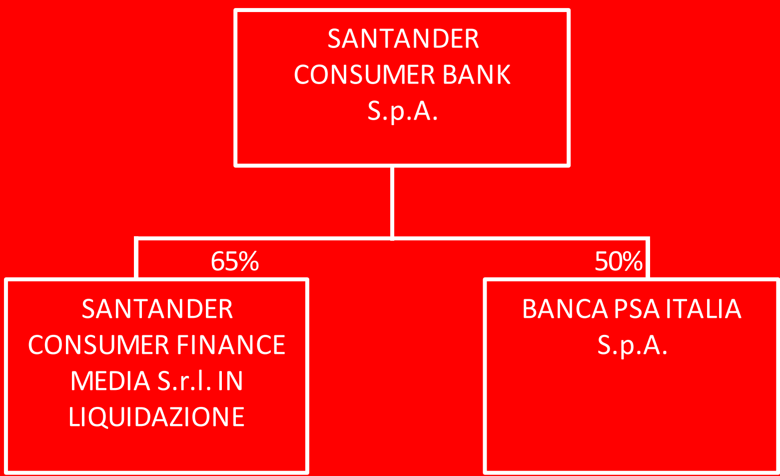
Report on corporate governance and the ownership structure

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 Notes to the Consolidated Financial Statements and the Separate Financial Statements of Santander Consumer Bank.

Santander
CONSUMER BANK

Consolidated financial statements of the Santander Consumer Bank Group

1 Report on Operations
2 Independent Auditors' report
3 Balance Sheet
4 Income Statement
5 Statement of comprehensive income
6 Statement of changes in shareholders' equity
7 Cash flow statement
8 Notes to the financial statements



Report on Group operations

Report on operations

The macroeconomic scenario

The international economy[1] grew steadily in 2017 in the main advanced and emerging economies, even though on the whole inflation continues to be weak. Short-term growth prospects remain favourable but there is still the risk that a downward adjustment of the prices of financial assets could slow economic activity.
In the third quarter of 2017, economic activity in the main advanced economies continued to expand; employment increased both in the third quarter and, according to the most recent cyclical indications, in the last months of the year.

According to OECD forecasts issued in November, global prospects remain favourable; global GDP was around 3.6% in 2017 and should rise slightly in 2018 to 3.7%. Risks for the world economy continue to be linked to a possible increase in the volatility of the financial markets, connected with a sudden escalation of geopolitical tensions, in particular with North Korea. In addition, the uncertainty about economic policies could have a negative impact on the confidence of households and businesses.

The most recent data indicate sustained growth in the United States and signs of recovery in spending by individuals in the United Kingdom. Despite an agreement being reached on the first phase of negotiations for the United Kingdom's withdrawal from the European Union, there is still a high level of uncertainty regarding the configuration of relations between the two economies. In Japan, the most recent cyclical data indicate an acceleration in economic activity in the fourth quarter of the year.
The recovery that began in the first half of 2017 in emerging countries continues. Growth in China remained stable in the final months of the year, having exceeded expectations in previous quarters, while GDP accelerated in India and Brazil.
Inflation remains subdued in the main advanced economies (just above 2% in the United States, oscillating around 0.5% in Japan) and remains moderate in the major emerging economies.

Oil costs continued to increase from the end of September 2017, driven by the lively dynamics of global demand and by the solidity of the supply control agreement between the main crude oil producing countries; the gradual drawing on global oil stocks and the occurrence of geopolitical tensions in the Middle East and in Venezuela also played their part. The pricing of futures, however, point to a slight decline in oil prices in the medium term.

Estimates of growth prospects were revised upwards for almost all the more advanced economies, but the recovery of the world economy may suffer because of the worsening of geopolitical tensions and uncertainty about the future development of economic policies, with negative repercussions on the expansion of world trade. A deterioration in the international environment or unexpected changes in the economic policies adopted in the main areas might also result in increases in the volatility of the financial markets and risk premiums, affecting financial conditions and consumption and investment decisions.

In the Eurozone[2], growth continued at a sustained rate, mainly driven by foreign demand.
In the third quarter of 2017, euro area GDP rose by 0.7% compared with the previous period, driven mainly by net foreign demand and, to a lesser extent, by consumption. The €-coin indicator developed by the Bank of Italy, which provides an estimate of core trends for European GDP, reached 0.91 in December (0.84 in November), the highest level since the spring of 2006.
On the basis of the most recent framework drawn up in December by Eurosystem experts, Eurozone output is expected to grow by 2.3% in 2018 (2.4% in 2017).
Inflation remains weak, standing at 1.4% in December and averaging at 1.5% in 2017 (0.2% in 2016). In December, in some of the main countries, including Italy, France and Spain, core inflation remained below 1%. The Governing Council of the European Central Bank (ECB) therefore intends to preserve very favourable financing conditions, necessary for a lasting return of inflation toward lower levels but close to 2%.

Lending to households grew in all major countries except Spain (2.7% for the whole of the area). The cost of new financing to businesses and households for the purchase of homes remained at low levels, sovereign risk premiums significantly decreased and the euro strengthened against the main currencies, in particular the US dollar, the yen and the pound sterling. These trends continue to indicate expectations of appreciation of the euro in the short term.

In Italy[3], economic activity accelerated in the third quarter of 2017 thanks to the contribution of both national demand, driven in particular by investments in capital goods, and by foreign demand, with a more marked increase of exports in relation to imports. In the summer months GDP increased by 0.4%, while in the whole of 2017 it increased by 1.5%. Inflation remains weak, however, and in the fourth quarter of 2017 stood at 1.1%.

[1] Bank of Italy, Economic Bulletin, Issue 1/2018 January 2018

[2] Ibidem

[3] Ibidem

In the fourth quarter of 2017, manufacturing activity continued to grow, although to a lesser extent with respect to the strong growth seen in the summer. Business confidence remained at high levels in all major sectors of activity and conditions for investing were confirmed as largely favourable.
In the summer months, household expenditure continued to increase, particularly in durable goods, while the propensity to save stabilised. Consumption patterns contributed to the new increase in disposable income, which benefited from the conditions on the labour market.
After the high levels reached in the summer, registrations of motor vehicles fell in the autumn months by 2.1%; in the same period, however, consumer confidence began to rise once again, particularly in the components relating to the general economic situation and to future expectations.

In the third quarter of 2017, exports began to increase at a sustained rate, driven by the goods compartment; the outlook is very favourable. In the first eleven months of the year, the demand for Italian securities by non-residents increased, while the current account surplus remains high with a larger surplus compared to the same period of the previous year.

In the third quarter of 2017, the number of employees continued to grow, driven by the temporary worker component, while the number of permanent employees remained stable.
In the last months of 2017, the growth in lending by banks to the private sector continued and the expansion in loans to households remained strong, both in the component of loans for the purchase of homes and in that of loans intended for consumption.
Credit quality continued to improve, favoured by the consolidation of the economic recovery, and the weight of non-performing loans continues to fall.

Favourable financial conditions are expected for the Italian economy for the three-year period 2018-2020, with interest rates gradually growing, both in the short-term and long-term.
In a nutshell, the scenario outlined by the latest projections is the following:

- **Monetary policy**. Net debt for 2018 will increase with the approval by the Parliament for the budgetary manoeuvre for the three-year period 2018-2020, but should fall in subsequent years. The budgetary policy stance should continue to be expansive in 2018 and become restrictive in the subsequent two years.
- **GDP.** Estimates anticipate an increase of 1.4% in GDP in 2018 and 1.2% in 2019 and 2020. Economic activity should be driven primarily by domestic demand, while the contribution of foreign demand is expected to be positive only in the two-year period 2019-2020.
- **Labour market.** Employment should continue to grow in a relatively sustained manner, mainly reflecting the favourable development of economic activity. Increasing participation in the labour market, due to the cyclical improvement and to the progressive raising of the retirement age, should result in a gradual decline in the unemployment rate, which is expected to reach 10.5% in 2020 (from 11.3% in 2017).
- **Inflation.** A temporary drop is expected in the course of 2018 (1.1% on average for the year), while it should return to gradual growth in subsequent years (around or slightly above 1.5%). The downward trend expected for 2018 is mainly due to the steadily fading effect of the increase of foodstuffs and energy prices recorded at the beginning of 2017.

Industry trends

New car registrations rose by 7.5% in 2017, representing 1,988,470 cars, driven, above all, by business and car rentals[1] (27.5% and 18.2% respectively). There has also been a positive trend in new vehicle registrations that reached 204,406 units (+5.4%)[2], and in changes of ownership of vehicles excluding transfers to dealers (+4.7%)[3].
As regards the car leasing market, as of December 2017 there had been an increase with respect to prior year (+3.2%)[4]. The increase was mainly driven by the commercial vehicle segments; indeed, car agreements were down -2.6% and commercial vehicles up +4.2%[5].

During 2017, credit risk[6] stabilised thanks to selectivity in granting credit and prudence shown by households in purchase/investment decisions. As regards the consumer credit market, in September 2017, the default rate (i.e. an 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 2018-2019 is a scenario characterised by:

- the consolidation of the stocks of loans to households, thanks to the continued positive trend in flows of consumer credit and mortgage loans, linked to the improvement of the economy and characterised by a lower subrogation and renegotiation element than observed in recent years.

[1] UNRAE data at 31/12/2017

[2] ANCMA data at 31/12/2017 for vehicles over 50 cc.

[3] ACI data at 31/12/2017

[4] ASSILEA data at 31/12/2017

[5] Ibidem

[6] Observatory on retail credit – Prometeia (http://www.prometeia.it/media/comunicati-stampa/ocd1612)

- consumer credit with positive growth rates, albeit lower than current rates, gradually realigning with the trend in the consumption of durable goods. Indeed, the improvement of the financial conditions of households, thanks to a recovering labour market and to the increase in disposable income, will help to increase consumer confidence, thus encouraging medium-long term and property investments, which had been put on hold during the crisis years. These elements will therefore encourage recourse to credit, facilitated also by low interest rates.

Strategic guidelines

Against the background of the dynamic outlined above, Santander Consumer Bank Group operations are geared to a sustainable growth of profits aimed at creating value for shareholders, to an ability to independently generate capital and to a conscious assumption and management of risks.
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.
- **Digitalisation and dematerialisation.** To promote digitisation as a necessary process for the creation of competitive advantages and the automation of procedures.
- **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 level in dispute using an effective strategy of acceptance and recovery.
- **Capital.** Ability to generate capital independently and achieve levels of capitalisation in line with current regulations 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 Group operates.

The Sales Network

As regards consumer credit, the Santander Consumer Bank Group recorded a significant increase in volumes compared to the previous year, with a good performance in the automotive sector and the area of special-purpose loans, and a slight contraction in salary assignment.
In the automotive sector, the Parent Company Santander Consumer Bank recorded an increase of 11.4%, with a significant impact by brands relating to captive agreements, while in 2017 Banca PSA Italia contributed to the results of the consolidated financial statements in the total amount of Euro 795.6 million (+20.1% compared to the previous year).
In 2017, sales of the salary assignment product were down compared with the previous year (-11.1%), mainly due to a very competitive market linked to the presence of competitors with more aggressive financial positions. Special-purpose loans, on the other hand, closed the year with strong growth compared to the performance achieved in the previous year; this increase was due mainly to the widening of the new agent network through acquisition of a business unit from a third-party banking group which took place at the end of last year.
In terms of personal loans, the Bank closed 2017 with a result 4.1% higher than the previous year.

Financial management - The macroeconomic scenario and the financial markets

The international context has been characterised by multiple geopolitical events that have influenced macroeconomic performance.
Globally speaking, there has been a progressive deterioration in relations between the United States and North Korea, with increasing threat linked to a possible nuclear conflict.

In Europe, volatility in the financial markets was low throughout 2017, with moments of increased instability around major electoral events.

Uncertainty relating to the European Union in parallel with elections in the Netherlands and France where a strengthening of the “euro skeptical” movement was feared, and the risk associated with the ways of managing Brexit following the victory of Theresa May in early elections in the UK both had an impact.

Finally, in the last quarter of the year, there were elections in Germany which, given the importance of the country within the EU, raised concerns regarding a possible risk of discontinuity of the current economic policy.

The year just ended saw the strengthening of economic growth, supported mainly by a gradual and progressive recovery of consumption. Inflation, especially if measured net of goods which have strong price volatility, is still far from reaching the target of 2% established by the ECB.

The interest rate scenario was stable in 2017; interest rates remained negative for medium to long-term maturities, with the curve trend edging upwards until the end of 2018.

In an attempt to maintain the growth impetus, the Governor of the ECB, within the scope of its price stability mandate, confirmed the continuation of Quantitative Easing at least up to the third quarter of 2018 in order to encourage the support of banks to the real economy and to sustainably adjust the inflation profile.

On the Italian market, the spread in yields between ten-year government securities and the Bund began to widen at the end of 2017, continuing in the early months of 2018, albeit to a lesser extent. This trend has progressively intensified due to the dissolution of Parliament and the subsequent uncertainty related to the outcome of the elections next spring.

During 2017, the Italian banking system continued the process to dispose of non-performing loans, begun in 2016 with the introduction of the “GACS” State guarantee scheme, aimed at promoting the sale of non-performing bank loans through the securitisation of non-performing loans accompanied by a State guarantee on senior classes.

The financial management of the Group

The financial management of the Santander Consumer Bank Group is based on the sharing of guidelines and objectives set by the Parent Company that reflect the strategy of the Santander Consumer Finance S.A. Group. Banca PSA Italia is also supervised and coordinated by Santander Consumer Bank in terms of financing and enjoys decision-making and operational autonomy in compliance with the assigned limits.

The financial management of Santander Consumer Bank

At the end of 2017, the net amount of financial indebtedness of Santander Consumer Bank came to Euro 5,363 million (+5.38% compared with 2017).

At the end of September 2017, a repo transaction for the amount of Euro 412 million with an underlying ABS expired.

As of 31 December 2017, the total amount that had arisen from having participated in ECB auctions amounted to Euro 1,595 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 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 the first quarter of 2017, the Bank issued EMTNs for a total of Euro 151 million over more tranches, with a two-year maturity. In November 2017, bonds totalling Euro 200 million reached maturity.
As at the reporting date, outstanding issues represented a total of Euro 264 million (approximately 5% of the total).

Retail customer deposits increased significantly, from approximately Euro 760 million at the end of 2016 to approximately Euro 1,020 million at December 2017 (+31%). Further details on funding results are provided in the Deposit accounts section of the separate financial statements of Santander Consumer Bank.

On the whole, the cost of funding decreased in 2017 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 as from 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 80% for 2017.

The financial management of Banca PSA

Intercompany loans are Banca PSA’s main source of financing. During the year, the Bank met part of its financing needs from external sources in accordance with the strategy agreed with the Parent Company. These sources are mainly attributable to the securitisation transaction in the amount of Euro 600 million, the details of 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	300,000,000	AA+ Fitch / AA sf DBRS	09/29/2014	12/27/2029
AUTO ABS Italian Loans Master	**A2**	Eur	350,000,000	300,000,000	AA+ Fitch / AA sf DBRS	09/29/2014	12/27/2029
AUTO ABS Italian Loans Master	**B**	Eur	400,000,000	81,818,465	Unrated	09/29/2014	12/27/2029

In addition, Banca PSA has a line of credit collateralised by trade receivables (recourse assignment) with a leading Italian bank counterparty. During the third quarter of the year, this was decreased by Euro 200 million to Euro 100 million.

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

During the year, the Bank invested in a portfolio of highly liquid eligible securities issued by the Italian government amounting to Euro 60 million at the end of the year.

In 2017, the regulatory liquidity coverage requirement (LCR) was fixed at 80%, 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. Growth prospects are favourable, but there is still the risk that a downward adjustment of the prices of financial assets could slow economic activity. In particular, the recession that has continued to affect both the economic and the financial sector, is one of the biggest risks to continual 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 permit economies of scale by using professional skills and specialised services with continuous improvements in quality, allowing the Bank to focus its resources on managing the core business.
The notes are supplemented by an appendix that summarises the key figures from the latest approved financial statements of the entity that carries out management and coordination activities (Santander Consumer Finance S.A.); the Parent Company Santander Consumer Bank does not own any treasury shares either directly or through trust companies or nominees.

No research and development were carried out during 2017.

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.

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 2017.

It is noted however that, during the same period, the following transactions, which will produce effects from next year, were completed. The first is the merger with Santander Consumer Bank S.p.A. of the Italian business unit of the Group Company Ingeniería de Software Bancario S.L., which was completed in January 2018 and will produce benefits both from the economic point of view and from the point of view of the management and planning of projects related to computer systems. The second is the acquisition of the entire shareholding of PSA Renting by Banca PSA Italia, concluded in January 2018, with a view to the synergetic development of products and services that the Company offers to customers.

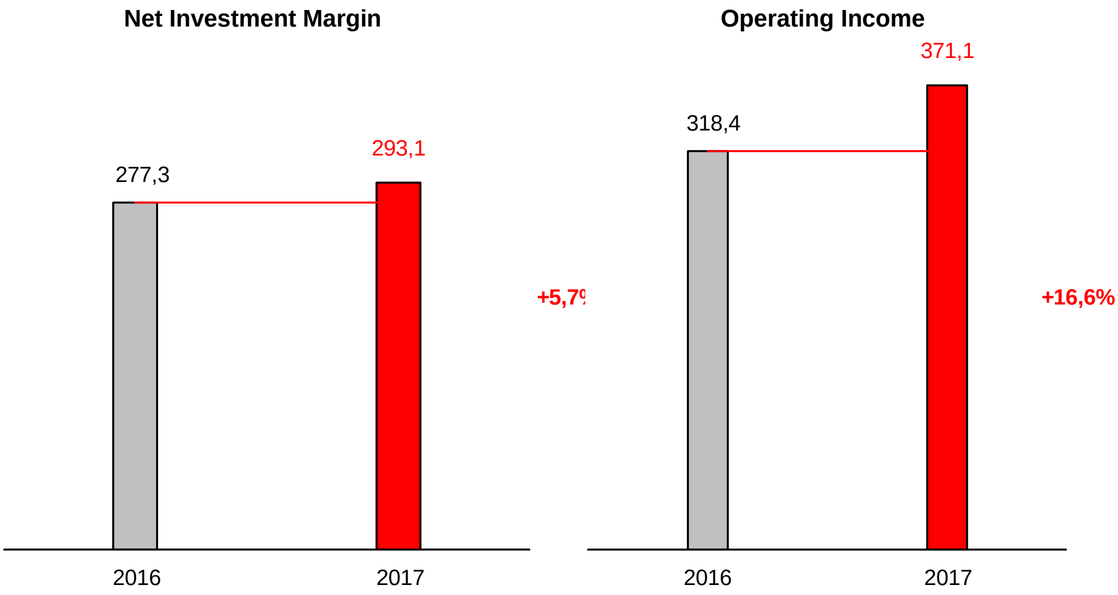
Reconciliation of the Parent Company's shareholders' equity and net income (loss) with the consolidated shareholder's equity and net income (loss)

	Shareholders' equity	of which: Result at 12.31.2017
Balances of the Parent Company at 12.31.2017	**743,409,452**	**80,222,830**
Effect of consolidation of subsidiaries	25,287,630	11,203,610
Minority interests	150,648,262	17,339,155
Consolidated balances at 12.31.2017	**919,345,344**	**108,765,595**

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).

	2017	% TAA	2016	% TAA	Change	
					Amounts	%
Net investment margin	**293.1**	**3.4**	**277.3**	**3.9**	**15.8**	**5.7**
Net fee and commission	46.3	0.5	43.1	0.6	3.2	7.4
Commercial margin	**339.5**	**3.9**	**320.5**	**4.5**	**19.0**	**5.9**
Net income (loss) financial assets and liabilities held for	0.4	0	(2.4)	0.0	2.8	(116.7)
Gains and losses on disposal of financial assets and	31.3	0.4	0.3	0.0	31.0	10,333.3
Operating income	**371.1**	**4.3**	**318.4**	**4.5**	**52.7**	**16.6**
other operating income (charges)	15.2	0.2	23.2	0.3	(8.0)	(34.5)
Administrative costs:	(149.9)	(1.7)	(145.7)	(2.0)	(4.2)	2.9
payroll costs	(56.4)	(0.7)	(54.2)	(0.8)	(2.2)	4.1
other administrative costs	(93.5)	(1.1)	(91.5)	(1.3)	(2.0)	2.2
Depreciation	(4.3)	(0.1)	(4.2)	(0.1)	(0.1)	2.4
Net operating margin	**232.1**	**2.7**	**191.7**	**2.7**	**40.4**	**21.1**
Impairment losses on financial assets	(50.1)	(0.6)	(46.3)	(0.6)	(3.8)	8.2
Other provisions	(18.0)	(0.2)	(11.6)	-20.0%	(6.4)	55.2
Total profit or loss before tax	**164.0**	**1.9**	**133.8**	**190.0%**	**30.2**	**22.6**
Tax	(55.2)	(0.6)	(41.9)	-60.0%	(13.3)	31.7
Net profit or loss	108.8	1.3	91.9	130.0%	16.9	18.4
Consolidated income (loss) of the period	**108.8**	**1.3**	**91.9**	**130.0%**	**16.9**	**18.4**
Holdings income (loss) of the period	**91.4**	**1.1**	**79.2**	**110.0%**	**12.2**	**15.4**



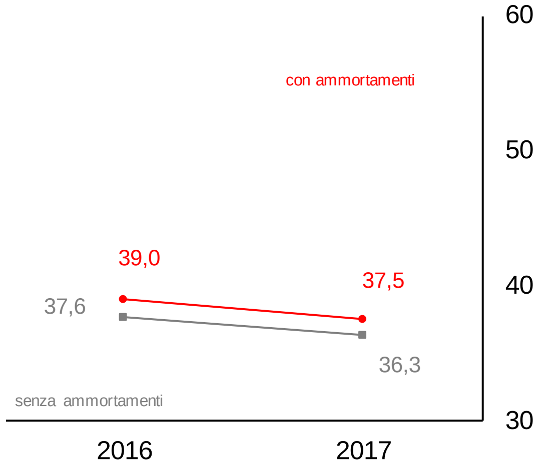
In the year in question there was an increase in the net investment margin compared to the previous year, from Euro 277.3 million in 2016 to Euro 293.1 million in 2017. There was a modest increase in interest income (+0.9%) mainly attributable to the contribution of Banca PSA, offset by the change in the portfolio mix by the Parent Company, as well as a marked reduction in interest expense (-16.8%), driven by a fall in market interest rates and spreads.

Net fee and commission income increased compared to the same period of the previous year (+19%). This was mainly as a result of the higher level of lending, due to production by Banca PSA Italia, which amply compensates for the decrease recorded by the Parent Company.
Operating income increased by 16.6% 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 positive balance of the receivables sold without recourse during the first half of the year by the Parent Company (Euro 31.3 million).

Impairment losses on financial assets increased significantly (+8.2%) as a result of the change in the mix of the portfolio managed by the Parent Company.

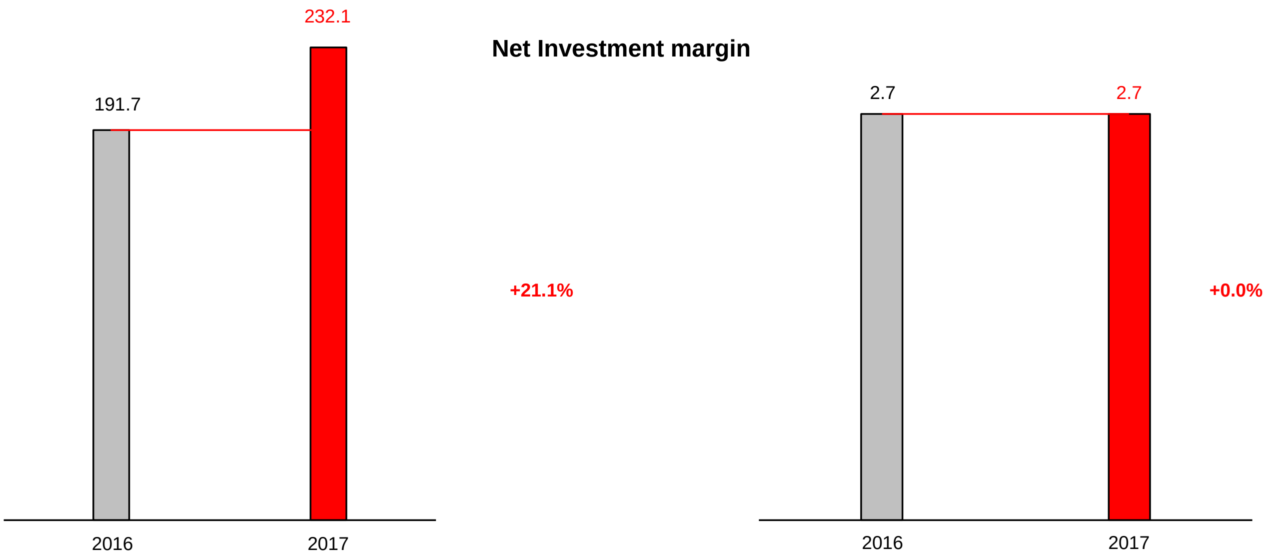
Administrative costs increased modestly compared to the previous year (+2.9%), mainly attributable to Banca PSA Italia, while depreciation and amortisation remained largely in line with the previous year.
“Other provisions” increased, mainly due to higher provisions for litigation.
2017 closed with a net profit of Euro 108.8 million (Euro 91.9 million of which attributable to the Parent Company), a significant increase compared to 2016.

Efficiency Ratio

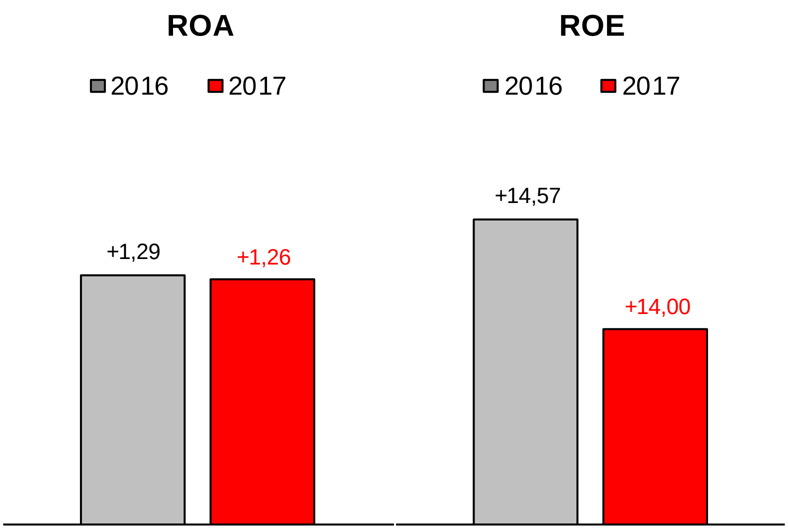


The efficiency ratio, which is the ratio of the sum of administrative costs and other net operating income (with and without depreciation and amortisation) and operating income, saw a decrease compared with the previous year from 39.0% (37.6% without depreciation and amortisation) to 37.5% (36.3% without depreciation and amortisation).

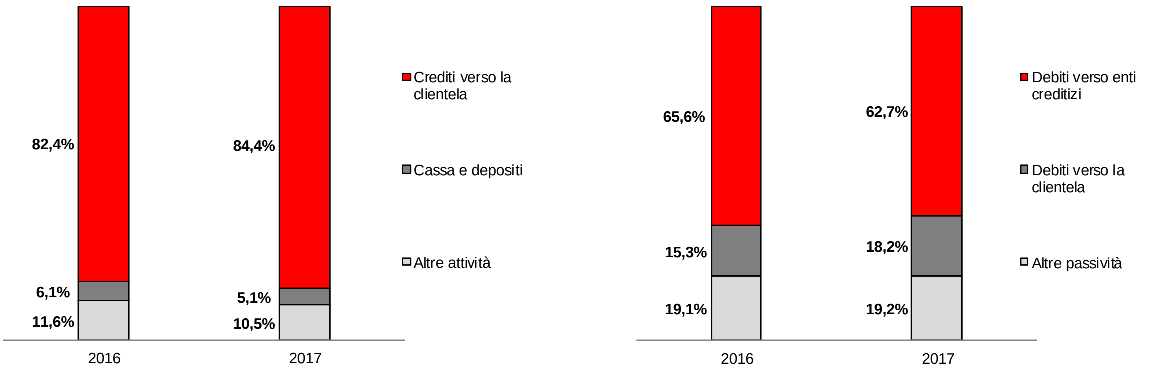
Net Investment margin



Net operating margin, calculated as the sum of operating income, other income and expenses, administrative costs and depreciation and amortisation, grew by 21.1%. It remained in line with the previous year as a proportion of average total assets.



As a result of these trends, ROA (Return On Assets) remained largely in line with the previous year, at 1.26%, while ROE (Return On Equity) came to 14%.

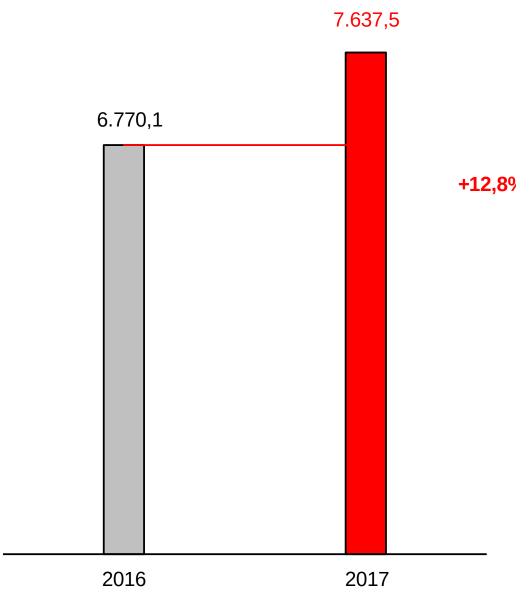


The asset mix is characterised by an increase in “Loans to customers” as a result of the increase of the portfolio, while there was a slight reduction of “Due from credit institutions” and other assets in relation to total assets.
Regarding the structure of sources of funds, on the other hand, there 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.

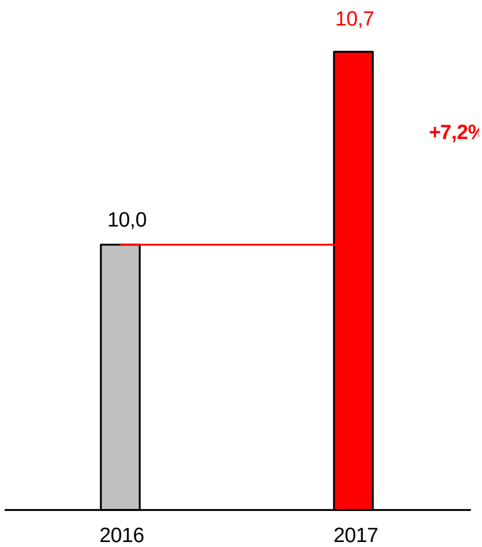
Amounts in millions of Euro			Change	
	2017	**2016**	**Amounts**	**%**
Car loan	3,495	3,077	418	13.6
Special-purpose loan	217	34	183	538.2
Personnel loan	777	1,027	(250)	(24.3)
Cards	9	14	(5)	(35.7)
Leasing	297	272	25	9.2
Salary assignment	1,630	1,685	(55)	(3.3)
Stock financing	1,408	995	413	41.5
Other loans to customers	8	9	(1)	(11.1)
Other components of amortised cost	63	45	18	40.0
Gross loans to customers	7,904	7,158	746	10.4
Provision for loan losses	(266)	(388)	122	31.4
Net loans to customers	7,638	6,770	868	12.8

As regards the change in loans to customers, the total increased compared to the previous year (+12.8%). Analysing the details by product, there is an increase in both retail car loans (+13.6%, +6.2% of which relates to Santander Consumer Bank and +7.4% to Banca PSA Italia), and wholesale car loans (stock financing). Special-purpose loans saw a significant increase as a result of the widening of the new agent network by the Parent Company through the acquisition of a business unit from a third-party banking group which took place at the end of last year. Salary assignment (-3.3%), personal loans (-24.3%) and credit cards (-35.7%) are down.
“Other loans to customers” remain largely in line with the previous year.
“Other components of amortised cost” mainly relate to net amounts of contributions and commissions that are paid when a loan is granted but for which the income statement effect thereof is deferred over the expected residual life of the loan.

Loans for employee



Loans to customers



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

In 2017, the operations of the company, which went into liquidation from 11 December 2014, have continued, in continuity with the previous year, with the aim of continuing the management of the remaining loan portfolio until its natural maturity. Outstanding receivables, gross of related adjustments of Euro 0.9 million, amounted to Euro 6.7 million at 31 December 2017. This item includes due from banks in the amount of Euro 4.5 million and is in line with the previous year. Write-downs of loans adequately cover the credit portfolio per past due time band, which has developed in line with expectations. The run-off of loans is therefore in line with expectations, with a substantial drop in loans in the first half of 2018, during which time a large number of active agreements reach their natural maturity.
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, 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).
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 2017, no new contributions were charged to commercial counterparties, while contributions attributable to the year amounted to Euro 66 thousand (down by 68% compared to prior year).
Commission expense, including the cost of the services provided by the parent company, Santander Consumer Bank, amounted to Euro 49 thousand (60% lower than prior year).
Loss provisions recognised in connection with loans to customers amount to Euro 19 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.
2017 closed with a loss of Euro 163 thousand before tax and Euro 118 thousand net of the positive tax balance resulting from the IRES tax recovery generated by domestic tax consolidation.
As is well known, the company does not have any employees of its own. In fact, the Company has delegated all corporate functions to the parent company, Santander Consumer Bank, which provides the services requested on the basis of a service agreement at a cost that is based on the loans managed. In the current financial year, the Company paid the Parent Company an amount equal to Euro 47 thousand for services received from it.
Transactions with the Parent are all part of ordinary operations, while transactions with related parties are carried out at arm’s length, taking into account the quality and type of services rendered.

Banca PSA Italia S.p.A.

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

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

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

End customer operations in 2017 focused on the distribution of promotional financing, in line with the trend of the entire car consumer credit market.

In the course of 2017, the Bank granted financing totalling Euro 795.6 million, improving on its own forecasts of 20.1%. In terms of breakdown by product type, more than 79% of the year’s lending relates to financing for the purchase of new vehicles, 13% to finance lease transactions, and the remaining 8% to financing for the purchase of used vehicles.

The loan portfolio, gross of adjustment provisions, increased by 26.6% in 2017 to Euro 2,441 million (Euro 1,928 million in 2016) and breaks down as follows: Car Loans 51%, Leases 10%, loans to Corporate Dealers for Stock Financing 39% (note for the latter the growth of 39% compared to the previous year).

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

Of note in 2017 is the payment to the capital reserve performed by the two shareholders in the amount of Euro 53 million to meet the regulatory capital requirements in the face of the portfolio growth recorded both in the retail segment (car loans) and the corporate segment (stock finance).

Against this highly dynamic background, 2017 closed with a net profit of Euro 35 million with an increase with respect to 2016 of 35.7% (2016 net profit Euro 26 million).

This result was generated by the net loan portfolio of Euro 2,410 million which, together with the sale of ancillary services, contributed with an average income of 4.52% (0.54 pp compared to 2016).

Santander
CONSUMER BANK

Consolidated non-financial statement at 31 December 2017

Section 1 - Methodological Note

The Santander Consumer Bank Group (hereinafter also the Group or SCB) falls within the scope of Legislative Decree No. 254 of 30 December 2016, the Italian transposition of European Directive 2014/95/EU concerning the reporting of non-financial information, since it constitutes a public-interest entity and falls within the dimensional and capital requirements provided for by the Decree itself.

This document is the first Consolidated Non-Financial Statement (hereinafter also NFS) by the Group, and is an important tool through which the Group communicates, in a transparent manner, to all stakeholders and to the public, its commitment as regards environmental, economic and social sustainability. The Group has worked on social and environmental issues, implementing policies and promoting initiatives, as set out below. The results achieved are an incentive for continuous improvement. In view of the process started in 2017, the SCB Group undertakes to manage its own environmental and social responsibility, and, more generally, its responsibility with reference to the matters dealt with by Legislative Decree 254/2016, consistent with the Santander Group's current sustainability policy, keeping the policies practised today within a clear reference framework.

The document is published annually in accordance with requirements of Legislative Decree 254/2016.

It was drafted in accordance with the latest version of the Global Reporting Initiative guidelines published in 2016, known as GRI Standards and used as the main tool for reporting on sustainability at national and international level. The approach used to report social and environmental data, as per the decree, is that defined by the GRI Standards as "Referenced". This approach has allowed the Group to report specific data and information, as requested by certain GRI Standards. Specifically, for each GRI Standard applied, the code, identifying name and reference is stated within the document. The SCB Group currently has tools to demonstrate the existence of policies; reference is made to these in the NFS as regards each issue. The document in question therefore makes reference to the GRI Standard indicators that are listed in the appendix to this NFS (see "Reconciliation table with reference GRI Standards").

The drafting of the document involved the heads of various business functions, in order to obtain a complete and across-the-board description of the activities of interest carried out by the Group. The reference period is 2017, but the data referring to 2016 will be given for comparative purposes.

The scope relates to companies subject to consolidation; specifically, this document includes non-financial information for Santander Consumer Bank S.p.A (hereinafter also SCB) and Banca PSA Italia S.p.A (hereinafter also PSA), since Santander Consumer Finance Media in liquidation srl has no employees and entrusts its management to Santander Consumer Bank through a servicing agreement.

With reference to the environmental data relating to energy consumption, the data available relate to SCB's Lingotto office in Turin and to its subsidiaries. The same data relating to Banca PSA Italia S.p.A. have been "omitted", as permitted by reporting standards, due to the impossibility of obtaining such information insofar as the costs incurred for the rental of the property units used are not given in detail.

The principles of the GRI Standards taken into consideration were the result of a prior materiality analysis, on the basis of which the significant issues in the Group's action plan were identified due to their potential impact on the Group and on stakeholders.

Ultimately, the Group invests in the relationship of trust established with its stakeholders, in its presence and focus on the ground, in the welfare of its employees, and in the integrity and transparency of its work.

The information provided is demonstrated by the data reported in measurable quantities and originating from Group documentation; the use of estimates is kept to a minimum, and is in any case always specified.

Section 2 - Reporting scope and period

The scope of this NFS concerns Santander Consumer Bank s.p.a. and Banca PSA Italia S.p.A.
Santander Consumer Bank S.p.A. has its main office in Turin and a secondary office in Castel Maggiore in order to support the business in defining its strategy and business policies. Its country-wide presence is guaranteed by the 21 branches which represent the Bank through sales, administration and the containment of risks arising from its operations, in compliance with the policies and the guidelines established.
Banca PSA Italia S.p.A. has its headquarters in the city of Milan and has no branch or subsidiary offices.

The main stakeholders of the Group are:

Customers	Suppliers
Employees	Public Administration
Shareholders	Supervisory Authority
Partners	Agents

Section 3 - Materiality analysis

Materiality analysis is the tool used to identify the contents of the NFS, and is based on the non-financial issues deemed to be the most significant and that may have a potential impact not only on the bank, but also on the decisions of its stakeholders. In performing the analysis, the Group took into account the requirements set out by the Decree, but in particular the principles observed by its business activities, the interests of its stakeholders and their expectations.

The important issues for the Group dealt with in this document will be:

- Customer focus
- Integrity of business conduct
- Responsible management of credit collection
- Training and development of staff
- Relationship with the community and the territory
- Health and safety in the workplace
- Sensitivity to environmental issues
- Fight against corruption
- Diversity and equal opportunities.

Section 4 - Identity, Governance and risk management system

4.1 The Group's business

Santander Consumer Bank S.p.a. is a consumer credit bank that forms part of the Santander Banking Group, the leader in the Eurozone for capitalisation.

Its relationship with customers is guaranteed through the distribution of branches across the country, through the activities of its 130 tied agents and through its affiliated retailers. Santander Consumer Bank specialises in loans to households for the purchase of goods and services; it has been chosen by 4 million customers for its services: loans, salary/pension assignment loans, credit cards, leases and deposit accounts. In order to offer the customer increasingly innovative services, in 2017 SCB introduced a graphometric digital signature and One Time Password system for a fully paperless experience, which reduces the risks of error in the data entry stage, simplifies and speeds up the admission processes and allows the customer to request a loan directly from home, saving time and paper. This system was used for approximately 50% of new business earnings in 2017. The collaboration with external partners and lecturers, financed by the joint inter-professional fund Fondo Banche Assicurazioni, continued, successfully completing the 2016/2017 training plan and allowing for investment in innovative fields and experimental methods.

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

For further information regarding the Banks' activities, reference is made to the "Corporate Governance" section of the Financial Statements.

4.2 Governance system and policies adopted

The corporate governance system 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, transparency in the communication of corporate decisions and the efficiency of its system of internal control.

It is also noted that SCB has adopted and implemented an Organisation, Management and Control Model pursuant to Legislative Decree 231/01 defined on the basis of the offence risks identified as applicable and relevant. During the year, PSA undertook to adopt policies and procedures necessary for the preparation of an Organisation Model within the meaning of the legislation. The process to create the model had not yet been completed at the end of financial year 2017, but is expected to be concluded during financial year 2018.

In order to adopt its own sustainability policy, the Group has set about identifying the ways in which it can manage its own environmental and social responsibility, and, more generally, its responsibility with reference to the matters dealt with by Legislative Decree 254/2016. The Group's sustainability policy aims to contribute to strengthening and implementing the values of ethics, integrity and responsibility with respect for the environment, for the company as a whole, and with respect for people, and will also aim to identify the functions dedicated to supporting the Group in the management of non-financial issues. In support of the adoption and promotion of this policy, the Group also undertakes to organise specific pillars of Governance, that cover the roles and responsibilities of the above policy.

4.3 Risk management model

As already defined in the corporate governance section, utmost attention is paid to the transmission and the sharing of the risk culture. The SCB Group has established an overall picture of the risks to which it is most exposed as reported in Part E of the Notes - Information on risks and related hedging policies. The Group is also aware that identifying, monitoring and managing social, environmental and in particular business risks is its primary task.

In particular, in order to prevent the risk of offences being committed in environmental matters, the company is fully compliant with a number of principles, including but not limited to the following:

- basing its conduct on the general principles laid down by the Code of Ethics and Conduct, with particular reference to the principles of legality, correctness, traceability and transparency;
- maintaining correct, transparent and collaborative conduct, in respect of the law and of internal company procedures, in all waste management activities;
- pursuing the environmental policy of the Company, with particular reference to the following principles:
    - that the best available technologies are used;
    - that internal staff and all those who work on behalf of the company on environmental and safety issues are trained, informed and given responsibility;
    - that the procedures for managing the environmental system are communicated to customers, suppliers, citizens and institutions;
- entrusting the management of the waste cycle to companies whose profile and qualification are such as to ensure compliance with the law and the principles indicated above;
- collaborating fully with the company that will manage the waste cycle in order to circulate information in a timely and proper manner;
- monitoring and supervising the activities of the companies that have been entrusted with the management of the waste cycle.

The Group analyses the social and environmental risks for all its commercial relations and business activities, in accordance with the Corporate Guidelines (Guidelines on Conduct Risks, Operational Risk and IT Safety), recognised as a result of annual Risk Assessment activities and second-level monitoring of the control functions in which the sustainability policies are defined. The framework established in this way serves to inspire the SCB Group, which undertakes to carry out the activities mentioned involving all the relevant business areas and favouring a widespread risk culture.

Within the Group's organisational structure is the Bank's Risk Management Department, which reports hierarchically to General Management. As stated in the specific section of Part E of the Notes, it is responsible for putting in place all the activities aimed at defining the Group's risk procedures and policies.

SCB uses a specialist risk management software. It is divided into three different tools: risk assessment, result of the exercise and internal loss data. Through the **risk assessment** methodology, SCB is able to outline the major risks and analyse the most critical aspects. By analysing the critical processes, the risk assessment tool helps to establish the threats actually posed. Another tool is the **result of the exercise**, which establishes how significant the risk is and how to protect against it, by estimating the impacts and implementing appropriate countermeasures, depending on the actual requirements or risk levels found. Risk indicators are defined as metrics, indices or measures that can detect SCB's level of exposure to risk: they are only effective if thresholds are established, which are required in order to be able to communicate alert/warning situations, on the basis of which action, analysis and mitigation plans must be generated. Finally, **internal loss data** are a fundamental part of the risk profile assessment, as well as the basis of analysis to assess and identify potential mitigation plans in order to improve the management of risks. Internal loss data is a vital source of

information for determining SCB's risk profile. The correct identification, assessment, classification and maintenance of these events is therefore critical to correctly managing and assessing the risk.
With respect to the three methodologies mentioned above, with specific reference to non-financial risks, particular attention is given to:

- the definition of products, marketing and business methods;
- compliance with regulatory requirements (e.g. Bank of Italy and the Privacy Authority, Model 231);
- customer management (e.g. customer care, complaints, appeals, legal disputes);
- the prevention of fraudulent events (for example identity theft, cyber risk);
- workplace safety and the management of human resources.

For all these tools, risk analysis is carried out in a manner that is repeatable and based on objective criteria.

Although not formally recognised, SCB prevents the materialisation of environmental and social risks and those linked to the issues covered by the Decree, through the application of rules and actions as specified in the following paragraphs.

4.4 Group values

The ethical codes which govern the two companies within the scope contain references and guiding principles that guide the conduct of the various stakeholders involved and provide consistency with the Group's mission.

SCB, through its code of ethics, express its values in the awareness that consideration for social and environmental concerns helps to minimise exposure to credit risk and compliance and to strengthen the business reputation.

PSA has established a number of principles that govern the activities of employees, in order to encourage the development of a responsible business. This ambition is reflected in the Bank's commitment toward all its stakeholders.

In order to achieve the objectives set out in these commitments, each employee must comply with the rules listed in the Code of Ethics. These rules are structured around the following principles:

1) respect for the law, which provides that each employee must comply with the laws and regulations in the country in which it operates, including anti-money laundering legislation. In addition, every employee who has access to privileged commercial, administrative or accounting information must respect the confidentiality thereof;
2) respect for people and the environment, according to which every employee undertakes to respect the fundamental and human rights of the individual. Employees must also maintain a work environment that is compatible with personal development, respecting the rules of health and safety at work;
3) respect for the customer, according to which each employee is committed to providing customers and consumers in general with information that is not misleading on the features of the products and services handled;
4) respect for the company, which provides that every employee should avoid any situation of conflict of interest, selecting suppliers in compliance with clear selection procedures and objective criteria. Every employee, moreover, according to the rules and procedures in force in the Bank, shall adopt the necessary measures to protect the confidentiality of professional information available, the disclosure of which might be contrary to the interests of the Partnership and shareholders and is, finally, a bearer of the image and brand of the Partnership and the shareholders and therefore undertakes to avoid any act which may denigrate the Partnership, the shareholders, its strategy, its leaders and its products.

Section 5 - Fight against active and passive corruption

In compliance with the principles of legality, respect, transparency and integrity, the Group rejects any practice of corruption, illegal favours, collusion, requests for sums of money not due or other personal and career benefits. The Code of Ethics and Conduct states the specific policies and behavioural rules respected by all operators and stakeholders. The Group is therefore committed to operate in full transparency and compliance with the law and regulations in this regard.

SCB adopts the management and organisation model within the meaning of Legislative Decree 231/01 and offers courses for a total of 9.5 hours to employees on the themes of money laundering, the code of ethics and the sanctioning system, encouraging them to adopt appropriate behaviours in observance of the principles and guidelines in the exercise of their employment. In particular, SCB has offered its employees a specific 2-hour course through its e-learning platform on the issues handled in the Code of Ethics.

In support of the fight against active and passive corruption, SCB has in place, in addition to its own Code of Ethics, a whistleblowing procedure, available to employees with the guarantee that the identity of the whistleblower will be kept confidential, security policies for customers in the management of current accounts and powers of digital signature, decision-making processes and compliance with specific policies and regulations. Moreover, in 2016 and in 2017 checks were carried out on the second level functions (Compliance & AML, Risk Management) and no relevant matters were found.

As stated in the Code of Ethics, SCB adheres to the United Nations Global Compact, a UN initiative that promotes corporate social responsibility and which provides for, among its 10 guiding principles, the fight against corruption in any form, providing guidelines observed at global level. In the same document, SCB also undertakes to observe the principles established by the OECD (Organisation for Economic Cooperation and Development) for the matter in question.

As regards Banca PSA, supply management takes place in application of internal rules on outsourcing and conflicts of interest, which facilitates the management of potential acts of corruption.

The risks assessment activities performed during the reporting period did not give rise to the need to conduct a specific audit with regard to this issue. However, as specified in the previous paragraph, the process of creating a governance model that complies with regulations undertaken by PSA during 2017, will lead to even greater attention being paid to fighting active and passive corruption through an improvement of policies and procedures.

Section 6 - Environmental performance

6.1 The use of Group energy resources

SCB, as defined in the Code of Ethics, recognises the protection of the environment as a key value in company operations, from the management of daily activities to strategic choices. Energy savings, waste management, the proper reuse of recyclable materials, and care as regards discharges and emissions continue to form a topic of discussion even after the end of the productive use of the resources made available to SCB employees for these purposes.

The Group's activities are not particularly energy-intensive. Indeed, its energy consumption relates mainly to the electricity used in offices for lighting and electronic devices, to heating or air conditioning. The electricity for the SCB head office and its 21 branches is drawn from the mains and consumption amounted to 1,368,354 kWh in 2016 and 1,498,306 kWh in 2017. All of SCB's energy originates from a contract with a carrier that provides fully renewable energy. As regards Banca PSA Italia, on the other hand, these values are not available since the bank is subject to a flat rate contract to rent a building, and bills or other data on the basis of which electrical consumption can be traced, are not available.

Due to the characteristics of the Group's activities, water consumption is not considered relevant. Indeed, it is comparable to domestic consumption and not the result of activities which may involve a high consumption. The water supply comes from the aqueduct and discharges are collected by the local sewerage system. It is then conveyed for appropriate treatment before being reintroduced into the environment.

In line with the Group's emphasis on environmental issues, SCB has implemented a centralised system for the management of waste for the Turin headquarters and for the 21 branches throughout Italy. A single waste disposal company recycles all waste items sorted by category, as provided for by Legislative Decree 152/06. SCB's commitment resulted in 100% of waste products being recycled in 2017. Details of the main categories of waste produced and properly recycled are provided below:

- 19,869 kg of paper and cardboard
- 6,880 kg of bulky waste
- 5,275 kg of out-of-use electronic equipment
- 1,121 kg of plastic
- 752 kg of waste printing toner.

Banca PSA, on the other hand, has undertaken the following initiative for a more conscious management of waste: to encourage more responsible consumption of plastic packaging, refillable water bottles are provided for employee use.

6.2 The new Santander building

With a view to aligning with the Santander Group's sustainability policy and paying greater attention to environmental impact, a project has been developed for the construction of the new "Santander building", which will serve as the head office of the Bank as from 1 March 2018. In constructing the new headquarters, the decision was made to implement avant-garde air conditioning, electricity and hydraulic systems that are environmentally friendly, innovative and efficient. Following this line of thought, the aim of every decision taken has been to make the building as green as possible, hence decisions such as the use of LED lamps with a sunlight detector to reduce energy waste, or the creation of an energy monitoring system to enable the development of plans to save energy and reduce the relative pollution.

SCB created an ad hoc team that from 2016 has managed all phases of the process, right through from choosing the new building to implementing the project, following the sustainability and efficiency guidelines established by the Santander Group. SCB chose as its new headquarters a building in the historical centre of Turin, a former Fiat headquarters built in the early 1900s, taking on the arduous task of restructuring and renewing the building without upsetting the environmental balance of the area. The end result is a new headquarters that is innovative, since it is designed according to the most current architectural trends, environmentally friendly, because it respects the environment both in terms of materials and design and installation, and people/team-friendly, because it has ample open spaces, creative coworking areas and numerous rooms for meetings. It is hoped that the efforts and investments made will result in the achievement of Leadership in Energy and Environmental Design (LEED) certification. This is awarded to buildings that are designed respecting three fundamental sustainability principles: health for the persons concerned (tenants, or in this case employees and other stakeholders) high efficiency of installations, economic savings due to the reduction of consumption and resource optimisation.

Below are some of the measures taken into consideration, to demonstrate the commitment of SCB to reducing its impact and carrying out its business operations in a more sustainable way:

- A new and modern dedicated Air Handling System, equipped with cross-flow heat recovery units, installed in an appropriate technical room in the basement of the building;
- Installation of a geothermal system for heating and cooling the building. Condensing with well water generally enables efficiencies to be achieved in every period of the year in terms of COP (coefficient of performance) and EER (Energy Efficiency Ratio) that are superior with respect to similar installations having air as a heat source: this is guaranteed by the constant temperature throughout the year (15°C) of the well water;
- Installation of fan convectors built inside false ceilings. Renewal of the air and oxygenation of the rooms is mechanised with a flow rate of 40 m3/h; this guarantees that employees constantly have new and clean air, making the workplace more pleasant.
- Energy saving reduces costs and pollution, but it is necessary to have tools in order to identify all opportunities, avoid risks, keep track of progress with respect to the objectives and check successes. A tool was therefore installed that enables instant communication of real-time power consumption and creates a history for each user in every electrical panel, both in situ thanks to the display incorporated in the apparatus, and within the supervision system thanks to LAN connection on the building's Ethernet network. By reporting these data within the supervision system, they can be viewed in real time and remotely by the Energy Manager. The software allows for better management of the user's energy resources. Indeed, it is able to provide the necessary information to reduce the costs of managing the installation, limiting the costs of unintentional breaks and optimising the use of different equipment;
- Creation of a lighting system that is able to adapt the light intensity of equipment to the external light conditions present within the building. The aim is to optimise electric and natural light in order to save energy and create a productive, comfortable and aesthetically pleasing environment. The idea was to create a system which automatically shuts down in rooms that are not occupied, which uses only the amount of electricity required, and which reduces the electricity tariffs applied to a minimum by lowering the light intensity during peak hours and reducing lighting loads.

Section 7 - Customers, society and the community

7.1 Customer Centricity

The Group pays particular attention to customer relations in the different areas in which it operates, such as: the design of products and services, communication with customers, determination of price and service, personal data protection, handling of complaints, financial education, responsible innovation.

It also seeks to be at the service of customers to meet their needs and preferences, always behaving honestly and transparently, in accordance with principles of fairness, responsibility and care, under appropriate conditions, through transparent and understandable relations, in full respect of the applicable regulations. Customers are offered the support of personnel who are highly qualified and reliable, with an ability to innovate and adapt to the needs stated.

The Group recognises the importance of keeping the customer informed about the conditions and performance of services and products and allowing them to be responsible for their own decisions. For this reason, the offer is presented to them in such a way as to highlight the contents, benefits, risks and costs.

Particular attention is also paid to the weakest members of society, facilitating access to banking services and seeking to provide an informed use of credit.

As an expression of the attention paid to the customer, SCB uses a Customer Relationship Management (CRM) system, which facilitates the management of information relative to the customer and the support that the customer relations manager can provide, offering the services that are best suited to their needs.

The Bank performs activities to assess customer satisfaction, with the specific aim of being in contact with its customers and promptly understanding any need for improvement in the service offered. In this regard, SCB performs a customer satisfaction survey on insurance services customers. The activity falls within the scope of the Assofin Memorandum of Understanding (SCB adhesion date 31/12/2014), which commits its members to provide better and more in-depth information to its customers and give greater attention to the correctness of the relations to be established when offering life or composite insurance, related to loans. The activity is carried out on a monthly basis on a sample of customers (on average more than 700 contacts per month) who have signed an insurance policy, in order to assess satisfaction and the knowledge of the content of the policy purchased (thus confirming its optionality at the time of commencement, in 99.11% of cases - latest data available as at September 2017). In the event that there are weaknesses in the sales process and/or in the understanding of the product by the customer, the insurance service is illustrated once again to the customer during a telephone interview. The results of the surveys described above are assessed using the international Net Promoter Score method. This assesses customer loyalty and the probability that they will do business with the Bank again and provide positive feedback to others, influencing the choice of possible future customers.

The Bank also performs a customer satisfaction survey on the network of agencies; this activity is carried out every six months on a sample of around 500 active agents. It uses the CATI method, i.e. telephone surveys, and aims to verify the level of satisfaction of the partners of the Bank in various areas of the relationship such as commercial, operations and post sale. The results are processed in order to identify possible areas for improvement.

Within the Group, in addition to the activities described above, PSA carries out a telephone survey aimed at identifying the level of customer satisfaction, and which focuses in particular on understanding the sales processes and behaviours adopted by the sales network. The activity aims to observe the correctness and transparency perceived by the customer in the management of the sales process.

7.2 Customer service initiatives

In addition to that set forth in the preceding paragraph with regard to the principles and guidelines for customer relations, SCB promotes a number of specific initiatives to enable it stay attentive to customer needs, including through the improvement of the credit collection service. To this end, the Group has launched an initiative using a group of dedicated people known as the Quality Team, and also made the decision to record all conversations between customer and collector, within Massive Collection. Indeed, it is precisely within this function that activities to monitor the work of external collection entities are carried out, in order to improve processes, raise the quality level, improve the perception that customers have of collection activities and provide them with due support.

Over the years, greater awareness and expertise have allowed for the structuring of increasingly accurate controls, including:

1. Certification of the resources of external collection entities through periodic closed response tests;
2. Service quality surveys, via telephone, offered to a selection of customers;
3. Listening to recordings and assessing them by filling out a detailed information sheet;
4. Checking of the daily contact limits imposed on external collection entities.

In addition to these activities, in 2017 SCB decided to introduce a new professional figure called a Personal Assistant. This is a person dedicated to looking after customers who have difficulty meeting payment deadlines. The Personal Assistant should possess the following characteristics: empathy, communication skills, listening skills, business skills. The team consists of five people, based at the head office. The Personal Assistant performs daily management of the direct relationship with Santander customers, focusing in particular on the communicative aspect and the maintenance of a good customer approach, attempting to solve difficulties in the best way possible.

7.3 Society and community initiatives

The Group is attentive to customers' issues and is sensitive to the needs of the local area, promoting initiatives in order to create sustainable value in the long term for its stakeholders.

In particular, the Group has supported members of society that needed more support as a result of natural disasters or poverty and actively sponsored charitable activities. The main initiatives for 2017 are summarised below.

Initiative	Description	Type
help for earthquake victims	In November 2017, Santander Consumer Bank, in the spirit of solidarity and support in respect of the customers affected by the natural disasters that occurred during the months of August 2017 (earthquake in Ischia and neighbouring municipalities) and September 2017 (Livorno Flood), decided to suspend the payment of instalments for personal loans, special-purpose loans and car loans signed by customers resident in the municipalities affected by these disastrous events, for the months of September, October, November and December 2017.	Social solidarity aid
Seismic events of 26 and 30 October 2016 and 18 January 2017	In application of the special measures for the protection of populations resident in municipalities affected by the recent earthquake of 24 August 2016 and subsequent seismic events of 26 and 30 October 2016 and 18 January 2017, pursuant to art. 48 of Decree Law No. 189 of 17 October 2016, the payment of instalments for loans - of any kind - existing with Santander Consumer Bank S.p.A. has been suspended for the months of September, October, November and December 2016.	Social solidarity aid
Casa Santa Luisa	During Santander Week, the week of initiatives for employees and their families, held from 5 to 9 June, employees who gave their support provided voluntary service at Casa Santa Luisa in Turin, which is responsible for providing assistance to the homeless and those in need. During this week, breakfasts were served during the first part of the day, supporting the operation of an association which plays an important social function in the community.	Voluntary work
Santander Half Marathon	Santander Consumer Bank sponsored the Santander Turin Half Marathon, which involved more than 8,000 participants in 21 km, 10 km and 3 km routes, and Santander Kids dedicated to children. The initiative was held on 25/26 March 2017 and was a time for sport and solidarity, aimed at supporting the Candiolo Institute for Cancer Research and Treatment and non-profit organisations that have joined the 'Rete del Dono' (donation network) solidarity programme.	Financing Euro 140 thousand

Section 8 - Maximising people's potential

For the SCB Group, employees represent a distinctive set of values, skills and knowledge. The Group is committed to protecting and developing these skills, which are useful both for the Group and for the social context in which it operates.

As defined in SCB's Guidelines for the Management of Human Resources and PSA's Human Resources Policy, the Group took part in the design, planning and implementation of policies for training and development, so that staff have the knowledge and qualifications required. This commitment was also extended to new recruits, it being considered relevant and useful for the purposes of their fast and timely integration within the context in which the Bank operates. A process has also been established for the identification of individual objectives, as has a process for assessing performance, taking into account the distribution of responsibilities.

During the year, the Bank established a talent assessment process called "Talent Map" for the first and second reports to the Chief Executive Officer, in such a way as to be able to plan adequate management succession plans. Around 40 people were involved in this analysis and mapping phase. They were provided with specific training courses to strengthen the main managerial skills.

The Bank has applied remuneration policies that on the one hand facilitate the pursuit of long-term strategies, objectives and results, in line with a general framework of policies for the control and management of risks and with the levels of liquidity and capitalisation, and on the other hand aim to attract and keep within the Group people with professionalism and abilities that are appropriate to the needs of the company, for the benefit of competitiveness and good governance.

Corporate training and the Mundo Santander projects (corporate level programme dedicated to the possibility of working at foreign Group locations for a period of time) were opportunities offered to employees to allow them to build on their technical, relational and linguistic skills, strengthening the sense of belonging to the Group. In 2017, two employees participated in the Mundo project for 3 months within the HR Department and the Commercial Department of the Parent Company at the Boadilla del Monte headquarters in Madrid.

The Human Resources Function and the Control Functions jointly monitor alignment with legislation, promoting the prevention, identification, mitigation, control and correction of operational risks within the Bank through the Risk Pro programme which provided for dedicated training on the main issues related to risk, a specific internal communications campaign and a questionnaire linked to these issues.

In September 2017, the 4th edition of the People Survey was conducted, involving all of the Group's employees. Participation in the survey nationally was 86%. The initiative provides an important opportunity for listening about issues relating to the management of staff and about the internal climate. This year showed a particular improvement in the innovation and risk culture indicators.

There has been renewed collaboration with the major Italian universities, particularly locally, including internationally renowned business schools: more than 40 undergraduates and recent graduates were able to take part in curricular and extra-curricular training programmes. A number of high school pupils got to know the business by participating in several weeks of professional training.

As regards PSA, activities and projects for staff were put in place over the course of 2017. In particular it has started a process to structure and expand its recruitment channels, through the establishment of partnerships with universities and Masters, research and selection companies and web recruitment companies. Internal selection processes were also established. PSA has also stepped up its communication activities toward employees. Two across-the-board and plenary communication sessions have been established, at the beginning and in the middle of the year, for all employees and collaborators. The company uses these sessions to describe the overall economic trend and the commercial performance and gives information on major projects. In addition to monthly mail activities (Organisational Notes and Charts), two internal blogs were launched: the first is an official blog where employees can exchange ideas on new projects, celebrate business results and receive relevant information; the second aims to digitise the traditional notice boards and is where employees can publish personal ads, organise events, share photos. Thanks to the creation of a company think tank consisting of 10 members from different departments, 10 internal improvement plans were drawn up, such as for example “Job Postings”, aimed at giving transparency to internal job opportunities, “Internal Customer Satisfaction” aimed at collecting information on the performance of internal projects and improving convergence with business objectives, and the “360° assessment tool”, a feedback support tool where each manager compares his/her behavioural self-assessment with that of his/her supervisors and team members.

The total number of Group employees is shown in the table below. The types of contract are temporary or permanent. The Bank also offers internship opportunities.

GRI102-8: Information on employees and other workers

	2016			2017		
Type of contract	Men	Women	Total	Men	Women	Total
UNDETERMINATED	431	340	771	439	349	788
DETERMINATED	3	4	7	4	5	9
STAGE	5	19	24	2	10	12
OTHERS	13	26	39	19	31	50
Type of occupation						
PART-TIME	3	35	38	4	44	48
FULL-TIME	449	354	803	460	351	811

The information provided is summarised in the following table:

2016	**2017**
Total employees	**Total employees**
778	**797**
Total Non employees	**Total Non employees**
63	**62**
% Non employees	**% Non employees**
8.10%	**7.78%**

Employee turnover

GRI 401-1: New employee hires and employee turnover

Hiring (*)	2016			2017		
Type of contract	Men	Women	Total	Men	Women	Total
PERMANENT	18	15	33	21	8	29
TEMPORARY	2	0	2	4	5	9
INTERNSHIP	23	37	60	25	25	50
Total	43	52	95	50	38	88

Cessations		**2016**			**2017**	
Type of contract	Men	Women	Total	Men	Women	Total
UNDETERMINATED	15	2	17	10	1	11
DETERMINATED	1	0	1	1	0	1
STAGE	22	25	47	26	30	56
Total	38	27	65	37	31	68

(* The position “Other” is not taken into consideration in the number of new hires and terminations.)

Hiring		**2016**			**2017**	
Age range	Men	Women	Total	Men	Women	Total
<20	0	0	0	0	0	0
20 - 30	32	48	80	33	29	62
30 - 40	8	4	12	12	7	19
40 - 50	3	0	3	5	2	7
50 - 60	0	0	0	0	0	0
> 60	0	0	0	0	0	0
Total	43	52	95	50	38	88

Cessations		**2016**			**2017**	
Age range	Men	Women	Total	Men	Women	Total
<20	0	0	0	0	0	0
20 - 30	24	23	47	25	28	53
30 - 40	8	2	10	10	2	12
40 - 50	3	1	4	2	0	2
50 - 60	3	1	4	0	0	0
> 60	0	0	0	0	1	1
Total	38	27	65	37	31	68

The information provided in the tables above is summarised below:

	2016	2017
Total hiring	95	88
% on total employees	12.3%	11.0%
Total cessations	65	68
% on total employees	8.4%	8.5%
Turnover	30	20
% turnover	3.9%	2.5%

8.1 Training and development

The training of personnel is a priority in the management of the Group and an essential part of the cultural transformation of the Bank.

In line with the provisions of the guidelines on the management of human resources, SCB has promoted and periodically organised local induction courses for all employees to increase familiarity with the products, processes, procedures and regulations to which SCB is subject. Training takes place mainly in the workplace, guiding and assisting management, essential so that each employee progresses within their role. The training programmes have been designed to improve the relevant capabilities and skills.

Appropriate training programmes have been developed using available internal resources and external funding provided for the ongoing training of workers. The training programmes are intended to develop and share the best practices adopted in the Bank in the different functions, strengthening business cohesion and promoting networking. The training programmes are based on integrated learning between external interventions and internal contributions in order to favour a pragmatic approach, consistent with the corporate development objectives.

The Group took part in the design, planning and implementation of policies for training and development, so that staff have the knowledge and qualifications required. Various training initiatives were developed in 2017 aimed at increasing the culture of innovation, risk and business behaviours, including through co-design sessions and internal seminars. All the Department Heads, Branch Heads and District Managers participated in an innovative training method (work cafe), wherein they expressed locally the 8 corporate behaviours of Banco Santander (I am respectful, I truly listen, I speak clearly, I keep promises, I encourage collaboration, I work with passion, I develop professionalism among staff, I innovate). Based on these meetings, and following a discussion with the Steering Committee, a corporate manifesto was created to encourage day-to-day practice of the corporate values. Following the Leaders of Change training project, which started in 2016 to develop innovation within the company, Middle and Top Management have started an Innovation Leadership course. New formulas were issued for structured induction between Italy and Madrid for new recruits of the Bank in 2017, starting with a new onboarding process. The Control Functions handled training programmes to consolidate normative, regulatory and specific expertise requested by the Parent Company. A process has also been established for the identification of individual objectives, as has a process for assessing performance, taking into account the distribution of responsibilities.

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.

The bonus system was updated in order to boost the financial results achieved by the Bank and improve the commitment of every employee to achieving their objectives, as agreed with the relevant manager. 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.

Several internal seminars were held to learn about products, processes and specific regulations (including CQS, insurance, IFRS9, the GDPR, banking supervision processes) and to promote awareness across the offices.

SCB was included in a European training laboratory in order to share best practices with 10 other countries and develop new training products to share throughout Santander Consumer Finance.

Over 24,000 hours of training were provided both on technical, product and process issues, and on regulatory and behavioural matters. To improve knowledge of policies, regulations, procedures and processes, the e-learning platform, which is always available to employees, has been updated. A number of sales network training initiatives have been launched. Significant attention has been given to language training through new thematic workshops. A high number of events were also held for training on health and safety at work and on ICT. The collaboration with external partners and lecturers, financed by the joint inter-professional fund Fondo Banche Assicurazioni, continued, successfully completing the 2016/2017 training plan and allowing for investment in innovative fields and experimental methods.

In 2017 the HR4US initiative aimed at all employees was concluded. It aimed to focus on each individual's professional experience by means of an interview with the Human Resources and Organisation team.

In addition to training courses covering topics strictly linked to the Bank's operations, training courses are also provided on non-financial topics, both for employees and for the network of agents, such as health and safety in the workplace, pursuant to Legislative Decree 81/2008, anti-corruption, pursuant to Legislative Decree 231/2001, privacy, data security and management of risks linked to the Bank's operations.

The analysis of training needs and the projects that stem from these are inspired by the principles of the reference international standards (European Qualification Framework). The knowledge and skills that form the subject of the training programmes have been correlated with the knowledge and skills envisaged for the professional profiles identified by ABI in the Manual for the Certification of Commercial Banks Qualifications. The key technical skills and common behavioural skills are identified for each business profile. Training requirements therefore aim to fill any skills gaps and/or encourage targeted ad hoc training developments for control functions.

SCB was allocated Euro 340 thousand for training in 2016, and Euro 510 thousand in 2017, while PSA was allocated Euro 57 thousand in 2016 and Euro 116 thousand in 2017.

As regards Banca PSA, 2800 hours of training were provided to all employees in 2017, approximately double the hours provided in the previous year. Post-maternity leave training sessions were provided in order to give new mothers returning to the office the best welcome.

Staff training activities in 2017 focused on the following themes: mandatory bank training, foreign languages, use of the main tools of MS Office Automation and of the management systems, behavioural and managerial matters, workplace safety, conferences for Banca PSA's field of activity and on-the-job training activities (new hires).

In the middle of the year employees held talks with managers to analyse their perception of work, the working environment and relations with colleagues. The professional expectations of the workers themselves were also gathered. The following tables show the average hours of training per employee.

Average hours of training per year per employee SCB

Position	2016		2017	
	Men	Women	Men	Women
Manager	36.40	11.25	39.31	32.38
Middle manager	38.10	44.70	78.53	89.28
Office workers	27.88	26.78	34.90	35.80

Total hours of training per year SCB

Position	2016		2017	
	Men	Women	Men	Women
Manager	291.17	22.50	314.50	64.75
Middle manager	952.60	625.76	2198.75	1339.25
Office workers	8364.92	6856.09	10611.00	9488.25

Average hours of training per year per employee PSA

Position	2016		2017	
	Men	Women	Men	Women
Manager	43.36	58	47	56
Middle manager	29.21	25.75	20.87	62.67
Office workers	17.31	14.43	10.16	9.72

Total hours of training per year PSA

Position	2016		2017	
	Men	Women	Men	Women
Manager	477	58	470	56
Middle manager	818	103	626	376
Office workers	1073	967	640	632

8.2 Welfare

The Bank pays attention to the health and welfare of employees in accordance with a detailed internal communication plan. The 'Be Healthy' week organised in 2017 was entirely devoted to the health of employees and provided useful information on indicators such as health, nutrition, physical activity and balance between professional and personal life. Participation in the Santander Turin Half Marathon was promoted, to encourage employees to get active. June saw the organisation of the now traditional Santander Week during which the Bank organises specific activities for employees, for their well-being, for their children and to support the local community through volunteering. An 3-month information campaign made employees aware of the "cornerstones" of keeping healthy.

SCB offered "W le mamme" and "W i papà" courses (long live mums, long live dads) aimed at empowering the different parent roles, understanding the rational and emotional mechanisms of the mum/dad experience and learning tools for maintaining dynamics with a new time scheduling method. Of note is the AIF "Adriano Olivetti" prize which awarded the Bank with a technical mention for the social utility of this training plan.

On 26 May 2017, Banca PSA held the "Bimbi in ufficio" (bring your child to work) initiative, during which the children of employees had the opportunity to spend the day at the offices where their parents work and play with them. This special day has always been received with great enthusiasm by the children and greatly satisfies parents, who are very happy with the initiative. Divided into groups according to age, the young guests were taken on a guided tour to discover the PSA world, i.e. that mysterious world where their parents spend every day. Games, workshops and entertainment were arranged for them to encourage their curiosity and the desire to understand, and to help them to be "citizens of the world" for a day.

In the course of 2016, 34 women took parental leave, all of whom returned to work at the end of their maternity leave and were still employed 12 months later. In 2017, 34 women took parental leave, 16 of those for periods straddling the two years. All those whose contract expired during the reference year were re-employed.

8.3 Equal opportunities and Human Rights

The SCB Group is committed to supporting and respecting the protection of fundamental human rights and avoiding complicity in violation of those rights.

The SCB Group believes in the importance of promoting different perspectives and experiences through an inclusive culture, not tolerating any form of discrimination. It promotes a working environment in which diversity and personal and cultural outlooks are respected and considered key factors to success. Diversity is considered to be valuable and is promoted in every context. SCB's approach is oriented towards respect for diversity and Human Rights with reference to the various types of parties, whether employees, customers or suppliers.

The Group recognises its employees' rights to enjoy a respectable work environment. To this end, offering equal opportunities as regards access to work and to professional promotions is one of the Group's basic principles, guaranteeing at any given time that people are not discriminated against on the grounds of gender, race, religion, origin, marital status or social condition. The Bank is committed to maintaining a working environment that is free from sexual harassment, abuse, intimidation or violence.

Employees of the SCB Group must be particularly careful in order to offer customers only products and/or services that correspond to their situation and their needs, facilitating the understanding of the terms and conditions, benefits, risks and costs and avoiding unjustified discrimination. The products are offered in accordance with the general Code of Conduct of the Santander Group.

The Group promotes respect for human rights throughout the supply chain. In particular, the Group will urge suppliers and their employees to adhere to the commitments described in this policy, always in respect of their management autonomy and following the best practices and procedures laid down by the Bank's purchasing regulations.

The composition of senior management for both banks has not changed in the course of the two years under review. SCB's senior management is made up of two women and seven men in the 40-60 year age range. As regards PSA, there are two women in senior management, while the remaining ten are men. Two people are aged between 30 and 40 years, while the rest are aged over 40 years.

In confirmation of the fairness with which the bank hires personnel, in compliance with the rules in force, in 2017 there were 31 persons belonging to protected categories in the SCB workforce, while for the previous year there were 26.

8.4 The Health and safety of workers

The Group promotes health and safety in the working environment and strives to meet the requirements defined by regulations with a view to continuous improvement. As such, during the year SCB employees benefited from a specific course on health and safety, for a total of 1582 hours (642 hours in 2016). In compliance with group policies, PSA also offered its customers the same course for a total of 47 hours (44 hours in 2016).

The Group undertakes to ensure a safe working environment that complies with the regulations in force, such as for example Legislative Decree 81/08. The Group drew up a special section of Model 231 dedicated to the guidelines concerning the management of health and safety risks in the workplace.

In order to monitor the risks related to Health and Safety in the workplace, it appointed an Employer's Representative and a Health and Safety Officer. The assessment of the risks to the health and safety of employees has contributed to limiting the number of accidents in the workplace; in this regard, the Group undertakes to monitor the indicators relating to accident levels.

The corporate policy, in the matter of the protection of health and safety in the workplace, showed:

- the commitment of the company to adopt industrial hygiene procedures and measures through the effective - and not merely formal - consultation of workers and their representatives;
- the shift towards preventive actions through the monitoring and periodic examination of situations of potential risk;
- the objective of continuous improvement through the participation of all employees, by way of the dissemination of relevant information and the circulation of communications across all levels.
- Moreover, the Group follows the following principles:
- basing its conduct on the general principles laid down by the Code of Ethics and Conduct, with particular reference to the principles of legality, correctness, traceability and transparency;
- constantly monitoring the policy on health and safety at work and, consequently, promptly reviewing its management system in the face of changing conditions of risk, providing appropriate prevention and protection measures and ensuring regular updating of the controls established by the Company regarding the applicable laws;
- guaranteeing its commitments in the field of health and safety of workers in the workplace, observing the general protection measures and scrupulously assessing compliance with the technical and structural standards relating to equipment, installations, workplaces, and chemical, physical and biological agents;
- in the event of the involvement of third parties in the management/prevention of risks to health and safety at work, contracts with these parties must contain a specific declaration of knowledge of the legislation referred to in the Decree and a commitment to comply thereto;
- adopting transparent and collaborative conduct in respect of the entities responsible for auditing on the occasion of inspections;
- carrying out all the necessary organisational activities (such as the management of emergencies, first aid, procurement, periodic safety meetings, consultations with worker safety representatives), health monitoring, informing and training of workers, and supervision with reference to observance by the workers of the occupational safety procedures and instructions. In addition to the foregoing, all the documentation and certifications required by law must also be acquired;
- encouraging and promoting internal training relating to the risks linked to the carrying out the prevention and protection measures and activities adopted, first aid procedures, fire-fighting and the evacuation of workers;
- ensuring compliance with health and safety regulations in procurement contracts and in the case of temporary joint ventures and participation in consortia;
- verifying that personnel are complying with legal requirements, internal regulations and the instructions issued by the heads of the functions involved, and correctly using machinery, equipment, means of transport, safety devices and other work equipment;
- entrusting tasks to employees or external consultants in circumvention of the criteria referred to in the business policies and procedures.

In 2017 SCB recorded a total of eight accidents, while in 2016 three were recorded. These mainly occurred during the home-work-home journey.

PSA recorded a total of five accidents in 2016, involving two women during the home-work-home journey and three men, one of which during the home-work-home journey and two in itinere. In 2017 there was one accident in the workplace.

8.5 Top Employers Certification

In 2017, SCB achieved Top Employers 2018 certification. This is an international recognition awarded to companies able to offer the best working conditions, to constantly improve the management of staff and to maximise potential. Certification is the result of an analysis, which follows an audit, of the activities managed in the field of HR based on a questionnaire on nine different areas: talent strategy, onboarding, learning and development, performance management, leadership development, career management and succession, payroll and benefits, internal culture.

Section 9 - Supply chain management

SCB recognises the importance of relations with suppliers based on mutual independence, trust, fairness, transparency and reliability in order to guarantee the purchase of the goods and services necessary to ensure the efficiency and continuity of production processes.

SCB has drawn up an internal procedure aimed at managing supply chain selection. To this end, it employs purchasing processes designed to seek the best quality/price ratio on the basis of the requirements expressed by the users of the goods and services subject to supply, and on the basis of the requirements of low cost, quality and technical, commercial and financial reliability and the regular assessment of service levels. Where requirements are the same, SCB gives preference to those suppliers who demonstrate the implementation of good practices of social responsibility and/or possession of social or environmental certifications.

When concluding a supply contract, SCB expressly requires its Code of Ethics to be signed; in doing so, the Vendor confirms acceptance and the commitment to observe the principles.

The management of supplies both as regards SCB and PSA is governed by a specific procedure which covers all the stages of the process.

Section	Page	GRI	*Description*	*Subject matter for DLgs 254/16*
2 Reporting scope and period	35	102-1	*Name of the organization*	*Company profile*
	35	102-3	*Location of headquarters*	*Company profile*
	35	102-50	*Reporting period*	*Information on reporting*
	35	102-52	*Reporting cycle*	*Information on reporting*
3 Materiality	35	102-40	*List of stakeholder groups*	*Information on reporting*
	35	102-46	*Defining report content and topic boundaries*	*Information on reporting*
	35	102-47	*List of material topics*	*Information on reporting*
4 Identity, Governance and risk management	36	102-2	*Activities, brands, products and services*	*Business model*
	36	102-18	*Governance structure*	*Business organisation and management model*
	37	102-16	*Values, principles, standards and norms of behavior*	*Business organisation and management model*
5 Fight against corruption	38	205-2	*Communication and training about anti-corruption policies and procedures*	*Fight against active and passive corruption*
6 Environmental performance	38	302-1	*Energy consumption within the organization*	*Environmental matters*
	39	306-2	*Waste by type and disposal method*	*Environmental matters*
7 Customers	41	413-1	*Operations with local community engagement, impact assessments, and development programs*	*Social matters*
8 Maximising staff potential	42	102-8	*Information on employees and other workers*	*Matters related to Human Resources*
	43	401-1	*New employee hires and employee turnover*	*Matters related to Human Resources*
	45	404-1	*Average hours of training per year per employee*	*Matters related to Human Resources*
	45	404-2	*Programs for upgrading employee skills and transition assistance programs*	*Matters related to Human Resources - Human Rights*
	45	404-3	*Percentage of employees receiving regular performance and career development reviews*	*Matters related to Human Resources*
9 Supply chain	49	102-9	*Supply chain*	*Matters relating to contracting and subcontracting services*

Santander
CONSUMER BANK

Independent Auditors' Report on the consolidated financial statements at 31 December 2017

Independent Auditors' Report on the consolidated financial statements at 31 December 2017

Santander Consumer Bank SpA

Independent auditor's report
in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

Consolidated Financial Statements as of 31 December 2017

Independent auditors' report

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

To the shareholders of Santander Consumer Bank SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Santander Consumer Bank Group (the Group), which comprise the consolidated balance sheet as of 31 December 2017, the consolidated profit and loss accounts, the consolidated comprehensive profit and loss account, the statement of changes to consolidated net equity, the consolidated cash flows statement for the year then ended and notes to the accounts, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2017, 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. 38/05 and article 43 of Legislative Decree No. 136/15.

Basis for opinion

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

Key audit matters

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

PricewaterhouseCoopers SpA

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Key audit matters	*Auditing procedures performed in response to key audit matters*
Valuation of loans to customers *Notes to the accounts:* *Part B – Information on the balance sheet, Assets, section 7;* *Part C – Information on the profit and loss account, section 8;* *Part E – Information on risks and related hedging policies* Loans to customers as of 31 December 2017 were equal to Euro 5.6 billion, corresponding to 86% of total assets. We paid special attention to those items during our audit because the accounting processes and policies adopted by the Bank are characterised by high subjectivity and the use of estimations for a number of variables such as, mainly, existence of indicators of impairment, calculation of the expected future cash flows and related timing of recovery, realisation value of guarantees, type of customers, as well as by the use of internal and external inputs observable at the measurement date.	As part of the audit, to address this key audit matter we performed the following main activities: • analysis of the adequacy of the IT environment and tests of the operating effectiveness of relevant controls in place on the IT systems and application software used; • analysis of business procedures and processes and testing of the operating effectiveness of relevant controls in place for the purpose of the valuation of loans to customers; • comparative analysis procedures with reference to the most significant variances from the prior year's figures and discussion of findings with the corporate functions involved; • analysis of the valuation models, both in aggregate and individually, and sample testing of the reasonableness of the variables estimated in those models, with the support of experts from the PwC network; • On a sample basis, testing of the valuation and classification in the financial statements in accordance with the categories established by the applicable framework on financial and regulatory reporting.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Group's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the application of the going concern assumption, and for appropriate disclosure thereof. In preparing the consolidated financial statements, management uses the going concern basis of accounting unless management either intends to liquidate the parent company Santander Consumer Bank Spa or to cease operations, or has no realistic alternative but to do so.

The statutory audit committee (“collegio sindacale”) is responsible for overseeing, in the terms prescribed by law, the Group’s financial reporting process

Auditors’ responsibilities for the audit of the consolidated financial statements

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

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

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures in response to those risks; we obtained sufficient and appropriate audit evidence on which to base our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
- We obtained an understanding of the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of the management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention, in our auditor’s report, to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in such a manner as to give a true and fair view.
- We obtained sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

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

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

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

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

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

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

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the statutory audit committee ("collegio sindacale"), in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with Other Laws and Regulations

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

Management of Santander Consumer Bank SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Santander Consumer Bank Group as of 31 December 2017, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of Santander Consumer Bank Group as of 31 December 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of Santander Consumer Bank Group as of 31 December 2017 and are prepared in compliance with the law.

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

Milan, 6 March 2018

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

Independent Auditors' report
on the consolidated non-financial statement at 31 December 2017

Independent Auditors' report on the consolidated non-financial statement at 31 December 2017

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INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED NON-FINANCIAL STATEMENT PURSUANT TO ARTICLE 3, PARAGRAPH 10, OF LEGISLATIVE DECREE NO. 254/2016 AND ARTICLE 5 OF CONSOB REGULATION NO. 20267

To the Board of Directors of Santander Consumer Bank SpA

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016 (the "Decree") and article 5 of CONSOB Regulation No. 20267, we have performed a limited assurance engagement on the consolidated non-financial statement of Santander Consumer Bank SpA and its subsidiaries (hereafter the "Group") for the year ended 31 December 2017 prepared in accordance with article 4 of the Decree and approved by the Board of Directors on 7 February, 2018 (hereafter the "NFS").

Responsibility of the Directors and of the Board of Statutory Auditors for the NFS

Directors are responsible for the preparation of the NFS in accordance with article 3 and 4 of the Decree and with the "Global Reporting Initiative Sustainability Reporting Standards" defined in 2016 by the GRI - Global Reporting Initiative ("GRI Standards"), with reference to selected GRI Standards identified by them as the reporting standard.

Directors are responsible, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of a NFS that is free from material misstatement, whether due to fraud or error.

Directors are responsible for identifying the content of the NFS, within the matters mentioned in article 3, paragraph 1, of the Decree, considering the activities and characteristics of the Group and to the extent necessary to ensure an understanding of the Group's activities, its performance, its results and related impacts.

Directors are responsible for defining the business and organisational model of the Group and, with reference to the matters identified and reported in the NFS, for the policies adopted by the Group and for the identification and management of risks generated and/or faced by the Group.

The Board of Statutory Auditors is responsible for overseeing, in the terms prescribed by law, compliance with the Decree.

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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Auditor's Independence and Quality Control

We are independent in accordance with the principles of ethics and independence set out in the Code of Ethics for Professional Accountants published by the International Ethics Standards Board for Accountants, which are based on the fundamental principles of integrity, objectivity, competence and professional diligence, confidentiality and professional behaviour. Our audit firm adopts International Standard on Quality Control 1 (ISQC Italy 1) and, accordingly, maintains an overall quality control system which includes processes and procedures for compliance with ethical and professional principles and with applicable laws and regulations.

Auditor's responsibilities

We are responsible for expressing a conclusion, on the basis of the work performed, regarding the compliance of the NFS with the Decree and with the "Global Reporting Initiative Sustainability Reporting Standards" defined in 2016 by the GRI - Global Reporting Initiative ("GRI Standards"), with reference to selected GRI Standards. We conducted our engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) – Assurance Engagements Other than Audits or Reviews of Historical Financial Information (hereafter "ISAE 3000 Revised"), issued by the International Auditing and Assurance Standards Board (IAASB) for limited assurance engagements. The standard requires that we plan and apply procedures in order to obtain limited assurance that the NFS is free of material misstatement. The procedures performed in a limited assurance engagement are less in scope than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised and, therefore, do not provide us with a sufficient level of assurance that we have become aware of all significant facts and circumstances that might be identified in a reasonable assurance engagement.
The procedures performed on the NFS were based on our professional judgement and consisted in interviews, primarily of company personnel responsible for the preparation of the information presented in the NFS, analyses of documents, recalculations and other procedures designed to obtain evidence considered useful.

In particular, we performed the following procedures:

1. analysis of the relevant matters reported in the NFS relating to the activities and characteristics of the Group, in order to assess the reasonableness of the selection process used, in accordance with article 3 of the Decree and the with the reporting standard adopted;
2. analysis and assessment of the criteria used to identify the consolidation area, in order to assess their compliance with the Decree;
3. understanding of the following matters:
    - business and organisational model of the Group, with reference to the management of the matters specified by article 3 of the Decree;
    - policies adopted by the Group with reference to the matters specified in article 3 of the Decree, actual results and related key performance indicators;
    - main risks, generated and/or faced by the Group, with reference to the matters specified in article 3 of the Decree.

    With reference to those matters, we compared the information obtained with the information presented in the NFS and carried out the procedures described under point 4 a) below;
4. understanding of the processes underlying the preparation, collection and management of the significant qualitative and quantitative information included in the NFS.

In particular, we held meetings and interviews with the personnel and top management of Santander Consumer Bank SpA, and we performed limited analyses of documentary evidence, to gather information about the processes and procedures for the collection, consolidation, processing and submission of the non-financial information to the function responsible for the preparation of the NFS.

Moreover, for material information, considering the activities and characteristics of the Group:

- at a group level,
  a) with reference to the qualitative information included in the NFS, and in particular to the business model, the policies adopted and the main risks, we carried out interviews and acquired supporting documentation to verify their consistency with available evidence;
  b) with reference to quantitative information, we performed analytical procedures as well as limited tests, in order to assess, on a sample basis, the accuracy of consolidation of the information.

For Banca PSA Italia SpA we gathered supporting documentation regarding the correct application of the procedures and calculation methods used for the key performance indicators and performed limited document checks, in order to gather information about the processes and procedures that support the collection, aggregation, processing of data used.

Conclusions

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of Santander Consumer Bank SpA as of 31 December 2017 has not been prepared, in all material respects, in compliance with articles 3 and 4 of the Decree and with the "Global Reporting Initiative Sustainability Reporting Standards" defined in 2016 by the GRI - Global Reporting Initiative ("GRI Standards"), with reference to selected GRI Standards identified by them as the reporting standard.

Other aspects

The comparative information presented in the NFS in relation to the financial year ended 31 December 2016 has not been subjected to any procedures.

Milan, 6th March 2018

PricewaterhouseCoopers SpA

Marco Palumbo
(Partner)

Paolo Bersani
(Authorized signatory)

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

Copy in computer readable form of the original document in paper form pursuant to art. 20, paragraph 3, of Presidential Decree 445/2000.

Santander
CONSUMER BANK

Consolidated financial statements

Consolidated Balance Sheet

In euros

Balance sheet - Assets	12/31/2017	12/31/2016	Changes	
			absolute	%
10. Cash and cash equivalents	3,401	4,491	(1,090)	-24.3%
20. Held for trading financial assets	1,032,653	2,991,723	(1,959,070)	-65.5%
40. Available-for-sale financial assets	467,054,910	492,395,147	(25,340,237)	-5.1%
60. Due from banks	465,553,941	497,864,293	(32,310,352)	-6.5%
70. Loans to customers	7,637,530,475	6,770,120,523	867,409,952	12.8%
80. Hedging derivatives	961,286	-	961,286	--
90. Changes in fair value of portfolio heged items (+/-)	(409,761)	9,372,096	(9,781,857)	-104.4%
120. Property, plant and equipment	1,602,652	1,432,296	170,356	11.9%
130. Intangible assets	10,264,072	8,179,274	2,084,798	25.5%
140. Tax assets	240,581,687	239,713,087	868,600	0.4%
a) current tax assets	38,492,029	27,784,555	10,707,474	38.5%
b) deferred tax assets	202,089,658	211,928,532	(9,838,874)	-4.6%
of which Law 214/2011	183,794,689	200,309,370	(16,514,681)	-8.2%
150. Non-current assets held for sale and discontinued operations	3,000	4,600	(1,600)	-34.8%
160. Other assets	225,842,338	224,739,631	1,102,707	0.5%
Total Assets	**9,050,020,654**	**8,246,817,161**	**803,203,493**	**9.7%**

Liabilities and Shareholders' equity	12/31/2017	12/31/2016	Changes	
			absolute	%
10. Due to banks	5,670,768,884	5,413,578,551	257,190,333	4.8%
20. Due to customers	1,646,083,192	1,261,269,812	384,813,380	30.5%
30. Debt securities in issue	264,065,259	313,036,718	(48,971,459)	-15.6%
40. Held for trading financial liabilities	1,117,411	3,248,567	(2,131,156)	-65.6%
60. Hedging derivatives	3,122,227	12,920,450	(9,798,223)	-75.8%
80. Tax liabilities	49,584,240	38,957,018	10,627,222	27.3%
a) current tax liabilities	49,440,956	38,824,321	10,616,635	27.3%
b) deferred tax liabilities	143,284	132,697	10,587	8.0%
100.Other liabilities	462,491,176	368,664,979	93,826,197	25.5%
110. Provision for employee severance pay	4,298,817	4,355,414	(56,597)	-1.3%
120. Provisions for risks and charges	29,144,104	26,217,793	2,926,311	11.2%
b) Other reserves	29,144,104	26,217,793	2,926,311	11.2%
140. Revaluation reserves	(418,505)	(568,123)	149,618	-26.3%
170. Reserves	104,056,561	40,511,687	63,544,874	156.9%
180. Share premium	632,586	632,586	-	0.0%
190. Issued capital	573,000,000	573,000,000	-	0.0%
210. Minorities (+/-)	150,648,262	111,821,307	38,826,955	34.7%
220. Net Profit (Loss) for the year (+/-)	91,426,440	79,170,402	12,256,038	15.5%
Total liabilities and Shareholders' Equity	**9,050,020,654**	**8,246,817,161**	**803,203,493**	9.7%

Consolidated Income Statement

In euros

Items	12/31/2017	12/31/2016	Changes	
			absolute	%
10. Interest and similar income	355,437,187	352,241,416	3,195,771	0.9%
20. Interest expense and similar charges	(62,316,267)	(74,892,061)	12,575,794	-16.8%
30. Net interest margin	**293,120,920**	**277,349,355**	**15,771,565**	**5.7%**
40. Commissions income	106,565,581	111,288,301	(4,722,720)	-4.2%
50. Commissions expense	(60,228,297)	(68,157,526)	7,929,229	-11.6%
60. Net commission income	**46,337,284**	**43,130,775**	**3,206,509**	**7.4%**
80. Net trading income	(246,894)	(859,709)	612,815	-71.3%
90. Net hedging gains (losses)	598,911	(1,496,860)	2,095,771	-140.0%
100. Gains (losses) on disposal or repurchase of:	31,339,096	256,212	31,082,884	12131.7%
a) loans	31,340,822	(4,992)	31,345,814	-627921.0%
b) available-for-sale financial assets	(1,726)	261,204	(262,930)	-100.7%
120. Net banking income	**371,149,317**	**318,379,773**	**52,769,544**	**16.6%**
130. Net losses / recoveries on impairment of:	(50,127,363)	(46,254,759)	(3,872,604)	8.4%
a) loans	(49,395,423)	(46,009,294)	(3,386,129)	7.4%
b) available-for-sale financial assets	(731,940)	(245,465)	(486,475)	198.2%
140. Net income from financial activities	**321,021,954**	**272,125,014**	**48,896,940**	**18.0%**
170. Net profit from financial and insurance activities	**321,021,954**	**272,125,014**	**48,896,940**	**18.0%**
180. Administrative expenses:	(149,888,748)	(145,654,883)	(4,233,865)	2.9%
a) payroll costs	(56,377,244)	(54,165,878)	(2,211,366)	4.1%
b) other administrative costs	(93,511,504)	(91,489,005)	(2,022,499)	2.2%
190. Net provisions for risks and charges	(17,974,544)	(11,567,183)	(6,407,361)	55.4%
200. Net adjustments / writebacks on tangible assets	(637,317)	(694,884)	57,567	-8.3%
210. Net adjustments / writebacks on intangible assets	(3,696,704)	(3,524,328)	(172,376)	4.9%
220. Other operating expenses / income	15,158,346	23,161,570	(8,003,224)	-34.6%
230. Operating costs	**(157,038,967)**	**(138,279,708)**	**(18,759,259)**	**13.6%**
280. Profit (loss) from continuing operations before tax	**163,982,987**	**133,845,306**	**30,137,681**	**22.5%**
290. Income taxes on continuing operations	(55,217,392)	(41,932,199)	(13,285,193)	31.7%
300. Profit (loss) from continuing operations after tax	**108,765,595**	**91,913,107**	**16,852,488**	**18.3%**
320. Net profit (loss) for the year	**108,765,595**	**91,913,107**	**16,852,488**	**18.3%**
330. Net profit (loss) attributable to minority interests	17,339,155	12,742,705	4,596,450	36.1%
340. Net profit (loss) attributable to the parent company	**91,426,440**	**79,170,402**	**12,256,038**	**15.5%**

Statement of Consolidated Comprehensive Income

In euros

		12/31/2017	12/31/2016
10.	**Net Profit (Loss) for the year**	**108,765,595**	**91,913,107**
40.	Defined benefit plans	(31,213)	370,012
90.	Cash flow hedges	-	1,079,003
100.	Available-for-sale financial assets	294,159	(387,957)
130.	**Total of other comprehensive income after tax**	**262,946**	**1,061,058**
140.	**Comprehensive income (Item 10+130)**	**109,028,541**	**92,974,165**
150.	Consolidated comprehensive income attributable to minorities	17,452,483	12,763,576
160.	**Consolidated comprehensive income attributable to Parent Company**	**91,576,058**	**80,210,589**

Statement of changes in Consolidated Shareholders' Equity

Financial year 2017

	Group shareholders' equity at 31.12.16	Changes in opening balances	Balance at 1.1.2017	Allocation of prior year results: Reserves	Allocation of prior year results: Dividends and other allocations	Changes during the year: Changes in reserves	Changes during the year: Transactions on shareholders' equity: Derivatives on treasury shares	Changes during the year: Transactions on shareholders' equity: Stock options	Changes during the year: Changes of ownership interesrs	Changes during the year: Comprehensive income for 2017	Group shareholders' equity at 31.12.2017	Minority interests at 31.12.2017
Share capital:	645.604.500	-	645.604.500								573.000.000	72.604.500
a) ordinary shares	645.604.500	-	645.604.500								573.000.000	72.604.500
b) other shares	-	-	-									
Share premium reserve	12.404.771	-	12.404.771								632.586	11.772.185
Reserves:	55.192.735	-	55.192.735	69.213.108	-	1.948.944			26.500.000		104.056.562	48.798.224
a) retained earnings	626.860	-	626.860	69.213.108		-					63.099.323	6.740.645
b) other	54.565.875	-	54.565.875			1.948.944			26.500.000	-	40.957.239	42.057.579
Valuation reserves	(547.252)	-	(547.252)							262.946	(418.506)	134.199
Equity instruments	-	-	-									
Treasury shares	-	-	-									
Net profit (loss) for the period	91.913.108	-	91.913.108	(69.213.108)	(22.700.000)					108.765.595	91.426.440	17.339.155
Shareholders' equity	692.746.553	-	692.746.553		(16.600.000)	974.472				91.576.058	768.697.082	
Minorities interests	111.821.307	-	111.821.307		(6.100.000)	974.472			26.500.000	17.452.485		150.648.262

Financial year 2016

In euros

	Balance at 31.12.2015	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	Changes during the year: Transactions on shareholders' equity: Derivatives on treasury shares	Changes during the year: Transactions on shareholders' equity: Stock options	Changes during the year: Changes of ownership interesrs	Changes during the year: 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

Consolidated Cash Flow Statement (indirect method)

In euros

A. OPERATING ACTIVITIES	Amount	Amount
	12/31/2017	**12/31/2016**
1. Cash generated from operations	**107,327,000**	**300,731,279**
- net profit for the year (+/-)	108,765,595	91,913,107
- net gains/losses on financial assets held for trading and financial assets/liabilities designated at fair value through profit and loss (+/-)		
- gains (losses) from hedging activities (+/-)	(767,017)	1,242,727
- net adjustments for impairment (+/-)	(101,826,658)	36,066,102
- impairment/recoveries to property and equipment and intangible assets (+/-)	4,332,421	5,272,372
- net provisions for risks and charges and other costs/income (+/-)	22,432,895	7,800,999
- net premiums not collected (-)		
- other income insurance income/expense not collected (-/+)		
- unsettled taxes (+)	25,366,587	36,982,843
- impairment/recoveries to disposal groups net of tax effect (-/+)	1,600	
- other adjustments (+/-)	49,021,578	(89,922,120)
2. Cash generated/absorbed by financial assets	**(663,137,732)**	**(2,193,363,460)**
- financial assets held for trading	(210,566)	(793,659)
- financial assets designated at fair value through profit and loss		
- financial assets available for sale	24,541,255	(83,179,341)
- due from banks: on demand	31,610,299	(318,881,446)
- due from banks: other receivables	6,831,102	267,628,615
- loans to customers	(709,245,523)	(1,977,473,190)
- other assets	(16,664,297)	(80,664,440)
3. Cash generated/absorbed by financial liabilities	**578,996,649**	**1,862,245,860**
- due to banks: on demand		
- due to banks: other debts	264,298,605	889,542,770
- due to customers	322,449,763	880,980,900
- debt securities issued	(48,971,459)	12,992,140
- financial liabilities held for trading	210,566	
- financial liabilities designated at fair value through profit and loss		
- other liabilities	41,009,173	78,730,050
Net cash generated/absorbed by operating activities	**23,185,917**	**(30,386,321)**
B. INVESTING ACTIVITIES		
1. Cash generated by	**295**	**71,398**
- sale of equity investments		
- dividends collected on equity investments		
- sale of financial assets held to maturity		
- sale of property and equipment	295	71,398
- sale of intangible assets		
- sale of lines of business		
2. Cash absorbed by	**(6,587,303)**	**(18,684,754)**
- purchase of equity investments		
- purchase of financial assets held to maturity		
- purchase of property and equipment	(805,800)	(490,865)
- purchase of intangible assets	(5,781,503)	(3,610,782)
- purchase of lines of business		(14,583,107)
Net cash generated/absorbed by investing activities	**(6,587,008)**	**(18,613,356)**
C. FINANCING ACTIVITIES		
- issue/purchase of treasury shares		
- issue/purchase of equity instruments		80,000,000
- dividends distributed and other allocations	(16,600,000)	(31,000,000)
Net cash generated/absorbed by financing activities	**(16,600,000)**	**49,000,000**
NET CASH GENERATED/ABSORBED IN THE YEAR	**(1,091)**	**322**

Key:
(+) generated
(-) absorbed

RECONCILIATION

Items	Amount 12/31/2017	Amount 12/31/2016
Cash and cash equivalents at beginning of year	4,491	4,168
Net increase (decrease) in cash and cash equivalents	(1,091)	322
Cash and cash equivalents: effect of change in exchange rates		
Cash and cash equivalents at end of year	3,400	4,491

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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 2017 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. 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 2017 have been applied (including the SIC and IFRIC interpretations), as endorsed by the European Commission.

Section 2 – Basis of preparation

The financial statements consist of the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders’ equity, cash flow statement and the notes to the financial statements and are also accompanied by the directors’ report on the operations, results and financial position of the Santander Consumer Bank Group.
Within the Report on Operations there is a special section dedicated to the Non-Financial Statement of the Santander Italia Group, in accordance with Legislative Decree 254/2016.
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 2016.
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 financial statements

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

Statement of comprehensive income
The statement of changes in comprehensive income is presented in the manner prescribed by the Bank of Italy, based on the information required by IAS 1.
"Net profit (loss) for the year" is the same amount shown in item 320 of the income statement.
The "other comprehensive income after tax" includes changes in the value of assets recorded during the year with contra-entry to the valuation reserves (net of tax).

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

Cash flow statement
The cash flow statement for the current and previous years has been prepared using the indirect method, whereby cash flows from operating activities are represented by the result for the year adjusted for non-monetary transactions.
Cash flows are broken down into those generated by operating activities, investing activities and financing activities.
In this statement, the cash flows generated during the year are shown without a sign, whereas those absorbed are shown in brackets.

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

Section 3 – Scope of consolidation and consolidation method

1. Investments in subsidiaries

Company name	Head office	Type of relationship (1)	Nature of holding		% of votes (2)
			Parent company	% held	
Santander Consumer Finance Media S.r.l. in liquidation	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.
Santander Consumer Bank and Banque PSA Finance each hold 50% of the share capital of Banca PSA Italia S.p.A and the existence of control by Santander Consumer Bank was determined based on the following assumptions.
The company was set up under a framework agreement entered into between Santander Consumer Finance Group and Peugeot Group, through its subsidiary Banque PSA Finance.
The subsidiary offers a wide range of consumer financial services focused on the automotive sector.
As previously stated, based on IFRS 10, a company controls an investee if it has the ability, by means of a legal or substantial right, to significantly impact management decisions that affect the amount of the investor's returns and where it is exposed to variable returns.
In assessing the existence of control, identification was made of the relevant activities, that is, the activities that significantly affect the investee's returns, and the manner in which decisions are made in relation to these activities.
Activities identified as relevant, in a company that operates in the investee's sector, are financing activities, inclusive of ALM, risk management and commercial management.
Under the framework agreement executed by both Groups, by means of a casting vote, Santander Consumer Bank has the power to direct two of the three strategic areas: financing activities and risk management.
The above factors have led the two shareholders to conclude that Santander Consumer Bank exercises control over PSA Italia S.p.A. and that Banque PSA Finance exercises a significant influence thereover.
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 liquidation	35%	35%	35%
PSA Italia S.p.A.	50%	50%	50%

3.2 Investments with significant minority interests: accounting information

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)	Total assets
Santander Consumer Finance Media S.r.l. in liquidation	7,352		5,654			7,097	66	17	(161)	(163)	(118)		(118)		(118)
PSA Italia S.p.A.	2,712,272	1	2,518,039	79	2,227,932	296,060	74,721	90,749	(36,133)	53,485	34,761		34,761		34,761

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

In the course of the financial year, the subsidiary Banca PSA performed a reclassification within the income statement, from item 220 "Other operating expenses/income" to item 40 "Commission income"; in these consolidated financial statements, therefore, the balances referred to financial year 2016 have been restated according to the new classification so that data can be correctly compared. Below is a reconciliation of the 2016 consolidated income statement and the new statement with the balances restated:

Items	31/12/2016 Deposited consolidated balance	Reclassified balance	31/12/2016 Proforma balance
40. Commissions income	107.024.453	4.263.848	111.288.301
60. Net commission income	**38.866.927**	**4.263.848**	**43.130.775**
220. Other operating expenses / income	27.425.418	(4.263.848)	23.161.570
230. Operating costs	**(134.015.860)**	**(4.263.848)**	**(138.279.708)**
320. Net profit (loss) for the year	**91.913.107**	**-**	**91.913.107**

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 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 7 February 2018.
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 2017.

Section 5 - Other aspects

Complete copies of the last Financial Statements with the Reports on Operations of the companies that at 31 December 2017 were subsidiaries or associates, and that their respective Boards of Directors will submit for approval of their shareholders' meeting by 30 April 2018, 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 2017 is included in the report accompanying the Financial Statements.
The Financial Statements are audited by PricewaterhouseCoopers S.p.A., pursuant to the Resolution of the Shareholders' Meeting of 31 March 2016, which appointed this firm to perform the audit for the nine years from 2016 to 2024.

Listed below are changes to international accounting standards or related interpretations, approved by the European Commission, that have become effective as from 1 January 2017:

- Amendments to IFRS 12 - Disclosure of Interests in Other Entities;
- Amendments to IAS 28 - Investments in Associates and Joint Ventures;

The changes to these two 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 7 - Statement of Cash Flows (EU Reg. 2017/1990);
- Amendments to IAS 12 - Income Taxes (EU Reg. 2017/1989);

These changes do not have a significant impact on the Group's financial statements.

Listed below are the relevant 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 - Revenue, establishes the criteria and timing for the recognition of revenue from contracts to customers (EU Reg. 2016/1905 and 2017/1987);
- IFRS 16 - Leases, in force from 1 January 2019 (EU Reg. 2017/1986)
- IFRS 17 - Insurance Contracts, in force from 1 January 2021 (EU Reg. 2017/1988)
- 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 (EU Reg. 2016/2067).

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

From IAS 39 to IFRS 9 - Basic Principles
As a result of the weaknesses shown by IAS 39 during the years of the financial crisis, the IASB began a cycle of reforms in 2002 which ended with the adoption of IFRS 9. The standard essentially focuses on forward-looking provisions so as to achieve both greater consistency in terms of the measurement of financial assets in the balance sheet, and an extension of the period of creation of provisions in such a way as to act promptly to correct the value of loans and to prevent the erosion of capital by correcting the risk structure.
The new accounting standard envisages the use of a new model for the classification of financial instruments and new rules for the calculation of impairment.
Financial assets can therefore be classified into three categories, two main and one residual:

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

Classification is performed by assessing the Bank's business model and the characteristics of the cash flows connected to it.
The first category will therefore include assets that possess the characteristics of a loan, with cash flows relating to the repayment of the nominal amount and of interest at fixed dates connected to a business model whose purpose is to hold the instrument for the entire duration of the loan in order to collect all the cash flows.

The second category includes the instruments whose contractual flows are characterised exclusively by the payment of capital and interest. The business model that guides the holding of these instruments is referred to as “Hold to Collect and Sell”, the objective being both to collect the contractual flows and to sell the asset.
The final category includes assets that cannot be classified in the first two. All assets, therefore, with a business model other than those above, in which the cash flows are secondary while the sale of the asset is the priority.
The Group, taking account of the products marketed and of its business model, places its current portfolio in the first category.
The new impairment model also requires the classification of loans into three different stages depending on the deterioration in the credit quality observed with respect to the initial recognition and which correspond to the different methods of calculation of the expected loss and interest:

- Stage 1: classified in this stage are loans defined as performing, i.e. loans that have not deteriorated since initial recognition. In this case, the expected loss for the calculation of corrections is measured over a 12-month time period (12-month PD), while interest is calculated on the gross exposure;
- Stage 2: comprises loans that have undergone a significant qualitative worsening compared to initial recognition (more than 30 days past due). For these loans, expected loss is calculated over the lifetime of the loan (lifetime PD), and interest is calculated on the basis of the gross exposure;
- Stage 3: includes impaired assets, i.e. that have objective evidence of deterioration (over 90 days past due). Included in this category are past due non-performing, unlikely to pay and doubtful. In this case a lifetime PD is calculated, while interest is calculated on the basis of the receivable net of impairment.

A comparison of the IAS and IFRS 9 impairment model shows differences in the provision trend. IAS recognises a loss in the financial statements when an event occurs which according to the new standard is identifiable in stage 3. As regards IAS, the Expected Loss model applied shows loan loss provisions as initially almost zero but that constantly increase along the entire life of the credit. With IFRS 9 on the other hand, provisions are made from initial recognition of the loan in the financial statements and the trend observed is not constant but rather in steps, depending on the impairment of the credit risk of the exposure. A comparison of the two approaches therefore shows that the IFRS 9 methodology initially overestimates provisions with respect to IAS, and being held in stage 1 tends to underestimate them. This effect is overcome with the increase of the level risk with transfer to stages 2 and 3 where prudentially the IFRS 9 provision is greater than the IAS provision with progressive impairment of the loan until it converges with transfer to stage 3.
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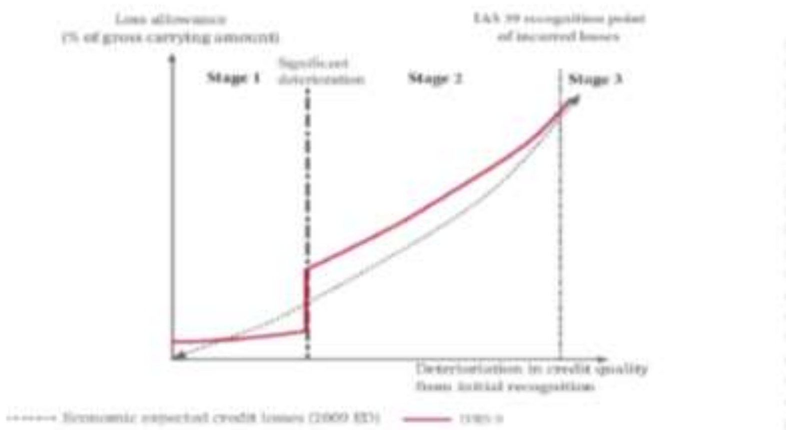


IFRS 9 also makes changes to hedge accounting, providing for greater alignment between hedging relationships and the underlying risk management strategies. The standard provides for use of the option to continue to apply the rules provided by IAS 39. It is noted that the Group makes use of said option.

IFRS 9 implementation
The process to implement IFRS 9 was carried out under the supervision and direction of the Spanish parent company. Santander Consumer Bank, in addition to managing the project at local level, performed an oversight function in the implementation process in the subsidiary Banca PSA Italia, conducted under the supervision and direction of the Cooperation (Santander Consumer Finance SA and Banque PSA Finance SA), which saw the participation of all the business areas involved in the development and application of the new accounting standard.
The involvement of the Joint Ventures (JV) began in February 2017 and continued throughout 2017. The Banca PSA Risk Management function was tasked with coordinating the implementation of the project at local level. Local project coordinators provided extensive information to top management during regular meetings with the Cooperation, the Risk Committee and the Board of Directors. For the most part the information related to the state of development of the project and the findings of the processing during the Parallel Run stage. The parent company monitored the development of activities through the periodic oversight updates.

Below is a consolidated comparison of the estimates of losses expected with the adoption respectively of IAS 39 and IFRS 9 as at the end of the financial year.

Group SCB	LLR	
	IAS39	IFRS9
Loans and leasing	220.72	233.33
Salary assignment	32.35	29.56
Credit card	1.75	1.68
Stock Finance and Revolving	11.85	9.73
Total	**266.67**	**274.31**
	Gap	**7.6**

The application methodology for Banca PSA was taken directly from the Cooperation and applied locally by the Risk Management function and by local working groups.
The main development milestones were fixed to correspond with the following objectives:

- Definition of Governance and approval of the Reference Book;
- Segmentation and staging;
- Definition of the parameters and models;
- Implementation of the calculation tool;
- Test, Parallel Run & Validation stages.

The main development milestones managed by the subsidiary were the following:

- Setting of the project
- Segmentation of the portfolio
- Modelling and determination of parameters
- Setting up of the impairment calculation tool in accordance with new rules
- Test and Parallel Run stages
- Independent Auditor validation
- Go live.

IFRS 9 impairment process – Activities and roles
Adoption of the IFRS 9 model required the development of new activities and the modification of certain existing operating processes within the subsidiary. The review of processes was managed locally by Banca PSA, taking account of the management agreements of the JV and in accordance with the operational guidelines issued on the go live date.
More specifically, the entire IFRS 9 provisioning process was defined, implemented and supervised centrally by the Cooperation. Listed below are the main operational guidelines adopted:

- the Research function, responsible for the development of scenarios and forward-looking models, located within the Santander Group;
- the local JV is directly responsible for segmentation of the portfolio, definition of the criteria for staging and business requirements linked to local specificities;
- the implementation of models and the production of documentation is the responsibility of BPF;
- the Risk Management function continues to be responsible for IFRS 9 models (models owner).

The process of calculating provisions is managed centrally and performed at the level of each individual contract in accordance with the rules agreed between the Cooperation and the local JV.
The monthly output extracts are managed by the Cooperation. Detailed information within these extracts, concerning segmentation, staging, exposure, parameters and provisions, is reviewed and validated at local level for use for accounting purposes.

A.2 – Main items in the financial statements

This section explains the accounting policies used to prepare the 2017 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, financial assets held for trading are measured at fair value. The effects of the application of this criterion are recognised in the income statement. For the determination of fair value, estimates and valuation models are used based on prices quoted on an active market.

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

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, "Available-for-sale financial assets" 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.
"Available-for-sale financial assets" 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 "Available-for-sale financial assets". 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 to such adjustments. The write-back 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.
There are no CFH derivatives as at 30 June 2017.

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 amount of an asset and its recoverable amount.

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

8. Non-current assets held for sale and discontinued operations and liabilities associated with groups of assets held for sale

Recognition
In this category are recognised non-current assets whose carrying amount will be recovered principally through a sale rather than through its continuing use. This case includes leased assets that have been repossessed as a result of the premature interruption or termination of the period of the contract. The related recognition occurs once the full availability of the asset is ascertained, for an amount equal to the lower of the carrying amount and its fair value net of costs to sell,

that meets the requirements of high probability that it will be sold, as well as reduced time lag between initial recognition and subsequent disposal, usually within a year.

Classification and recognition of components affecting the income statement
Assets that meet the criteria to be classified as non-current assets held for sale are shown separately in the balance sheet.

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

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

9. Current and deferred taxation

The effects of current and deferred taxation are recognised by applying the current tax rates. Income taxes are recognised in the income statement.
The provision for income taxes is determined on the basis of a prudent estimate of current taxes, deferred tax assets and deferred tax liabilities. In particular, deferred tax assets and liabilities are determined on the basis of temporary differences - without time limits - between the value of an asset or a liability according to statutory criteria and the corresponding values for tax purposes.
Deferred tax assets, representing the future tax benefit deriving from deductible temporary differences or tax losses carried forward, are recognised to the extent that their recovery is likely.
Deferred tax assets and liabilities are systematically assessed to take account of any changes in regulations or tax rates.

10. 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 is 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.

Method of determining the impairment of other non-financial assets

Tangible and intangible assets with a defined useful life are subject to impairment testing if there is an indication that the carrying amount of the asset may no longer be recovered in full. The recoverable amount is determined with reference to the fair value of the tangible or intangible asset net of disposal costs or the value in use if determinable and if it is higher than the fair value.
For other tangible and intangible fixed assets (other than goodwill) it is assumed that the carrying amount usually corresponds to the value in use, as it is determined by an amortisation process estimated on the basis of the actual contribution of the asset to the production process resulting in the determination of a fair value being extremely uncertain. The two values differ, giving rise to impairment, in the event of damages, exit from the production process or other similar non-recurring circumstances.
Receivables classified to Other Assets are subject to impairment losses on the basis of the recoverability of the loan itself.

Intercompany transactions

Banking and commercial transactions with the shareholder, the parent company and its subsidiaries 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 amount, fair value and effects on comprehensive income

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

A.3.2 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

	12/31/2017			12/31/2016		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading		1,033			2,992	
2. Financial assets at fair value through P&L						
3. Available for sale financial assets	467,055			492,395		
4. Hedging derivative assets		961				
5. Property, plant and equipment						
6. Intangible assets						
Total	**467,055**	**1,994**		**492,395**	**2,992**	
1. Financial liabilities held for trading		1,117			3,249	
2. Financial liabilities at fair value through P&L						
3. Hedging derivative liabilities		3,122			12,920	
Total		**4,240**			**16,169**	

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

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

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

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

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

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

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

	12/31/2017				12/31/2016			
	BV	**L1**	**L2**	**L3**	**BV**	**L1**	**L2**	**L3**
1. Held to maturity financial assets								
2. Due from banks	465,554			465,554	497,864			497,864
3. Loans to customers	7,637,530			7,520,561	6,770,121			6,677,846
4. Investment property								
5. Non-current assets held for sale and discontinued operations	3		3		5		5	
Total	**8,103,087**		**3**	**7,986,115**	**7,267,989**		**5**	**7,175,710**
1. Due to banks	5,670,769			5,674,487	5,413,579			5,422,521
2. Due to customers	1,646,083			1,637,758	1,261,270			1,257,764
3. Debt securities in issue	264,065			264,723	313,037			311,919
4. Liabilities associated with non-current assets held for sale								
Total	**7,580,917**			**7,576,968**	**6,987,885**			**6,992,204**

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

	12/31/2017	12/31/2016
a) Cash	3	4
b) Demand deposits with Central banks		
Total	**3**	**4**

Section 2 – Financial assets held for trading – item 20

2.1 Financial assets held for trading: breakdown by type

These amount to Euro 1,033 thousand (Euro 2,992 thousand at 31 December 2016) and include the positive fair value of derivatives entered into in connection with securitisations with the Parent Company Banco Santander.

Items/Values	12/31/2017			12/31/2016		
	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		1,033			2,992	
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)		**1,033**			**2,992**	
Total (A+B)		**1,033**			**2,992**	

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

Items/Values	12/31/2017	12/31/2016
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	1,033	2,992
b) Customers		
- Fair value		
Total B	**1,033**	**2,992**
Total (A+B)	**1,033**	**2,992**

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 – Available-for-sale financial assets – item 40

4.1 Available-for-sale financial assets: breakdown by type

Items/Values	12/31/2017			12/31/2016		
	L1	L2	L3	L1	L2	L3
1. Debt securities	467,055			492,395		
1.1 Structured securities						
1.2 Other	467,055			492,395		
2. Equity instruments						
2.1 Designated at fair value						
2.2 Recognised at cost						
3. Units investment funds						
4. Loans						
Total	**467,055**			**492,395**		

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

4.2 Available-for-sale financial assets: breakdown by borrower/issuer

Items/Values	12/31/2017	12/31/2016
1. Debt securities	**467,055**	**492,395**
a) Governments and central banks	467,055	492,395
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	**467,055**	**492,395**

4.3 Available-for-sale financial assets with specific hedges

As at the reporting date, there were no financial assets with specific hedges 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 465,554 thousand (Euro 497,864 thousand at 31 December 2016) and are made up as follows:

Type of transaction / Values	12/31/2017				12/31/2016			
		FV				FV		
A. Loans to Central Banks	**12,169**			**12,169**	**19,365**			**19,365**
1. Time deposits		X	X	X		X	X	X
2. Compulsory reserves	12,169	X	X	X	19,365	X	X	X
3. Repurchase agreements		X	X	X		X	X	X
4. Other		X	X	X		X	X	X
B. Loans to banks	**453,385**			**453,385**	**478,499**			**478,499**
1. Loans	453,385			453,385	478,499			478,499
1.1 Current accounts and demand deposits	446,523	X	X	X	463,826	X	X	X
1.2 Time deposits	167	X	X	X	137	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	6,695	X	X	X	14,536	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	**465,554**			**465,554**	**497,864**			**497,864**

Key:
FV= Fair value
BV = Book value

Amounts due from central banks of Euro 12,169 thousand (Euro 19,365 thousand at 31 December 2016) 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 167 thousand).
Amounts due from banks refer to:

- credit balances on bank current accounts for Euro 446,523 thousand (Euro 463,826 thousand at 31 December 2016), consisting of cash deposits belonging to the segregated funds of the securitisations (Euro 381,109 thousand) and liquidity of other Group companies (Euro 43,966 thousand);
- other loans, mainly related 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 (Euro 6,666 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 7,637,530 thousand (Euro 6,770,121 thousand at 31 December 2016) and are made up as follows:

Type of transaction / Values	12/31/2017						12/31/2016					
	Not impaired						Not impaired					
		Purchased	Other					Purchased	Other			
Loans	**7,562,622**		**74,908**			**7,520,561**	**6,699,870**		**70,250**			**6,677,846**
1. Current accounts	30,130		1,741	X	X	X	29,136		1,007	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	3,257,057		37,767	X	X	X	3,224,735		50,222	X	X	X
5. Financial leasing	279,936		4,113	X	X	X	253,799		4,653	X	X	X
6. Factoring	396,792		158	X	X	X	262,710			X	X	X
7. Other loans	3,598,706		31,130	X	X	X	2,929,490		14,369	X	X	X
Debts												
8. Structured				X	X	X				X	X	X
9. Other				X	X	X				X	X	X
Total	**7,562,622**		**74,908**			**7,520,561**	**6,699,870**		**70,250**			**6,677,846**

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

In particular, loans to customers include:

- Euro 31,871 thousand (of which, Euro 1,741 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 3,294,824 thousand (of which, Euro 37,767 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 1,015,353 thousand of which relating to the portfolio of the subsidiary PSA;
- Euro 284,050 thousand (of which, Euro 4,113 thousand non-performing loans) for loans to customers for finance leases, recorded at amortised cost, Euro 228,977 thousand of which relating to the portfolio of the subsidiary PSA;
- Euro 396,950 thousand of loans relating to factoring transactions with car manufacturers;
- Euro 3,629,836 thousand (of which, Euro 31,130 thousand non-performing loans) for loans to customers resulting from financing for car loans and other special-purpose loans, Euro 1,147,801 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 3,438,431 thousand, of which Euro 20,521 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	12/31/2017			12/31/2016		
	Not impaired	Impaired		Not impaired	Impaired	
		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	5,082					
b) Other public-sector entities	6,703		1	10,464		21
c) Other entities						
- non-financial companies	2,115,800		23,225	1,635,957		14,405
- financial companies	11,789		24	4,478		15
- insurance companies	11			12		
- other	5,423,237		51,659	5,048,959		55,810
Total	**7,562,622**		**74,908**	**6,699,870**		**70,250**

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 12/31/2017	
	Minimum lease payments	**Present value of minimum lease payments**
Finance lease instalments due		
Up to 12 months	95,861	92,518
1 to 5 years	202,412	191,229
Beyond 5 years		
Total	**298,273**	**283,747**
of which:		
Unguaranteed residual values accruing to the lessor		
Less: unearned finance income	14,526	X
Present value of minimum lease payments	**283,747**	**283,747**

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

	12/31/2017				12/31/2016			
	L1	L2	L3	12/31/2017	L1	L2	L3	12/31/2016
A) Financial derivatives								
1) Fair value		961		950,908				
2) Cash flows								
3) Net investments in foreign								
B) Credit derivatives								
1) Fair value								
2) Cash flows								
Total		**961**		**950,908**				

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

The amount shown in the above table refers to the positive 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 positive fair values at 31 December 2017 (in euros):

		2017		
Notional (euro)	**Start date**	**Settlement date**	**Counterparty**	**Fair value (euro)**
125,360,500	04/26/2017	07/28/2025	Banco Santander	104,443
126,079,500	04/26/2017	08/26/2025	Banco Santander	175,661
126,073,000	04/26/2017	09/26/2025	Banco Santander	214,970
77,627,000	05/31/2017	06/30/2023	Banco Santander	41,860
78,619,000	05/31/2017	07/31/2023	Banco Santander	9,875
32,149,000	09/29/2017	12/31/2025	Banco Santander	30,842
50,000,000	06/30/2020	12/31/2027	Banco Santander	66,423
102,000,000	04/20/2017	02/28/2022	Banco Santander	94,856
112,000,000	04/20/2017	04/29/2022	Banco Santander	122,540
121,000,000	04/20/2017	03/31/2022	Banco Santander	99,815
950,908,000				**961,286**

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

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 instruments						X		X	X
2. Loans and receivables				X		X		X	X
3. Held-to-maturity investments	X			X		X		X	X
4. Portfolio	X	X	X	X	X	961	X		X
5. Others						X		X	
Total assets						**961**			
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		

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	12/31/2017	12/31/2016
1. Positive fair value changes		
1.1 of specific portfolios:		
a) loans and receivables	714	9,741
b) available for sale financial instruments		
1.2 overall		
2. Negative fair value changes		
2.1 of specific portfolios:		
a) loans and receivables	(1,124)	(369)
b) available for sale financial instruments		
2.2 overall		
Total	**(410)**	**9,372**

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	12/31/2017	12/31/2016
1. Loans	1,874,235	1,103,318
Total	**1,874,235**	**1,103,318**

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 1,603 thousand (Euro 1,432 thousand at 31 December 2016) and are made up as follows:

Activities/Values	12/31/2017	12/31/2016
1.1 Own assets		
a) lands		
b) buildings		
c) office furniture and fitting	134	187
d) electronic system	1,044	1,031
e) other	424	213
1.2 Leased assets		
a) lands		
b) buildings		
c) office furniture and fitting		
d) electronic system		
e) other		
Total	**1,603**	**1,432**

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 of 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			**3,705**	**9,453**	**7,981**	**21,138**
A.1 Total net reduction value			(3,517)	(8,421)	(7,768)	(19,706)
A.2 Opening net balance			**187**	**1,031**	**213**	**1,432**
B. Increase			**10**	**425**	**372**	**806**
B.1 Purchases			10	425	372	806
B.2 Capitalised 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			**62**	**412**	**161**	**636**
C.1 Sales						
C.2 Depreciation			62	412	161	636
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 Transfers to:						
- a) held-for-sales investments						
- b) assets classified as held-for-sales						
C.7 Other adjustment						
D. Closing net balance			**134**	**1,044**	**424**	**1,603**
D.1 Total net write-down			(3,580)	(8,833)	(7,927)	(20,340)
D.2 Final gross balance			**3,714**	**9,877**	**8,351**	**21,943**
E. Carried at cost						

Each class of assets is measured at cost. Sub-item E (Carried at cost) shows a zero balance because, in accordance with Bank of Italy's Circular 262/2005, it is only for tangible assets that are carried in the balance sheet at fair value.
The main increases for the year relate to upgrades to data processing equipment (Euro 412 thousand).
Item C.2 Depreciation relates, in particular, to data processing equipment (Euro 425 thousand), of which Euro 50 thousand attributable to 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 10,264 thousand (Euro 8,179 thousand at 31 December 2016).

Assets/Values	12/31/2017		12/31/2016	
	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	10,264		8,179	
A.2.2 Assets valued at fair value:				
a) Internally generated Intangible assets				
b) Other assets				
Total	**10,264**		**8,179**	

“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				**74,448**		**74,448**
A.1 Total net reduction in value				(66,269)		(66,269)
A.2 Opening net balance				**8,179**		**8,179**
B. Increases				**5,782**		**5,782**
B.1 Purchases				5,782		5,782
B.2 Increases in internally generated intangible 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				**3,697**		**3,697**
C.1 Disposals						
C.2 Write-downs				3,697		3,697
- Amortization	X			3,697		3,697
- 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						
D. Closing net balance				**10,264**		**10,264**
D.1 Total net reduction in value				(69,965)		(69,965)
E. Closing balance				**80,229**		**80,229**
F. Carried at cost						

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

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 38,492 thousand (Euro 27,785 thousand in 2016), while current liabilities recognised in liability line item 80 amount to Euro 49,441 thousand (Euro 38,824 thousand in 2016).

14.1 Deferred tax assets: breakdown

	12/31/2017	12/31/2016
Deferred tax assets balancing the income statement	201,776	211,492
Deferred tax assets balancing net equity	314	436
Total	**202,090**	**211,929**

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 202,090 thousand (Euro 211,929 thousand at 31 December 2016) consists of deferred tax assets recognised through the income statement in the amount of Euro 201,776 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 314 thousand attributable to the tax effect on actuarial gains and losses pertaining to termination indemnities of Santander Consumer Bank.

14.2 Deferred tax liabilities: breakdown

The Group has recognised deferred tax liabilities at 31 December 2017 of Euro 143 thousand, of which Euro 41 thousand relates to changes in fair value of the available-for-sale securities portfolio of Santander Consumer Bank and Euro 103 thousand relates to the tax effect on actuarial gains and losses pertaining to termination indemnities of the subsidiary PSA Italia.

	12/31/2017	12/31/2016
Deferred tax liabilities recognised to the income statement		
Deferred tax liabilities recognised to the net equity	143	133
Total	**143**	**133**

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

	12/31/2017	12/31/2016
1. Opening balance	**211,492**	**222,254**
2. Increases	**14,207**	**7,105**
2.1 Deferred tax assets of the year		
a) relating to previous years	82	
b) due to change in accounting policies		
c) write-backs		
d) other (creation of temporary differences, use of TLCF)	14,125	7,105
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	**23,923**	**17,867**
3.1 Deferred tax assets derecognised in the year		
a) reversals of temporary differences	23,923	17,867
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	**201,776**	**211,492**

The increase in deferred tax assets included in “Deferred tax assets of 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 16,900 thousand, to the use of the provisions allocated for other risks and charges in the amount of Euro 6,707 thousand, to the reversal in the income statement of the portion for the year, equal to Euro 292 thousand, as well as to repayments of deferred tax assets arising in 2016 from the subsidiary Banca PSA in the amount of Euro 24 thousand.

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

	12/31/2017	12/31/2016
1. Opening balance	**200,309**	**210,985**
2. Increases	**386**	
3. Decreases	**16,901**	**10,676**
3.1 Reversals of temporary differences	16,901	10,676
3.2 Conversion into tax credits		
a) from year losses		
b) from tax losses		
3.3 Other decreases		
4. Closing balance	**183,795**	**200,309**

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)

	12/31/2017	12/31/2016
1. Opening balance		**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		

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

	12/31/2017	12/31/2016
1. Opening balance	**436**	**886**
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	**123**	**572**
3.1 Deferred tax assets derecognised in the year		
a) reversals of temporary differences	123	572
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	**314**	**436**

The decreases for the year are the result of the reversals of the fair value amounts of the securities held by Banca PSA to “Assets available for sale” recorded during the year.

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

	12/31/2017	12/31/2016
1. Opening balance	**133**	**91**
2. Increases	**22**	**110**
2.1 Deferred tax liabilities of the year	22	110
a) relating to previous years		
b) due to change in accounting principles		
c) Other (creation of temporary differences)	22	110
2.2 New taxes or increase in tax rates		
2.3 Other increases		
3. Decreases	**12**	**69**
3.1 Deferred tax liabilities derecognised in the year	12	69
a) reversal of temporary differences	12	69
b) due to change in accounting principles		
c) other		
3.2 Reduction in tax rates		
3.3 Other decreases		
4. Final amount	**143**	**133**

The increases in deferred tax assets (through shareholders' equity) relate to changes in fair value of available-for-sale securities, while decreases included the temporary actuarial differences of the valuation of the provision for employee termination indemnities of Banca PSA in accordance with the provisions of IAS 19.

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

	12/31/2017	12/31/2016
A. Individual assets		
A.1 Financial assets		
A.2 Equity investments		
A.3 Property and equipment	3	5
A.4 Intangible assets		
A.5 Other non-current assets		
Total A	**3**	**5**
of which carried at cost		
of which carried at fair value level 1		
of which carried at fair value level 2	3	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 liabilities 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 225,842 thousand (Euro 224,740 thousand at 31 December 2016), is made up as follows:

	12/31/2017	**12/31/2016**
Advances to suppliers	12,466	12,119
VAT receivables	2,663	2,202
Stamp duties	1,085	6,203
Withholding taxes	1,629	3,681
Other tax receivables	3,823	3,582
Due from dealers	3,928	2,168
Due from insurances	18,045	15,238
Accruals and prepaid expenses	49,923	46,265
Assets in transit	30,338	28,199
Other items	101,942	105,083
Total	**225,842**	**224,740**

"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 5,670,769 thousand (Euro 5,413,579 thousand at 31 December 2016) and are made up as follows:

	12/31/2017	12/31/2016
1. Due to central banks	**1,591,475**	**1,372,438**
2. Due to banks	**4,079,294**	**4,041,140**
2.1 Other current accounts and demand deposits	45,000	29,000
2.2 Time deposits	900,004	160,122
2.3 Loans		
2.3.1 Repos		412,434
2.3.2 Other	3,133,939	3,439,404
2.4 Payables for commitments to repurchase own equity instruments		
2.5 Other payables	350	181
Total	**5,670,769**	**5,413,579**
Fair value - level 1		
Fair value - level 2		
Fair value - level 3	**5,674,487**	**5,422,521**
Total Fair value	**5,674,487**	**5,422,521**

"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";
- Parent Company short-term loans granted, reported in the item "time deposits";
- 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 164,500 thousand (147,500 thousand at 31 December 2016), includes loans granted by Santander Group companies aimed at strengthening the capital base of the Group, and consists of:

Type	12/31/2017	12/31/2016
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	6,500	13,000
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	5,000	7,500
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	8,000	12,000
TIER II subordinated debt to Santander Consumer Finance - maturing in 2025	50,000	50,000
TIER II subordinated debt to Santander Consumer Finance - maturing in 2027	30,000	
Total	**164,500**	**147,500**

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 1,646,083 thousand (Euro 1,261,270 thousand at 31 December 2016) and are made up as follows:

	12/31/2017	12/31/2016
1. Current accounts and demand deposits	746,450	684,945
2. Time deposits	339,024	131,869
3. Loans	22,522	1,529
3.1 Repos		
3.2 Other	22,522	1,529
4. Payables for commitments to repurchase own equity instruments		
5. Other payables	538,087	442,926
Total	**1,646,083**	**1,261,270**
Fair value - level 1		
Fair value - level 2		
Fair value - level 3	**1,637,758**	**1,257,764**
Fair value	**1,637,758**	**1,257,764**

"Current accounts and demand deposits" include demand deposits from customers, ordinary current accounts to affiliates and payments in transit to customers.
The item "Time deposits" includes "time" deposits offered to customers by the Parent Company.
The item "Other payables" 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

This item, which was absent last year, amounting to Euro 22,500 thousand includes the subordinated loan granted by PSA Finance Nederlands to Banca PSA, aimed at strengthening the capital base of the Bank, and consists of:

Operations/Group components	12/31/2017	12/31/2016
TIER II subordinated debt to PSA Finance Nederlands B.V. - maturing in 2027	22,500	
Total	**22,500**	

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	12/31/2017				12/31/2016			
	Book Value	*Fair Value*			Book Value	*Fair Value*		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities	**264,065**			**264,723**	**313,037**			**311,919**
1. Bonds								
1.1 structured								
1.2 other	264,065			264,723	313,037			311,919
2. Other								
2.1 structured								
2.2 other								
Total	**264,065**			**264,723**	**313,037**			**311,919**

"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	12/31/2017					12/31/2016				
	NV	FV			FV*	NV	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			1,117					3,249		
1.1 Held for trading	X		1,117		X	X		3,249		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**		**1,117**		**X**	**X**		**3,249**		**X**
Total (A+B)	**X**		**1,117**		**X**	**X**		**3,249**		**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 12/31/2017			NV	Fair Value 12/31/2016			NV
	L1	L2	L3	12/31/2017	L1	L2	L3	12/31/2016
A. Financial								
1) Fair value		3,122		945,922		12,920		1,101,087
2) Cash flows								
3) Net investments								
B. Credit derivatives								
1) Fair value								
2) Cash flows								
Total		**3,122**		**945,922**		**12,920**		**1,101,087**

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 2017 (in euros):

Notional (euro)	Start date	Settlement date	Counterparty	Fair value (euro)
3,937,000	12/27/2010	04/27/2018	Santander Bank	38,843
12,000,000	02/14/2011	03/14/2019	Santander Bank	220,555
1,500,000	05/27/2011	02/27/2018	Santander Bank	22,933
10,000,000	06/21/2011	03/21/2018	Santander Bank	28,703
26,000,000	07/14/2011	01/14/2019	Santander Bank	349,604
16,000,000	08/12/2011	08/12/2019	Santander Bank	338,482
14,100,000	07/06/2012	10/08/2018	Santander Bank	103,453
9,000,000	07/12/2012	10/12/2018	Santander Bank	74,531
45,000,000	08/02/2012	11/02/2018	Santander Bank	264,808
39,000,000	09/25/2012	03/25/2019	Santander Bank	235,654
46,750,000	11/09/2012	06/10/2019	Santander Bank	362,032
16,000,000	06/10/2013	04/10/2018	Santander Bank	50,489
30,500,000	06/21/2013	03/21/2019	Santander Bank	230,994
28,000,000	07/01/2013	02/01/2019	Santander Bank	233,496
209,850,000	01/30/2017	10/31/2025	Santander Bank	22,783
97,029,500	07/31/2017	11/29/2024	Santander Bank	56,427
98,155,500	07/31/2017	12/31/2024	Santander Bank	36,571
80,000,000	07/31/2017	01/31/2025	Santander Bank	153,179
16,700,000	05/18/2017	04/23/2018	Santander Bank	20,097
18,000,000	05/18/2017	01/22/2018	Santander Bank	4,026
11,000,000	05/18/2017	07/23/2018	Santander Bank	21,097
10,000,000	05/18/2017	08/21/2018	Santander Bank	28,114
12,600,000	05/18/2017	05/21/2018	Santander Bank	20,165
7,500,000	05/18/2017	03/19/2018	Santander Bank	6,130
9,000,000	05/18/2017	09/17/2018	Santander Bank	34,589
6,000,000	05/18/2017	11/26/2018	Santander Bank	20,956
2,800,000	05/18/2017	08/27/2018	Santander Bank	6,959
3,000,000	05/18/2017	09/21/2018	Santander Bank	8,578
2,600,000	05/18/2017	06/21/2018	Santander Bank	4,678
11,600,000	05/23/2017	02/26/2018	Santander Bank	9,090
5,600,000	05/23/2017	02/21/2018	Santander Bank	3,268
11,700,000	05/23/2017	10/24/2018	Santander Bank	40,560
10,500,000	05/23/2017	06/19/2018	Santander Bank	19,161
5,700,000	05/23/2017	03/12/2018	Santander Bank	5,477
8,500,000	05/23/2017	12/24/2018	Santander Bank	31,885
3,500,000	07/19/2017	05/23/2018	Santander Bank	5,447
2,400,000	07/19/2017	03/26/2018	Santander Bank	2,003
2,900,000	07/19/2017	06/26/2018	Santander Bank	5,249
1,500,000	07/19/2017	03/22/2018	Santander Bank	1,162
945,922,000				**3,122,228**

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. Portfolio	X	X	X	X	X	3,122	X		X
5. Others						X		X	
Total assets						**3,122**			
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 462,491 thousand (Euro 368,665 thousand at the end of 2016) and consist of:

	12/31/2017	12/31/2016
Due to suppliers	108,356	76,323
Due to dealers	27,529	24,634
Payables to employees	5,938	5,842
Due to Social Security institutions	3,332	2,982
Tax payables	5,988	5,131
Other amounts due to customers	15,998	15,242
Due to insurances	19,735	19,180
Factoring payables	134,494	115,717
Accruals and deferred income	50,011	33,599
Items in transit	73,326	48,607
Other liabilities for commissions	6,612	7,888
Provision for endorsement credits		
Other payables	11,172	13,520
Due to Isban		
Total	**462,491**	**368,665**

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

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

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

Section 11 – Provision for employee termination indemnities – item 110

11.1 Provision for employee termination indemnities: change in the year

	12/31/2017	12/31/2016
A. Opening balance	**4,355**	**3,639**
B. Increases	**145**	**1,979**
B.1 Provision of the year	76	88
B.2 Other increases	69	1,891
C. Decreases	**201**	**1,262**
C.1 Payments made	196	590
C.2 Other decreases	6	672
D. Closing balance	**4,299**	**4,355**

The provision for employee termination indemnities amounts to Euro 4,299 thousand (Euro 4,355 thousand at 31 December 2016) 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: 1.25%;
- expected inflation rate: 1.75%;
- frequency of advances: 5.00%;
- frequency of termination for reasons other than death, disability, retirement: 6.50%
- number of retirements: 100% in the year in which they become eligible pursuant to law.

The following demographic assumptions were used:

- death: IPS55 generational table with age-shifting;
- disability: 1998 INPS tables;
- retirement: in accordance with law 214/2011.

With the introduction of the reform envisaged by Law 296/2006 (2007 Finance Act) on supplementary pensions, amounts provided relate to interest cost, corresponding to interest cost accrued at the beginning of the period and interest cost pertaining to movements in the year.
In addition, in line with the amendment to IAS 19 regarding the recognition of actuarial gains and losses accrued at the balance sheet date, they have been recognised with the OCI method as decreases or increases under the item “other changes”.

Section 12 – Provisions for risks and charges – item 120

12.1 Provisions for risks and charges: breakdown

Items	12/31/2017	12/31/2016
1. Provisions for pensions and similar obligations		
2. Other provisions for risk and charges	29,144	26,218
2.1 Legal disputes	6,480	11,367
2.2 personnel charges		
2.3 Other	22,664	14,850
Total	**29,144**	**26,218**

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

12.2 Provisions for risks and charges: change in the year

	12/31/2017	
	Pensions and post retirement benefit	Other provisions
A. Opening balance		**26,218**
B. Increases		**19,086**
B.1 Provision for the year		19,086
B.2 Time value change		
B.3 Difference due to discount-rate changes		
B.4 Other increases		
C. Decreases		**16,160**
C.1 Utilisations during the year		953
C.2 Difference due to discount-rate changes		
C.3 Other decreases		15,207
D. Closing balance		**29,144**

The main increases in item "B.1 - Provision for the year" relate to provisions for legal disputes with customers and dealers, as well as allocations to provisions for customer disputes relating to the salary assignment loan portfolio. These provisions cover commissions that are a matter of dispute. For further details, please refer to the corresponding income statement table. In addition, the item includes the provision allocated by Banca PSA for the closure of the operational headquarters in Rome.
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.3 "Other decreases" includes utilisations of provisions set up in prior years as a result of disbursements made for Euro 7,738 thousand.

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 768,697 thousand (Euro 692,747 thousand at 31 December 2016) and is broken down as follows:

Items/Amounts	12/31/2017	12/31/2016
1. Share capital	573,000	573,000
2. Share premium reserve	633	633
3. Reserves	104,057	40,512
4. (Treasury shares)		
a) parent company		
b) subsidiaries		
5. Valuation reserve	(419)	(568)
6. equity instruments		
7. Group profit (loss) of the year	91,426	79,170
Total	**768,697**	**692,747**

Retained earnings are described later in this section.
Valuation reserves relate to changes in fair value of available-for-sale financial assets (Euro 86 thousand) and the impact of measurement in accordance with IAS 19 of the provision for termination indemnities (Euro -504 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		
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 12/31/2017	**Total 12/31/2016**
Par value per share (zero if the shares have no par value)	1	1
Fully paid		
Number	573	573
Amount	573,000	573,000
- Agreed sale of shares:		
Number of shares under contract		
Total amount		

15.4 Profit reserves: other information

The Group's profit reserves at 31 December 2017 consist mainly of the legal reserve of Euro 5,504 thousand, the extraordinary reserve of Euro 45,705 thousand, the capital reserve of Euro 39,913 thousand, the merger reserve of Euro -1,015 thousand, and the retained earnings of the subsidiaries (Euro 12,905 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	**12/31/2017**	**12/31/2016**
Investments in consolidated companies with significant minority interests		
PSA Italia S.p.A.	148,164	109,296
Santander Consumer Finance Media S.r.l. in liquidation	2,484	2,525
Other investments		
Total	**150,648**	**111,821**

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	12/31/2017	12/31/2016
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	69,947	141,754
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	**69,947**	**141,754**

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

Portfolios	12/31/2017	12/31/2016
1. Financial instruments held for trading		
2. Financial instruments designated at fair value		
3. Financial instruments available for sale		
4. Financial instruments held to maturity		
5. Loans and receivables with banks	256,303	278,155
6. Loans and receivables with customers	2,348,254	2,833,560
7. Property, plant and equipment		

The table shows the assets underlying the securities provided as collateral for the loans received from the Bank of Italy in connection with TLTRO operations with the European Central Bank, specifically:

- in the item “loans and receivables with banks”, the proceeds arising from the portfolio involved in the self-securitisation;
- in the item “loans and receivables with customers”, the portfolio of loans subject to securitisation.

“Loans and receivables with customers” includes the portfolio of loans subject to securitisation, as mentioned in Part C, Section 1 of Part E to the Notes, as well as the amount of invoices formed as collateral for the funding transaction carried out with Mediocredito S.p.A., performed by Banca PSA Italia.

“Loans and receivables with banks” also includes the amounts paid as guarantee deposit to Santander Group companies as part of derivatives operations.

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 financial asset (c=a-b)	Related amounts not subject to offsetting in Balance Sheet		Net amount 12/31/2017	Net amount 12/31/2016
				Financial instruments (d)	Cash deposits posted as collateral (e)		
1) Derivatives	2,453	459	1,994		1,350	644	32
2) Repos							
3) Securities							
4) Others							20,973
Total 12/31/2017	**2,453**	**459**	**1,994**		**1,350**	**644**	**X**
Total 12/31/2016	**24,127**	**162**	**23,964**		**2,960**	**X**	**21,004**

As required by IFRS 7, it is hereby disclosed that the derivatives outstanding at 31 December 2017 have the following characteristics:

- The derivatives entered into by Santander Consumer Bank with Banco Santander with positive fair value, equal to Euro 644 thousand (column c), are subject to an ISDA based framework agreement and are thus subject to net settlement arrangements. There are no arrangements in place for the offsetting of derivatives recognised as liabilities, corresponding to the negative fair value.
- The derivatives entered into by Santander Consumer Bank with the Spanish Group company Abbey National Treasury Services Plc, with positive fair value, equal to Euro 1,033 thousand (column c), are subject to an ISDA based framework agreement.
- The derivatives entered into by Banca PSA Italia with the Parent Company Banco Santander and with HSBC, with positive fair value, equal to Euro 317 thousand (column c), are subject to an ISDA based framework agreement and are thus subject to net settlement arrangements. There are no arrangements in place for the offsetting of derivatives recognised as liabilities, corresponding to the negative fair value.

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

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

Technical forms	Gross amounts of financial liabilities (a)	Financial assets offset in Balance Sheet (b)	Net Balance Sheet values of financial liabilities (c=a-b)	Related amounts not subject to offsetting in Balance Sheet		Net amount 12/31/2017	Net amount 12/31/2016
				Financial instruments (d)	Cash deposits posted as collateral (e)		
1) Derivatives	3,582	459	3,122		3,122		
2) Repos							
3) Securities lending							
4) Others							23,415
Total 12/31/2017	**3,582**	**459**	**3,122**		**3,122**		**X**
Total 12/31/2016	**448,769**		**448,769**	**412,434**	**12,920**	**X**	**23,415**

As required by IFRS 7, it is hereby disclosed that the derivatives outstanding at 31 December 2017 have the following characteristics:

- Derivatives entered into with Banco Santander, with negative fair value, equal to Euro 2,824 thousand (column c), are subject to an ISDA based framework agreement and are thus subject to net settlement arrangements. There are no arrangements in place for the offsetting of derivatives recognised as assets, corresponding to the positive fair value.
- The derivatives entered into by Banca PSA Italia with negative fair value, equal to Euro 299 thousand (column c), are subject to an ISDA based framework agreement and are thus subject to net settlement arrangements. There are no arrangements in place for the offsetting of derivatives recognised as assets, corresponding to the positive fair value.

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

8. Securities lending

The Group does not have any transaction in securities lending.

9. Information on joint arrangements

The Group does not have any joint ventures.

Part C – Information on the consolidated income statement

Section 1 - Interest - items 10 and 20

1.1 Interest and similar income: breakdown

Interest and similar income amounts to Euro 355,437 thousand (Euro 352,241 thousand at 31 December 2016) and is made up of:

Items/Technical forms	Debt securities	Loans	Other transactions	Total 12/31/2017	Total 12/31/2016
1. Financial assets held for trading					
2. Financial assets designated at fair value through profit or loss					
3. Available for sale financial assets					
4. Held to maturity investments					
5. Due from banks		24		**24**	**99**
6. Loans to customers		352,042		**352,042**	**351,122**
7. Hedging derivatives	X	X			
8. Other assets	X	X	3,371	**3,371**	**1,020**
Total		**352,066**	**3,371**	**355,437**	**352,241**

Against a background of negative rates, the item "Due from banks" mainly consists of interest income accrued on financing transactions.
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" mainly consists of interest income accrued on financing transactions through TLTRO with the European Central Bank.

1.2 Interest and similar income: differentials on hedging transactions

The balance of differentials on hedging interest rate swaps is negative (as in 2016).
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 2017 amount to Euro 12,126 thousand (Euro 12,145 thousand in 2016).

	12/31/2017	12/31/2016
Interest income on financial leasing activities	12,126	12,145

1.4 Interest and similar expense: breakdown

Items/Technical forms	Payables	Securities	Other transactions	Total 12/31/2017	Total 12/31/2016
1. Due to central banks		X			277
2. Due to banks	29,156	X	888	30,044	38,363
3. Due to customers	14,831	X	3,341	18,172	15,161
4. Debt securities issued	X	719		719	326
5. Financial liabilities held for trading					
6. Financial liabilities at fair value					
7. Other liabilities and provisions	X	X	1,131	1,131	333
8. Hedging derivatives	X	X	12,250	12,250	20,432
Total	**43,988**	**719**	**17,610**	**62,316**	**74,892**

Interest expense on amounts due to banks mainly derives from loans granted by Santander Group companies as part of ordinary financing operations and by other banks. The portion relating to Banca PSA amounts to Euro 7,213 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 14,404 thousand). Again with reference to amounts due to customers.
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

	12/31/2017	12/31/2016
A. Positive differentials related to hedging operations		748
B. Negative differentials related to hedging operations	(12,250)	(21,180)
C. Net differentials (A-B)	**(12,250)**	**(20,432)**

1.6 Interest and similar expense: other information

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 106,566 thousand (Euro 111,288 thousand at 31 December 2016) and is broken down as follows:

Type of service/Segments	Total 12/31/2017	Total 12/31/2016
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	40,554	40,359
9.3 other products	42,783	49,211
d) collection and payment services	19,574	18,167
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	3,655	3,547
Total	**106,566**	**111,288**

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 35,018 thousand and by Banca PSA in the amount of Euro 5,535 thousand, and salary assignment loans granted by the Bank in the amount of Euro 21,275 thousand, whereas the item "collection and payment services" includes commissions generated during the year from collection and payment services provided to customers.

Item j) "other services", on the other hand, comprises:

- income recognised in respect of damages and penalties for late payment (Euro 1,886 thousand);
- fees and commission income for the management of credit cards (Euro 151 thousand);
- commission income on stock financing (Euro 983 thousand);
- commissions for other services (Euro 635 thousand).

2.2 Commission expense: breakdown

Commission expense amounts to Euro 60,228 thousand (Euro 68,158 thousand at 31 December 2016) and is broken down as follows:

Services/Amounts	Total 12/31/2017	Total 12/31/2016
a) guarantees received	22	24
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	80	92
5. financial instruments placement	48	49
6. off-site distribution of financial instruments. products and	37,866	63,745
d) collection and payment services	4,288	4,110
e) other services	17,924	138
Total	**60,228**	**68,158**

Point 6 mainly refers to commissions paid on the sale of insurance products (Euro 14,105 thousand) and salary assignment loans (Euro 21,732 thousand), contributions and termination indemnities accrued by the network of agents based on targets for the placement of loans with customers (Euro 2,029 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 (247) 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) 12/31/2017
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	2,116	3,836	(2,099)	(4,099)	(247)
- on equity securities and shares					
- On currencies and gold	X	X	X	X	
- Other					
4.2 Credit derivatives					
Total	**2,116**	**3,836**	**(2,099)**	**(4,099)**	**(247)**

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.

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 12/31/2017	Total 12/31/2016
A. Income relating to:		
A.1 Fair value hedges	10,446	15,814
A.2 Hedged asset items (in fair value hedge	2,076	
A.3 Hedged liability items (in fair value hedge		
A.4 Cash-flow hedging derivatives (including		
A.5 Foreign currency assets and liabilities		
Total income from hedging activity (A)	**12,522**	**15,814**
B. Expenses relating to:		
B.1 Fair value hedges	(65)	
B.2 Hedged asset items (in fair value hedge	(11,858)	(17,310)
B.3 Hedged liabilities items (in fair value hedge		
B.4 Cash-flow hedging derivatives (including		
B.5 Foreign currency assets and liabilities		
Total charges from hedging activity (B)	**(11,923)**	**(17,310)**
C. Net profit from hedging activity (A-B)	**599**	**(1,497)**

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

6.1 Gains (losses) on disposal or repurchase: breakdown

Items / Income components	Total 12/31/2017			Total 12/31/2016		
	Gains	Losses	Net profit	Gains	Losses	Net profit
Financial assets						
1. Due from banks						
2. Loans to customers	32,312	(972)	31,341		(5)	(5)
3. Financial assets available for sale		(2)	(2)	261		261
3.1 Debt securities		(2)	(2)	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	**32,312**	**(973)**	**31,339**	**261**	**(5)**	**256**
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 write-downs.
The item financial assets available for sale includes 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 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

	Adjustments (1)			Write - backs (2)				Total	
	Specific		Portfolio	Specific		Portfolio		12/31/2017	12/31/2016
	Write - offs	Others		A	B	A	B		
A. Due from banks									
- Loans									
- Debt securities									
B. Loans to customers	(609)	(78,162)	(34,237)		31,087		32,526	(49,395)	(46,009)
Non-performing purchased loans									
- Loans			X			X	X		
- Debt securities			X			X	X		
Other receivables									
- Loans	(609)	(78,162)	(34,237)		31,087		32,526	(49,395)	(46,009)
- Debt securities									
C. Total	**(609)**	**(78,162)**	**(34,237)**		**31,087**		**32,526**	**(49,395)**	**(46,009)**

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 12/31/2017	Total 12/31/2016
	Specific		Specific			
	Write-off	Others	A	B		
Debt securities						
B. Equity instruments		(732)			(732)	(245)
C. Units in investments funds						
D. Loans to banks						
E. Loans to customers						
F. Total		**(732)**			**(732)**	**(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

The Group has no impairment adjustments to financial transactions.

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 56,377 thousand (Euro 54,166 thousand at 31 December 2016) and is split as follows:

Type of expense/Amounts	Total 12/31/2017	Total 12/31/2016
1) Employees		
a) wages and salaries	38,665	37,736
b) social security contributions	10,480	9,887
c) Severance pay (only for Italian legal entities)	317	133
d) Social security costs		
e) allocation to employee severance pay provision	62	103
f) provision for retirements and similar provisions:		
- defined contribution		
- defined benefit		
g) payments to external pension funds:		
- defined contribution_old	2,340	2,195
- defined benefit		
h) Expenses resulting from share based payments		
i) other employee benefits	1,992	1,740
2) Other staff	1,844	1,701
3) Directors and Statutory Auditors	677	671
4) Early retirement costs		
Total	**56,377**	**54,166**

"Social security charges" include pension costs incurred by the Group in 2017.
The "provision for employee termination indemnities" shows the amount calculated in accordance with actuarial estimates.

11.2 Average number of employees, by categories

	Total 12/31/2017	Total 12/31/2016
2) Employees		
a) Senior managers	23	18
b) Managers	202	189
of which 3rd and 4th level	68	66
c) Remaining employees staff	558	560
Total	**783**	**767**
Other personnel	**38**	**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

	12/31/2017	12/31/2016
Ancillary staff expenses (contributions to rent and health insurance, luncheon vouchers, other minor benefits and training costs)	2,519	1,732
Additional company contribution to the pension fund	505	460
Incentive plan reserved for managers and middle managers	5	8
Total	**3,029**	**2,200**

11.5 Other administrative expenses: breakdown

Other administrative expenses amount to Euro 93,512 thousand (Euro 91,489 thousand at 31 December 2016) and are made up as follows:

	Total 12/31/2017	Total 12/31/2016
Indirect taxes and duties	8,550	12,862
Telephone, broadcasting and postal	4,900	4,842
Maintenance, cleaning and waste disposal	2,236	1,245
Property lease, removals and condominium expenses	4,275	3,975
Professional fees and corporate expenses	15,623	16,888
Travel and accommodation	4,489	4,082
Stamp duty and flat-rate substitute tax	4,715	4,175
Insurance charges	119	112
Forms, stationery and consumables	372	352
Supplies, licences EDP consulting and maintenance	10,780	8,777
Debt recovery charges	12,473	13,476
Legal fees	4,521	3,640
Advertising, promotion and representation	2,548	1,656
Commercial information and searches	5,098	3,360
Other expenses	12,812	12,047
Total	**93,512**	**91,489**

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

12.1 Net provisions for risks and charges: breakdown

	Total 12/31/2017	Total 12/31/2016
Net provision for legal disputes	2,487	2,959
Other provisions	15,487	8,608
Total	**17,975**	**11,567**

"Provisions for legal disputes" mainly include provisions for risks and charges made during the year for litigation with customers and dealers, based on a reliable assessment of the expected financial outlay.
"Other provisions" relate to an amount provided for ex ante contributions to the Single Resolution Fund of Banca PSA and 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 637 thousand and refer to the depreciation of the Group's fixed assets.

Asset/Income items	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b+c) 12/31/2017
A. Property and equipment				
A.1 Owned				
- For business purposes	636	2		637
- For investment purposes				
A.2 Held under finance lease				
- For business purposes				
- For investment purposes				
Total	**636**	**2**		**637**

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

14.1 Net adjustments to intangible assets: breakdown

Net adjustments to intangible assets amount to Euro 3,697 thousand and relate to the amortisation of the year, as shown in the following table:

Asset/Income items	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b+c) 12/31/2017
A. Intangible assets				
A.1 Owned				
- Internally generated				
- Other	3,697			3,697
A.2 Held under finance lease				
Total	**3,697**			**3,697**

Section 15 – Other operating expenses/income – item 220

15.1 Other operating expenses: breakdown

Other operating expenses amount to Euro 31,652 thousand (Euro 21,903 thousand at 31 December 2016) and are divided as follows:

	Total 12/31/2017	Total 12/31/2016
Rebates and discounts	49	58
Losses on disposal		10
Miscellaneous expenses	9,470	481
Expenses related to leasing activities	19,361	20,085
Other expenses	2,772	1,269
Total	**31,652**	**21,903**

15.2 Other operating income: breakdown

Other operating income amounts to Euro 46,810 thousand (Euro 45,065 thousand at 31 December 2016) and can be broken down as follows:

	Total 12/31/2017	Total 12/31/2016
Recovery of taxes	7,513	5,721
Recovery of lease instalments	66	66
Recovery of other expenses	1,041	617
Recovery of preliminary expenses	10,992	10,254
Rebates and discounts received	3	4
Insurance reimbursements	11	52
Gains on disposal	74	268
	26,135	27,005
Other income	976	1,079
Total	**46,810**	**45,065**

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 continuing operations – item 290

20.1 Income taxes for the year on continuing operations: breakdown

The item "Income tax for the year" shows a balance of Euro (55,217) thousand (Euro (41,932) thousand at 31 December 2016) and represents the provision made during the year in accordance with current tax law. It is made up as follows:

Income components/Sectors	Total 12/31/2017	Total 12/31/2016
1. Current taxes (-)	(45,486)	(31,432)
2. Change in prior period income taxes (+/-)	(192)	
3. Reduction in current tax expense for the period (+)	177	246
3.bis Reduction in current taxes for tax credits as per Law 214/2011 (+)		
4. Change in deferred tax assets (+/-)	(9,716)	(10,762)
5. Change in deferred tax liabilities (+/-)		15
6. Income tax for the year (-) (-1+/-2+3+3bis+/-4+/-5)	**(55,217)**	**(41,932)**

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.

	12/31/2017	12/31/2016
Profit (loss) from continuing operations before tax	170,083	133,846
Profit before tax on discontinuing operations		
Theoretical taxable income	**170,083**	**133,846**
Income tax - Theoretical tax charge	(46,773)	(36,807)
- effect of income and expenses that do not contribute to the tax base	6,085	4,271
- effect of expenses that are wholly or partially non-deductible	(2,793)	(877)
- differences due to the scope of consolidation	(74)	
IRES - Effective tax burden	**(43,556)**	**(32,941)**
IRAP - Theoretical tax charge	(9,474)	(7,622)
- portion of non-deductible administrative expenses, depreciation and amortisation	(546)	(2,702)
- portion of non-deductible interest expense		(103)
- effect of income and expenses that do not contribute to the tax base	3,077	2,822
- effect of expenses that are wholly or partially non-deductible	(4,684)	(1,386)
- differences due to the scope of consolidation	(35)	
IRAP - Effective tax burden	**(11,661)**	**(8,991)**
Effective tax burden as shown in the financial statements	**(55,217)**	**(41,932)**

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 discontinued 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"

	12/31/2017	12/31/2016
Investments in consolidated companies with significant minority interests		
1. Santander Consumer Finance Media S.r.l. in liquidation	(41)	(66)
2. PSA Italia S.p.A.	17,381	12,808
	(17,339)	
Other investments	17,339	
Total	**17,339**	**12,743**

The result attributable to minority interests amounts to Euro 17,340 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 41 thousand and to the profit attributable to Banque PSA arising from its 50% interest in Banca PSA Italia S.p.A. of Euro 17,381 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	108,766
Basic earnings per share	**0.17**

Profit (loss) for the period pertaining to the Parent Company	91,426
Basic earnings per share	**0.16**

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

		12/31/2017		
10.	**Net Profit (Loss) for the year**	**X**	**X**	**108,766**
	Other comprehensive income after tax not to be recycled to income			
20.	Tangible assets			
30.	Intangible assets			
40.	Defined benefit plans	(43)	12	(31)
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:**			
	a) changes in fair value			
	b) reclassifications through profit or loss			
	c) other variations:			
100.	**Available-for-sale financial assets:**	**440**	**(145)**	**294**
	a) changes in fair value	509	(168)	341
	b) reclassifications trough profit or loss	(69)	23	(46)
	- impairment losses			
	- following disposal	(69)	23	(46)
	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.	**Valuation 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**	**396**	**(133)**	**263**
140.	**Comprehensive income (Items 10+130)**			**109,029**
150.	Consolidated comprehensive income attributable to minorities			17,452
160.	**Consolidated comprehensive income attributable to Parent**			**91,576**

Part E - Information on risks and related hedging policies

Introduction

Santander Consumer Bank Group (the Group) places great importance on the management and control of risks as a means of ensuring reliable and sustainable value creation in a context of controlled risk.
The Risk management strategy 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.

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 controls): these are performed by the Risk Management 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
The Group's risk profile is defined through the risk assessment carried out in accordance with the methodologies shared with the Parent Company Risk Identification Assessment (RIA). The assessment sees the direct involvement of the first line of defence and the supervision and support of the second line of defence, and is carried out at the beginning of the year and updated in the second half. Through the RIA methodology, the bank's risk profile is identified and assessed and a specific score is given, taking into account:

- The current level of risk;
- The current environmental risk;
- Exposure to potential specific risks.

The method also makes it possible to:

- identify possible "emerging risks" to enable the effective management and mitigation of risks;
- obtain a quantitative representation of the risks assumed at the date of the analysis, on the basis of current activities and the development strategies put in place.

The result of the exercise performed, starting from the "Risk Map", showed a "low-medium" risk profile at both individual and group level.

Section 1 - Risks faced by the banking group

1.1 Credit risk

Qualitative information

General aspects

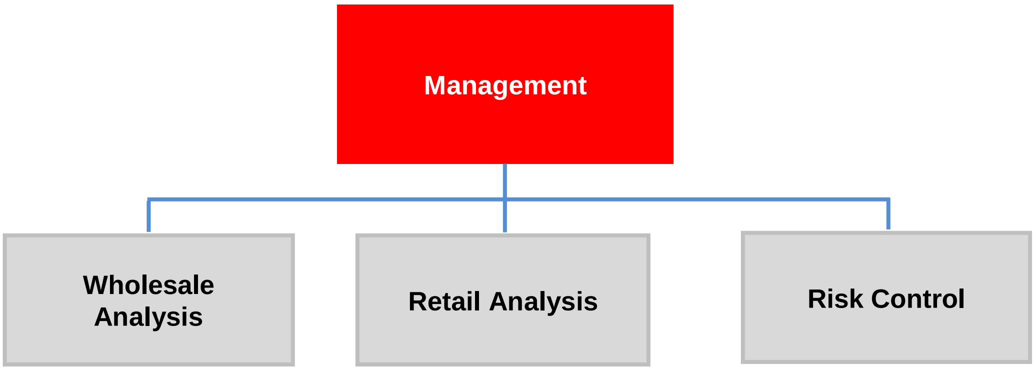
Credit risk is the main type of risk to which the Group is exposed.
It is the risk associated with the probability that a borrower may be unable to meet its contractual obligations, thus exposing the Group to possible future losses. The Group's operations in Italy are mainly focused on retail customers, 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.
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 instead structures its offering of products and services for a customer-base that is traditionally divided into two types: end-user and wholesale. In turn, end-user customers are divided into retail and corporate; those in the second segment are car dealerships (new or used), distributors of spare parts and authorised workshops.
End-users are considered to be corporate customers if, regardless of their legal status, the present one (or more) request(s) for funding for an amount greater than a certain threshold (which, at the date of writing this Note, was set at Euro 100 thousand). Consequently, end-users are generally classified as retail customers if they present one (or more) request(s) for financing below the established threshold.
The commercial products usually offered to end-user customers are instalment loans aimed for the purchase of vehicles, new and used, from the PSA Group (Peugeot, Citroën and DS), including in the form of finance leases, or of used vehicles from other manufacturers, with the sale of any connected services (maintenance contracts, theft deterrent services, extended warranties, etc.). These customers are also granted financing linked to after-sales, for car repairs, or the purchase of spare parts and accessories at affiliated dealers.
Wholesale financing includes the granting of short and medium-term credit lines to dealers cars by the Brands and distributors of spare parts by the Brands, i.e. to authorised workshops. Financing may be granted for stocks of new cars, demonstration cars, used cars and spare parts, as well as for specific cash needs.
Insurance products are also distributed (Credit Protection Insurance (CPI) and Guaranteed Auto Protection (GAP)).

Credit risk management policies

- Organisational aspects

The Corporate bodies play a fundamental role in the management and control of credit risk within the Santander Consumer Bank Group, 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 Management Unit;
- Retail Risk Unit;
- Corporate Risk Unit;



The Risk Management Department of Banca PSA Italia is institutionally designed to ensure effective risk management in all phases of the life of banking products, by means of the definition of tools for the analysis and measurement of risks, acceptance strategies and the continuous monitoring of existing risks.

Risk Management Unit

The Risk Management 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 Head of the Unit 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.

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.

The Retail Risk 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 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).

The Corporate Risk 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 for properly advising which positions should be subjected to examination by the relevant structures having the power to act, both with reference to the positions relative to wholesale clients and with reference to Corporate End-User customers.

Moreover, it annually reviews dealer positions, and defines, together with Credit Collection and Dispute Department, recovery strategies to be implemented in respect of affiliates.

- Internal Control System

The Internal Control System is a key element for the operation and management of the Group and plays a central role in its 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 Group 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;
- processes and methodologies used for the assessment of the Group's activities, including accounting activities, reliable and integrated with the risk management processes;

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 structure complies with the current applicable regulations of the Bank of Italy.

- 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 Risk Management Department of PSA 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).

The credit process within the Bank is divided into stages, summarised as follows:

- **Investigation and approval:** refers to the initial management of the relation activated by the customer through the request for financing; it deals with the management of the documents and information required for the assessment of the financing, and verifies and establishes that the request is correctly analysed in respect of all the elements of risk.
- **Completion and settlement:** includes all the activities related to document management and the conclusion of the process, with the settlement of the sums granted.
- **Monitoring and litigation:** refers to the activities to verify the status of credit ratings, it identifies any decline in the creditworthiness of customers and decides on changes in status and the possible commencement of recovery processes, whether extra judicial (friendly) or judicial, in order to try to normalise positions and recover the sums due.

Below is a brief summary of the 'investigation and approval' and 'completion' stages of the credit process, for the two types of customer ("end-user" and "wholesale"), with reference made to paragraph 2.4 for an illustration of the monitoring and litigation stage.

Investigation of the loan application of a retail customer generally takes place at the affiliated dealer, with the acquisition of the necessary data and the supporting documentation and their entry into the front-office system. The data in the system are verified by the Underwriting Retail Service as to their correctness and completeness. Once entered, the request is transferred to the GP (Gestion Provisoire) system for subsequent completion.
To assess the creditworthiness of the customer, the Bank uses four scoring models, two for private clients and two for companies, that estimate the PD of the customer. A decision engine is also used during the acceptance stage that applies and verifies the rules and the credit checks provided for by the Company. To support the assessment, access is provided both to private databases (CRIF, Experian) and public databases (complaint files, detrimental action records).

Requests for financing for Corporate customers may come from dealers or from Business Managers (especially for large amounts). Also in this case, the data and documents necessary for assessment are entered in OPV and subject to a first screening by the Underwriting Retail Unit, which forwards the requests to the Wholesale Corporate Risk Unit, together with any other existing exposures and the findings of CRIF database queries. The receiving Unit verifies the completeness of the documentation, checks whether the name appears in a Black List and proceeds to consult the Bank of Italy central credit register. It then compiles a “credit dossier” structured in three parts: a part that summarises the personal data of the applicant; a part with reclassified data from the financial statements for the last three financial years and the provisional financial statements for the year in progress, and a note on the relevant indicators and the profile of the applicant; and a final part with the proposal to be submitted to the deliberative bodies on the basis of the level of delegation.

In the case of requests for “wholesale” financing, investigation of the dossier is delegated to the Wholesale Corporate Risk Unit, which uses for this purpose a risk assessment system called ANADEFI, which allows a score to be determined and subsequently allocated to the customer. This process is an essential part of the risk management process and has a direct impact on the calculation of the limits of the credit lines granted to dealers, on the frequency of the checks to be carried out on the stock of cars, and on any guarantees required.
The calculation method allows each dealer to be classified on an 8-point scale in order of decreasing risk, taking into account five variable data classes (customer identity, financial structure, profitability, sales trends and payment status).
The step of completing the processed and approved dossiers is performed by the Middle Office, within the Retail Underwriting Unit, so as to ensure the separation between the approval stage and the settlement stage.

To measure credit risk for its own exposures, Banca PSA uses the standard method provided for the determination of capital ratios for supervisory purposes. In order to determine the internal capital it therefore segments its banking book into the various classes provided for by regulations, based on the status of counterparties and the technical characteristics of the relations, with application of the corresponding weightings without reference to external creditworthiness evaluations.

- Credit risk mitigation techniques

In order to guarantee the collection of the amounts due for financing granted, the Bank may request the establishment of personal guarantees (in the form of personal or bank securities and bonds) or securities, made up of money deposited with the lender.
As regards wholesale exposures, and particularly stock financing, the Bank is also covered by contributions from dealers.

- Impaired financial assets

The actions brought by Banca PSA to collect the amounts due in relation to financing, in the various technical forms offered by the Bank, to Retail and Wholesale customers, are largely unchanged.
For Retail dossiers, there are two different stages of recovery action, usually carried out by the Credit Collection Unit: a first phase, known as “pre-litigation”, conducted using telephone recovery (for positions of up to 90 days) and inspectors operating “on the ground” (for exposures up to 150 days past due), and a “litigation” stage, performed after 150 days past due, both extra-judicially and judicially.
Customers with dossiers that are more than 150 days past due are declared as being excluded from the benefit of term pursuant to Article 1184 of the Italian Civil Code, with a request for the refund of fallen due and unpaid instalments, maturing residual principal and any other debt covered by the contract and past due, including any expired services combined with the financing agreement.
For finance leases in a state of insolvency by more than 150 days, the termination clause is exercised.
For Corporate customers, recovery activities are firstly performed by the service Wholesale Corporate Risk unit, using telephone recovery methods. Subsequently, in the event that the state of insolvency of the debtor persists, the dossiers are forwarded to the credit collection department, which may activate, in the last instance, recovery via external agencies or through legal means.
Monitoring of the Dealer network is carried out by the Wholesale Corporate Risk Unit, which monitors the use of credit lines and the timeliness of payments.
In the event of delayed payment, the Wholesale Unit adds the dealer to a watch list, a step that leads to the downgrading of the customer, and indicates the existence of a risk for the Bank to the Risk Manager, who subsequently reports to the Credit Committee.
If the problem persists, the company can, for example, block car orders by the Brands so as to reduce the credit lines and, in the most serious cases, cancel them and return the leased vehicles to stock. At the same time, the dossier is entrusted to the care of Credit Collection Department for recovery of the credit in question.
During ongoing monitoring activities, the Wholesale Corporate Risk Unit shall also ensure the provision of a summary report, in cases of a delay exceeding 90 days.
For dossiers within its competence, the Wholesale Corporate Risk Unit therefore performs an analysis of the positions in default and proposes the loan classification based on the profile of the risk assumed. The classification proposed is subsequently approved by the Credit Risk Committee. Moreover, the state of insolvency (both of Retail and Wholesale customers) is continuously monitored by the Risk Management Unit with respect to inflows and outflows, distributed in overdue periods and broken down by product categories. The above composition of the portfolio is 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 financial assets by portfolio and credit quality (book values)

Portafolios/quality	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					467,055	467,055
2. Held-to-maturity financial instruments						
3. Loans and receivables with banks					465,554	465,554
4. Loans and receivables with customers	3,716	36,165	35,027	128,900	7,433,722	7,637,530
5. Financial assets at fair value through profit or .						
6. Financial instruments classified as held for sale						
12/31/2017	**3,716**	**36,165**	**35,027**	**128,900**	**8,366,331**	**8,570,139**
12/31/2016	**4,772**	**37,744**	**27,734**	**105,178**	**7,584,951**	**7,760,380**

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					467,055		467,055	467,055
2. Held-to-maturity financial instruments								
3. Loans and receivables with banks					465,554		465,554	465,554
4. Loans and receivables with customers		275,440	(200,531)	74,908	7,628,576	(65,954)	7,562,622	7,637,530
5. Financial assets at fair value through profit or loss					X	X		
6. Financial instruments classified as held for sale								
Total	**12/31/2017**	**275,440**	**(200,531)**	**74,908**	**8,561,185**	**(65,954)**	**8,495,231**	**8,570,139**
Total	**12/31/2016**	**393,955**	**(323,704)**	**70,250**	**7,754,497**	**(64,368)**	**7,690,129**	**7,760,380**

Portfolio / Quality		Assets of obvious poor credit quality		Other assets
		Cumulated losses	Net exposure	Net exposure
1. Financial assets held for trading				1,033
2. Hedging instruments				961
Total	**12/31/2017**			**1,994**
Total	**12/31/2016**			**2,992**

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	120,283		(20,497)	99,787	15,012
from 3 months to 6 months	11,915		(3,553)	8,362	806
from 6 months to 1 year	5,109		(71)	5,037	39
over 1 year	16,253		(539)	15,714	666
Total	**153,561**		**(24,660)**	**128,900**	**16,523**

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 which: forborne exposures					X		X	
b) Unlikely to pay					X		X	
- of which forborne exposures					X		X	
c) Impaired past due exposures					X		X	
- of which forborne exposures					X		X	
d) past due not impaired	X	X	X	X	4	X		4
- of which forborne exposures	X	X	X	X		X		
e) Other not impaired exposures	X	X	X	X	465,550	X		465,550
- of which forborne exposures	X	X	X	X		X		
TOTAL A					**465,554**			**465,554**
B. OFF-BALANCE SHEET EXPOSURE								
a) Impaired					X		X	
b) Not impaired	X	X	X	X	644	X		644
TOTAL B					**644**			**644**
TOTAL (A+B)					**466,198**			**466,198**

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 80, for which no liquidity was pledged as collateral. 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	1,340	206	790	89,740	X	88,360	X	3,716
- of which forborne exposures	1,002	201	230	14,125	X	15,278	X	280
b) Unlikely to pay	45,840	7,196	8,068	44,184	X	69,123	X	36,165
- of which forborne exposures	17,809	3,317	2,442	10,248	X	28,522	X	5,293
c) Impaired past due exposures	6,524	31,973	33,899	5,679	X	43,048	X	35,027
- of which forborne exposures	20	1,106	793	137	X	1,689	X	368
d) past due not impaired	X	X	X	X	153,561	X	24,660	128,900
- of which forborne exposures	X	X	X	X	10,957	X	2,480	8,477
e) Other not impaired exposures	X	X	X	X	7,942,071	X	41,294	7,900,777
- of which forborne exposures	X	X	X	X	22,593	X	449	22,144
TOTAL A	**53,704**	**39,376**	**42,757**	**139,603**	**8,095,631**	**200,531**	**65,954**	**8,104,585**
B. OFF-BALANCE SHEET EXPOSURE								
a) Impaired					X		X	
b) Not impaired	X	X	X	X	69,947	X		69,947
TOTAL B					**69,947**			**69,947**
TOTAL (A+B)	**53,704**	**39,376**	**42,757**	**139,603**	**8,165,578**	**200,531**	**65,954**	**8,174,532**

This table gives details of impaired and performing loans to customers, gross and net of specific and portfolio adjustments. Non-performing forborne exposures falling within the time band “Up to 3 months”, which have not matured, have a gross exposure of Euro 10,081 thousand and loan adjustments of Euro 7,346 thousand.
“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)	**182,865**	**144,167**	**66,922**
- Sold but not derecognised	22,019	26,828	27,995
B. Increases	**43,593**	**78,817**	**98,006**
B.1 transfers from performing loans	653	23,761	92,734
B.2 transfers from other impaired exposures	42,229	33,035	1,847
B.3 other increases	711	22,022	3,425
C. Decreases	**134,383**	**117,696**	**86,853**
C.1 transfers to performing loans	740	19,052	13,962
C.2 write-offs	3,938	7,292	1,260
C.3 recoveries	7,061	22,908	10,485
C.4 sales proceeds	21,925	10,220	480
C.5 losses on disposals	98,265	21,579	1,881
C.6 transfers to other impaired exposures	1,281	28,749	47,333
C.7 other decreases	1,173	7,896	11,452
D. Closing balance (gross amounts)	**92,076**	**105,288**	**78,075**
- Sold but not derecognised	21,955	13,472	33,170

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

Description/Category	Forborne exposures impaired	Forborne exposures not impaired
A. Opening balance (gross amount)	**81,936**	**41,701**
- Sold but not derecognised	3,674	2,605
B. Increases	**31,695**	**26,669**
B.1 Transfers from performing not forborne exposures	2,498	11,756
B.2. Transfers from performing forborne exposures	8,187	x
B.3. Transfers from impaired forborne exposures	x	11,207
B.4 other increases	21,010	3,706
C. Decreases	**62,200**	**34,819**
C.1 Transfers to performing not forborne exposures	x	15,209
C.2 Transfers to performing forborne exposures	11,129	x
C.3 income	x	8,475
C.4 write-offs	983	28
C.5 recoveries	8,432	10,749
C.6 sales proceeds	9,630	
C.7 losses on disposals	31,333	35
C.8 other decreases	693	323
D. Closing balance (gross amounts)	**51,431**	**33,550**
- Sold but not derecognised	4,147	3,265

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 which: forborne exposures	Total	Of which: forborne exposures	Total	Of which: forborne exposures
A. Opening balance 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
B. Increases	**41,295**	**7,791**	**34,785**	**17,859**	**39,309**	**1,649**
B.1 write-downs	6,244	2,796	23,079	15,427	35,929	1,368
B.2 bis losses on disposal	591	7	131	1	74	6
B.3 transfer from other impaired exposure	34,301	4,834	10,046	907	389	109
B.4 other increases	160	155	1,529	1,524	2,917	166
C. Reductions	**131,028**	**31,956**	**72,085**	**23,909**	**35,448**	**1,109**
C.1 write-backs from assessments	3,419	498	9,346	7,552	2,841	107
C.2 write-backs from recoveries	3,359	976	6,212	2,374	2,711	73
C.3 gains on disposal	21,840	6,520	10,109	3,045	360	27
C.4 write-offs	3,398	544	6,953	440	1,411	24
C.5 transfers to other impaired exposures	707	512	17,887	4,649	26,261	744
C.6 other decreases	98,305	22,905	21,578	5,850	1,864	135
D. Closing overall amount of	**88,360**	**15,278**	**69,123**	**28,522**	**43,048**	**1,689**
- Sold but not derecognised	21,371	571	9,740	3,037	16,965	363

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				932,609			7,637,530	**8,570,139**
B. Derivatives								
B.1 Financial derivatives							644	644
B.2 Credit derivatives								
C. Guarantees given								
D. Other commitments to disburse funds							69,947	**69,947**
E. Others								
Total				**932,609**			**7,708,121**	**8,640,730**

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

		Collaterals (1)				Unsecured Guarantees									
						Credit derivatives					Endorsement credits				
							Other derivatives								
	Net exposure	Property Mortgages	Financial Investing property	Securities	Other secured guarantees	CLN	Governments and Central Banks	Other Public entities	Banks	Other parties	Governments and Central Banks	Other Public entities	Banks	Other parties	Total (1)+(2)
1. Guaranteed cash credit exposures:															
1.1 fully guaranteed	383,189	457			229,027								50,529	103,176	383,189
- of which impaired	4,245	457			2,060								792	935	4,245
1.2 partially	20,690				308								7,341	9,966	17,615
- of which impaired	135												67	18	85
2. Guaranteed off-Balance Sheet credit exposures:															
2.1 fully guaranteed															
- of which															
2.2 partially															
- of which															

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	Governments			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	2	354	x			x	2,003	27,733	x	1,711	60,273	x
- of which: forborne exposures			x			x		35	x			x	3	800	x	278	14,444	x
A.2 Unlikely to pay			x			x	19	88	x			x	18,265	4,681	x	17,882	64,354	x
- of which: forborne exposures			x			x	3	15	x			x	572	1,292	x	4,718	27,215	x
A.3 Impaired past due exposures			x	1	2	x	4	2	x			x	2,957	4,460	x	32,066	38,583	x
- of which: forborne exposures			x			x			x			x	23	58	x	345	1,631	x
A.4 Not impaired exposures	472,137	x	865	6,703	x	538	12,326	x	67	11	x		2,115,263	x	11,289	5,423,237	x	53,195
- of which: forborne exposures		x			x		26	x			x		604	x	78	29,991	x	2,850
TOTAL A	**472,137**		**865**	**6,704**	**2**	**538**	**12,350**	**444**	**67**	**11**			**2,138,488**	**36,875**	**11,289**	**5,474,895**	**163,211**	**53,195**
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		105	x			x		45,424	x		24,417	x	
TOTAL B							**105**						**45,424**			**24,417**		
Total (A+B) 12/31/2017	**472,137**		**865**	**6,704**	**2**	**538**	**12,456**	**444**	**67**	**11**			**2,183,912**	**36,875**	**11,289**	**5,499,313**	**163,211**	**53,195**
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**

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 value)

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		1,046	15,314	318	8,215	965	17,463	1,387	47,369
A.2 Unlikely to pay		12,694	12,887	977	4,717	5,423	13,176	17,071	38,342
A.3 Impaired past		5,318	7,166	2,484	3,404	5,536	7,539	21,690	24,940
A.4 Not impaired		2,241,649	14,352	1,250,833	8,472	1,959,949	12,618	2,577,246	30,513
TOTAL A		**2,260,706**	49,718	**1,254,613**	24,808	**1,971,872**	50,796	**2,617,394**	141,164
B. Off-balance sheet									
B.1 Non-performing									
B.2 Unlikely to pay									
B.3 Other impaired									
B.4 Not impaired		40,640		9,300		8,939		11,068	
TOTAL B		**40,640**		**9,300**		**8,939**		**11,068**	
Total (A+B)	**12/31/2017**	**2,301,347**	**49,718**	**1,263,913**	**24,808**	**1,980,810**	**50,796**	**2,628,462**	**141,164**
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**

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 exposures		76,688		388,866							
TOTAL A		**76,688**		**388,866**							
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				644							
TOTAL B				**644**							
Total A+B	**12/31/2017**	**76,688**		**389,510**							
Total A+B	**12/31/2016**	**127,910**		**484,539**							

This table contains, for cash exposures to residents, the positive balance of current accounts with banks, while for exposures to foreigners, the balance is made up primarily of current accounts of securitisation SPE opened at Banco Santander S.A.

B.4 Large exposures

	12/31/2017
Number	
Book value	352,652

At the balance sheet date there were two counterparties that could be classified as large exposures, relating to the exposures to the Ministry of Economy and Finance (MEF) and to Hyundai Motor Company Italy S.r.l.

C. Securitisations

Qualitative information

The securitisations transactions, performed pursuant to Law No. 130/1999, are offered by the subsidiary Banca PSA with a view to achieving three results:

- diversification of funding sources: securitisation is an important source of alternative funding for the Company compared with ordinary bank funding;
- improvement of the liquidity position: the potential capacity of the Company to securitise loans is an important factor of support to its liquidity position;
- optimisation of the funding cost: the structures used to perform securitisations and the quality of the portfolio transferred allow, through obtainment of the highest rating, a competitive funding cost to be achieved.

The transaction may be revolving, i.e. the Originator Company has the ability to periodically assign additional credit in respect of the constraints laid down in the securitisation agreement, for a predetermined period, so as to maintain the existing portfolio at a constant level equal to that at the time of the initial issue, or it may be amortising, i.e. the Originator Company does not have the ability to assign additional credit, and the portfolio is subject to amortisation from the moment the securities are issued.

At the end of the revolving period, or since the time of issuance of the ABS securities in the event that the ABS phase is amortising, the amortisation of the portfolio will determine the repayment of the ABS securities issued according to the priority of payments contractually determined.

The Company has only one securitisation transaction in place, carried out in 2014 by the Italian branch of Banque PSA Finance and renegotiated and novated during 2016 and 2017, with the redefinition of the revolving period.

The transaction in question, structured as partially paid with the possibility of increasing the value of the securities issued up to Euro 1,100 million and maturing in 2028, was concluded with 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.

The transaction is set up as a true sale of assets, carried out with the aim of diversifying the sources of financing of the Company, the originator of the loans, under competitive terms.

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.

In 2017, a new injection of credit resulted in the upsizing of both classes of securities, reaching the total nominal value of Euro 681.8 million.

The interest rate of the Senior securities was fixed at a level equal to the Euribor 1 month plus a minimum margin of 0.60 bps while that of Junior securities was fixed at a level equal to 2% plus possible excess spread.

The risk arising from securitisation transactions represents the risk that the economic substance of a securitisation is not fully reflected in pricing decisions and risk management.

The Company believes that the risk arising from securitisations can only be configured in the event that the calculation of the capital requirement by the Bank is determined on the basis of securitisation positions rather than on the basis of the underlying assets. Only in this case could the risk arise that the capital requirement does not sufficiently represent the actual risk of the transaction.

Since the securitisation transactions are carried out without the derecognition of loans, by virtue of the subscription by Banca PSA of Junior Notes, within the meaning of Regulation (EU) No. 575/2013 (CRR), the quantification of that risk is included within internal capital requirements for credit risk.

The Company therefore considers that, with reference to current securitisation transactions, taking into account the dual role of transferor of the credit and subscriber of the subordinated tranche of the securities, and in consideration of the fact that (in line with the supervision instructions as regards securitisations, which stipulate that the weighted value for the risk of all the positions toward the same securitisation may not be higher than the weighted value of the securitised assets calculated as if they had not been securitised) the capital requirement is calculated on the basis of the underlying assets, there is no uncertainty in the assessment of the economic nature of the securitisation transactions, which can be expressly categorised for the purposes of calculating capital requirements.

Within the scope of the same transaction, the special purpose entity also concluded 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, equal to zero.

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.

	Assets held by the SPE	**Senior and Mezzanine securities subscribed**	**Junior securities subscribed**	**Cash reserve**	**Assets held by the Group**	**Type of assets pledged as collateral**	**Distribution of the assets pledged as collateral by geographical area**	**Average maturity of the assets pledged as collateral**	**Rating of the assets pledged as collateral**
Auto ABS Italian Loan Master	655,986	600,000	81,818	39,446	n.a.	Liquid asset deposits	n.a.	monthly	A-

To enhance the transparency of disclosures, below is a breakdown of the excess spread accrued within the scope of the transaction, into the various components that generated it.

Breakdown of the excess spread accrued during the year	**12/31/2017**
	Auto ABS Italian Loan Master
Interest expense on securities issued	(4,953)
Commissions and fees relating to the transaction	
- for servicing	(671)
- for other services	(64)
Other charges	(4,475)
Interest generated by the securitised assets	35,070
Other revenues	4,539
Total	**29,446**

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 securitised assets/exposures	Balance sheet exposures						Guarantees given						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book Value	Write-downs/write-backs	Book Value	Write-downs/write-backs	Book Value	Write-downs/write-backs	Book Value	Write-downs/write-backs	Book Value	Write-downs/write-backs	Book Value	Write-downs/write-backs	Book Value	Write-downs/write-backs	Book Value	Write-downs/write-backs	Book Value	Write-downs/write-backs
A. Subject to full write off from the financial statements																		
B. Subject to partial write off from the financial statements																		
C. Not written off from the financial statements																		
Auto ABS Italian Loan Master consumer credit					48,837	1,323												

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

Name of securitisation - SPE	Registered Office	Consolidation	Assets			Liabilities		
			Loans and receivables	Debt securities	Other	Senior	Mezzanine	Junior
Auto ABS Italian Loan Master	Conegliano (TV)	NO	654,516		27,344	600,019		81,841

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 of SPE and registered office:	
A. Securitised assets	**654,516**
A.1 Loans and receivables	654,516
A.2 Securities	
A.3 other	
B. Loan of available assets arising from credit management	**68,542**
B.1 Debt securities	39,000
B.2 Equity Instruments	
B.3 Liquid funds in current account	29,542
C. Securities issued	**681,818**
C.1 Senior	600,000
C.2 Mezzanine	
C.3 Junior	81,818
D. Loans received (to be specified)	
E. Other liabilities (to be specified)	**10,307**
E.1 Accrued interest expense for securities	1,618
E.2 Other Liabilities	8,689
F. Interest expense on securities issued	**34,399**
G. Commissions and fees relating to the transaction	**735**
G.1 For servicing	671
G.2 For other services	64
H. Other charges	**5,082**
H.1 Other interest expense	782
H.2 Other charges	2,978
H.3 Loan adjustments	1,323
I. Interest generated by the securitised assets	**35,682**
L. Other revenues	**4,535**
L.1 Miscellaneous recoveries	**4535**

The securitised loans shown in this table are performing positions in the amount of Euro 650,552 thousand, past due in the amount of Euro 2,557 thousand, unlikely to pay in the amount of Euro 20 thousand and doubtful in the amount of Euro 1,387 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

In addition to that indicated in securitisation transactions (point C), a disposal transaction was performed during the year pursuant to Law 52/1991 (Factoring) aimed at diversifying financing sources and reducing the cost of borrowing.

On the basis of this transaction, Banca PSA Italia obtained a line of credit collateralised by trade receivables (pro-solvendo assignment) with a leading Italian bank counterparty. During the third quarter of the year, this was increased by Euro 150 million to Euro 200 million.
The transaction involves the possibility of periodically disposing of new credits, thus keeping the financed amount constant.

Quantitative information

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

Type / Portfolio	Financial 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	12/31/2017	12/31/2016
A. Balance-sheet assets																**725,108**			**725,108**	**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																725,108			725,108	690,982
B. Derivatives				**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**		
Total 12/31/2017																**725,108**			**725,108**	**X**
of which impaired																663			663	X
Total 12/31/2016																			**X**	**690,982**
of which impaired																			X	466

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	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables with banks	Loans and receivables with customers	Total
1. Deposits from						**536,432**	**536,432**
a) related to fully						536,432	**536,432**
b) relating to partially recognised assets							
2. Deposits from banks						**100,000**	**100,000**
a) related to fully						100,000	**100,000**
b) relating to partially recognised assets							
3. Debt securities in issue							
a) related to fully							
b) relating to partially							
Total 12/31/2017						**636,432**	**636,432**
Total 12/31/2016						**771,428**	**771,428**

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	12/31/201	12/31/201
A. Balance-											**725,10**		**725,108**	**690,982**
1. Debt														
2. Equity							x	x	x	x	x	x		
3. UCIS							x	x	x	x	x	x		
4. Loans											725,10		725,108	690,982
B. Derivative			x	x	x	x	x	x	x	x	x	x		
Assets											**725,10**		**725,108**	**690,982**
C. Liabilities											**636,43**		x	x
1. Due with											536,43		x	x
2. Due with											100,00		x	x
3. Securities													x	
Liabilitie											**636,43**		**636,432**	**771,428**
Net 12/31/201											**88,676**		**88,676**	x
Net 12/31/201											**(80,445**		x	**(80,445)**

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

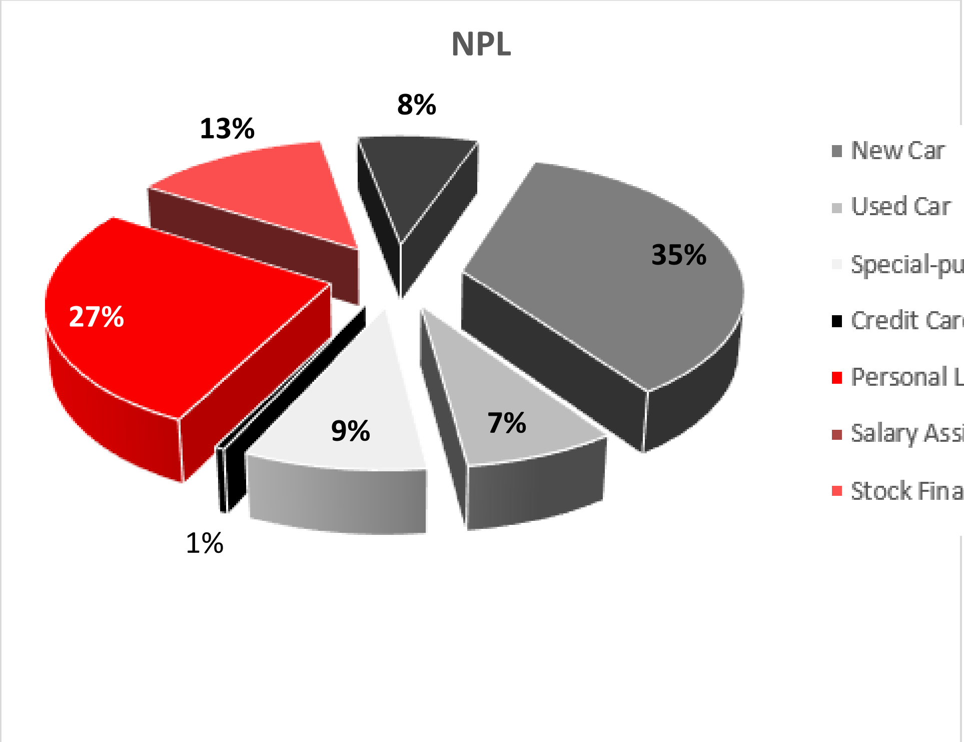
Please see the information provided above.

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).

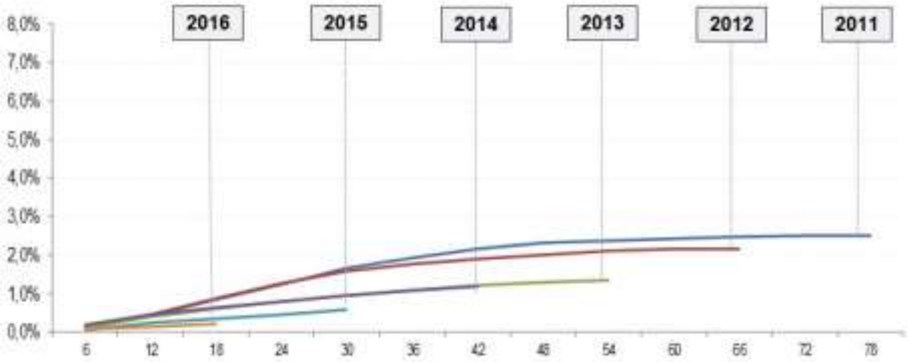


The chart shows how the breakdown of the figure by product reflects the features of the Group’s business.

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;

Date	#	6	12	18	24	30	36	42	48	54	60	66	72	78
2011	34 706	0,15%	0,44%	0,85%	1,26%	1,65%	1,94%	2,17%	2,31%	2,38%	2,43%	2,48%	2,50%	2,50%
2012	35 658	0,17%	0,47%	0,87%	1,26%	1,58%	1,76%	1,91%	2,01%	2,10%	2,15%	2,17%		
2013	31 620	0,12%	0,40%	0,60%	0,79%	0,95%	1,09%	1,21%	1,30%	1,35%				
2014	30 872	0,20%	0,44%	0,63%	0,79%	0,96%	1,09%	1,19%						
2015	35 307	0,07%	0,24%	0,34%	0,46%	0,59%								
2016	43 974	0,08%	0,15%	0,22%										
2017	51 129	0,03%												



- 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;

- The portfolio analysis includes a set of metrics used to carry out a monthly assessment of performance of the portfolio, the stock of dossiers in default and the degree of coverage.

- Assessment of the PD and LGD supports the analysis of the performance of the portfolio and the degree of recovery in the event of default.

1.2. 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 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 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 Bank 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 following methods are used to measure the financial risks generated by the portfolio:

- Shift sensitivity of the economic value or "Market Value of Equity" (MVE);
- Shift sensitivity of the interest margin or "Net Interest Margin" (NIM).

Market value of equity (MVE) measures the change in the economic value of the trading portfolio of the Bank and of funding as a result of shocks to market rates. The sensitivity of the MVE is calculated using different interest rate shock scenarios: not only parallel movements to market curves (parallel shift) but also different potential scenarios including more severe stress conditions. The standard shock on which the management and monitoring of limits is based provides for a parallel and symmetrical shift of +100 basis points.

The sensitivity of the interest margin provides an analytical focus on the impact that changes in interest rates can have on the interest margin. This margin represents the difference between the interest income produced by interest-bearing assets and onerous debts, and includes the results of hedging operations through the use of derivatives. To determine the changes in the interest margin, the same interest rate shock scenarios used for the sensitivity of the value are applied, with reference to a 12-month time horizon.

Interest rate hedging aims to protect the banking book from changes in the fair value (macro fair value hedge) of funding and lending caused by movements of the interest rate curve, or to reduce the variability of cash flows relating to a particular asset/liability. The Group only uses plain vanilla Interest Rate Swaps (IRS).

Other hedging methods used are cash flow hedging, which aims to stabilise interest flows both from floating-rate funding, to the extent that it is used to finance fixed rate loans, and floating-rate loans to hedge fixed rate funding (macro cash flow hedge). The Bank did not conclude any new IRS cash flow hedges during the year.

It is the responsibility of Accounting to verify the effectiveness of interest rate risk hedging for the purposes of hedge accounting in compliance with the rules laid down by international accounting standards.

At 31 December 2017, the MVE calculated with a shift of +100 basis points was Euro -20.4 million (-17.6 for SCB and -2.8 for PSA); in 2017, the average figure for PSA was Euro -4 million, with a minimum for PSA of Euro -0.1 million and a maximum for PSA of Euro -11.8 million.

At 31 December 2017, the consolidated NIM was Euro 3.4 million (+1.3 SCB and +2.1 PSA).

+100 bps MM	MVE	NIM
December 17	-20.4	3.4

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 12/31/2017		Total 12/31/2016	
	Over the counter	Clearing House	Over the counter	Clearing House
1. Debt securities and interest rate indexes	**1,896,830**		**1,101,087**	
a) Options				
b) Swap	1,896,830		1,101,087	
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	**1,896,830**		**1,101,087**	
Average	**1,677,777**		**1,716,128**	

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 12/31/2017		Total 12/31/2016	
	Over the counter	Clearing House	Over the counter	Clearing House
1. Debt securities and interest rate indexes	**1,530,877**		**1,808,511**	
a) Options				
b) Swap	1,530,877		1,808,511	
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	**1,530,877**		**1,808,511**	
Average	**1,783,546**		**1,568,483**	

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

Portfolios / Types of derivatives	Positive fair value			
	Total 12/31/2017		Total 12/31/2016	
	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	961			
c) Cross currency swap				
d) Equity Swap				
e) Forward				
f) Futures				
g) Other				
C. Banking book - Other derivatives				
a) Options				
b) Interest rate swap	1,400		3,154	
c) Cross currency swap				
d) Equity Swap				
e) Forward				
f) Futures				
g) Others				
Total	**2,361**		**3,154**	

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

	Negative fair value			
	Total 12/31/2017		Total 12/31/2016	
	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	3,122		12,920	
c) Cross currency swap				
d) Equity Swap				
e) Forward				
f) Futures				
g) Others				
C. Banking book - Other derivatives				
a) Options				
b) Interest rate swap	1,484		3,411	
c) Cross currency swap				
d) Equity Swap				
e) Forward				
f) Futures				
g) Others				
Total	**4,607**		**16,332**	

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 book – 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 book – 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			3,427,707				
- positive fair value			2,361				
- negative fair value			(4,607)				
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				
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	732,621	1,361,069	1,334,018	**3,427,707**
B.2 Financial derivative contracts on equity securities				
B.3 Financial derivative contracts on exchange rates and				
B.4 Financial derivative contracts on other values				
Total 12/31/2017	**732,621**	**1,361,069**	**1,334,018**	**3,427,707**
Total 12/31/2016	**1,028,803**	**880,797**	**999,998**	**2,909,598**

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 6.

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			2,361				
- negative fair value			(4,607)				
- future exposure			8,816				
- net counterparty risk			12,492				
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.
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.
With reference to PSA, however, 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. 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 as 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:

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

In addition to MLR, the Bank manages its liquidity by following the guidance of the Regulator; 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 2017 Banca PSA held Euro 60 million in high quality liquid assets, purchased throughout the year (consisting of Italian government securities).

The LCR level must constantly remain above 80% throughout 2017, as required by European Commission Regulation 575/2013 and by Directive 2013/36/EU, for Basel III purposes. Banca PSA Italia's liquidity ratio largely complies with the above requirement.

The NSFR is defined as:

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

At 31 December 2017, 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 SCB 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 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	**540,795**	**27,776**	**171,977**	**111,396**	**629,995**	**1,162,696**	**1,733,504**	**3,704,686**	**644,305**	**12,169**
A.1 Government securities		20,000	100,375		102,812	141,450	101,200			
A.2 Other debt securities										
A.3 Units in investment funds										
A.4 Loans	540,795	7,776	71,602	111,396	527,183	1,021,246	1,632,304	3,704,686	644,305	12,169
- Banks	453,189			167	29	14	28			12,169
- Customers	87,606	7,776	71,602	111,229	527,153	1,021,232	1,632,276	3,704,686	644,305	
On-balance sheet liabilities	**796,913**	**23,069**	**18,689**	**232,237**	**694,314**	**720,527**	**1,695,447**	**2,773,838**	**638,932**	
B.1 Deposits and current accounts	793,608	23,069	18,689	175,341	642,447	520,918	581,282	886,478	558,932	
- Banks	45,191	22,000	16,000	167,000	610,006	465,500	430,000	800,000		
- Customers	748,418	1,069	2,689	8,341	32,441	55,418	151,282	86,478	558,932	
B.2 Debt securities				73	8	79	113,161	151,000		
B.3 Other liabilities	3,305			56,823	51,859	199,531	1,001,004	1,736,360	80,000	
Off-balance sheet transactions										
C.1 Physically settled fin. derivatives										
- Long positions										
- Short positions										
C.2 Cash settled Fin. derivatives										
- Long positions					268	17	22			
- Short positions	310		206	568	1,466	1,642	2,599			
C.3 Deposit to be received										
- Long positions										
- Short positions										
C.4 Irrevocable commitments to disburse funds										
- Long positions						42,395				27,552
- Short positions	69,947									
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 2017, 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 2017 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 Whole Loan Note VFN 2013-1 the special purpose entity 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 three further acquisitions of performing consumer loans for a total of Euro 184,678,089, leaving the value of the securities unchanged at Euro 570,596,900 until the end of October. A repayment of Euro 61,961,201.64 was made in November. Following the aforementioned repayment, the value of the securities at year end was Euro 508,635,698.36.

As part of Operation Golden Bar Stand Alone 2014-1 the special purpose entity 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 special purpose entity 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 had been fully repaid.
A total of Euro 238,817,964 was repaid on Class A securities in 2017.

As part of Operation Golden Bar VFN 2015-1 the special purpose entity 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.
On 20 January 2017, all the classes were upsized bringing the total nominal value to Euro 1 billion thanks to a sale of receivables exceeding the replenishment amount. At the same time as the upsize, Santander Consumer Bank granted the special purpose entity a subordinated loan of Euro 7,500,000, so as to guarantee the increase of the Cash Reserve to Euro 25,000,000.
During the year, the SPE made four further revolving acquisitions of performing loans for a total of Euro 443,294,180.

As part of Operation Golden Bar VFN 2016-1, the special purpose entity 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 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 23,162,930. 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 four revolving acquisitions of loans for a total of Euro 339,996,119.

In the course of the year, the operations 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.

<table>
<tr><th></th><th>Assets held by the SPE</th><th>Senior and Mezzanine securities subscribed</th><th>Junior securities subscribed</th><th>Cash reserve</th><th>Assets held by the Group</th><th>Type of assets pledged as collateral</th><th>Distribution of the assets pledged as collateral by geographical area</th><th>Average maturity of the assets pledged as collateral</th><th>Rating of the assets pledged as collateral</th></tr>
<tr><td>Golden Bar Whole Loan Note VFN 2013-1</td><td>442,346</td><td></td><td>508,636</td><td>(22,787)</td><td rowspan="4">7,637,530</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a.</td></tr>
<tr><td>Golden Bar Stand Alone 2014-1</td><td>266,940</td><td>195,539</td><td>75,100</td><td>26,157</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a.</td></tr>
<tr><td>Golden Bar Stand Alone 2015-1</td><td>1,016,640</td><td>890,000</td><td>110,000</td><td>56,738</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a.</td></tr>
<tr><td>Golden Bar VFN 2016-1</td><td>1,052,274</td><td>1,099,890</td><td>110</td><td>100,181</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a.</td></tr>
</table>

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 2017

Breakdown of the excess spread accrued during the year	12/31/2017			
	Golden Bar Whole Loan Note VFN 2013-1	**Golden Bar Stand Alone 2014-1**	**Golden Bar Stand Alone 2015-1**	**Golden Bar VNF 2016-1**
Interest expense on securities issued		(2,731)	(13,582)	(21,161)
Commissions and fees relating to the transaction	(2,904)	(2,256)	(1,497)	(1,948)
- for servicing	*(2,771)*	*(2,149)*	*(1,290)*	*(1,936)*
- for other services	*(133)*	*(107)*	*(207)*	*(12)*
Other charges	(19,447)	(5,556)	(1,527)	(1,180)
Interest generated by the securitised assets	40,284	25,619	68,033	66,356
Other revenues	1,860	2,114	3,968	2
Total	**19,793**	**17,190**	**55,395**	**42,069**

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 VNF 2016-1**
Interest expense on securities issued	(524)		(5,455)	(9,667)	(8,803)
Commissions and fees relating to the transaction	(397)	(2,669)	(3,752)	(1,050)	(1,216)
- 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	**12,188**	**40,378**	**34,331**	**42,060**	**34,949**

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.

At 31 December 2017, Banca PSA was involved in legal disputes in relation to which an allocation to the provisions for risks and charges had been made in the amount of Euro 259 thousand.

It is also noted that with the measure of 28 April 2017, notified on the occasion of the investigations carried out on 4 May 2017, the Italian Antitrust Authority initiated proceedings against Banca PSA, and other captive financial institutions and banks in the automotive sector, as well as against “Assilea” and “Assofin”, in order to establish the existence of an alleged agreement restricting competition in violation of Article 101 of the TFEU, put it place through an exchange of allegedly sensitive information that would have allowed the aforementioned companies to coordinate reciprocal commercial strategies.
The process - which is expected to be completed by 31 July 2018, unless the Italian Antitrust Authority provides a further extension - is currently in the investigation stage. As it stands, the requirements have not been met to make use of a provision in relation to any penalty that may be imposed by the Italian Antitrust Authority.

With regard to the Parent Company’s operational risk, see the same section of the Separate Financial Statements.

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 JVs:

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.

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[1]). 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)[2];
- 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[3]. 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[4], and prospectively[5], 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.

The Group received a notice from the ECB for 2017 in relation to the minimum total capital requirements to be met at consolidated level, equal to 7.75% of Common Equity Tier 1, 9.25% of Tier 1 and 11.25% of Total Capital.

[1] Calculated as the ratio between Profit After Taxes and RWAs.
[2] Policy risk appetite framework.
[3] 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.
[4] Figures sent on a quarterly basis.
[5] Monthly with a time horizon included in the 12 months of the current year.

B. Quantitative information

B.1 Consolidated shareholders' equity: breakdown by type of business
The following table analyses the various items in shareholders' equity.

Shareholders' equity items	Banking Group	Insurance companies	Other companies	Consolidation adjustments and eliminations	12/31/2017
1. Share capital	**720,309**			**(74,704)**	**645,604**
2. Share premium reserve	**24,177**			**(11,772)**	**12,405**
3. Reserves	**187,768**			**(34,913)**	**152,855**
4. Equity instruments					
5. (Treasury shares)					
6. Revaluation reserves	**(284)**				**(284)**
- Financial assets available for sale	90				90
- 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	(375)				(375)
- Portion of measurement reserves relating to investments carried at equity					
- Special revaluation laws					
7. Net income (loss) (+/-) group and minorities	**114,866**			**(6,100)**	**108,766**
Shareholders' equity	**1,046,835**			**(127,490)**	**919,345**

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

Assets / values	Banking Group		Insurance companies		Other companies		Consolidation 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	103	(12)							103	(12)
2. Equity securities										
3. Units in investment fund										
4. Loans										
Total 12/31/2017	**103**	**(12)**							**103**	**(12)**
Total 12/31/2016	**101**	**(305)**							**101**	**(305)**

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	**(204)**			
2. Positive changes	**408**			
2.1 Fair value increases	408			
2.2 Reclassification through profit or loss of negative				
- due to impairment				
- following disposal				
2.3 Other changes				
3. Negative changes	**114**			
3.1 Fair value reductions	67			
3.2 Impairment losses				
3.3 Reclassification through profit or loss of positive	46			
3.4 Other changes				
4. Closing balance	**90**			

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 (43) thousand (Euro (31) 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. Since October 2015 the Group has been subject to specific capital requirements communicated directly by the European Central Bank and periodically revised.

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
In 2017, the Group has instruments classified as Additional Tier 1, relative to capital instruments of Banca PSA Italia, qualifying for inclusion in consolidated capital.

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
TIER II subordinated debt to Santander Consumer Finance S.A.	06/30/2017	30,000,000	Base rate 0,655 + 3,025%	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 12/31/2017	Total 12/31/2016
A. Capital primary Class 1 (Common Equity Tier 1 - CET1) before application of prudential filters	**835,579**	**709,729**
of which CET1 instruments subject to transitional provisions	66,968	
B. Prudential filters CET1 (+/-)	(376)	
C. CET1 before items to be deducted and the effects of the transitional arrangements (A +/- B)	**835,203**	**709,729**
D. Deductions from CET1	**10,264**	**8,179**
E. Temporary regime – impact on Tier 1 (+/-), including minority interests subject to transitional provisions	**14,624**	**1,176**
F. Total Capital primary Class 1 (Common Equity Tier 1 - CET1) (C - D +/- E)	**839,562**	**702,725**
G. Additional Tier 1 Capital (Additional Tier 1 - AT1) before items to be deducted and the effects of the transitional arrangements	**17,482**	
of which AT1 instruments subject to transitional provisions	17,482	
H. Deductions from AT1		
I. Transitional regime - Impact on AT1 (+/-), including instruments issued by subsidiaries that are given recognition in AT1 pursuant to transitional provisions	**(3,496)**	
L. Total Capital Additional Tier 1 (Additional Tier 1 - AT1) (G - H +/- I)	**13,986**	
M. Capital Class 2 (Tier 2 -T2) before items to be deducted and the effects of the transitional arrangements	**98,552**	**66,670**
of which T2 instruments subject to transitional provisions	**12,060**	
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	**(153)**	
P. Total Share of Class 2 (Tier 2 -T2) (M - N +/- O)	**98,399**	**66,670**
Q. Total own funds (F + L + P)	**951,947**	**769,395**

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

	Non weighted assets		Weighted assets	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
A. RISK ASSETS				
A.1 Credit and counterparty risk	9,076,356	8,892,397	6,500,403	5,828,688
1. Standardized approach	9,076,356	8,892,397	6,500,403	5,828,688
2. IRB approach				
2.1 Foundation				
2.2 Advanced				
3. Securitizations				
B. CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			520,032	466,095
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			42,438	39,855
1. Basic indicator approach (BIA)			13,326	
2. Traditional standardized approach (TSA)			29,112	39,855
3. Advanced measurement approach (AMA)				
B.6 Other calculation elements				
B.7 Total capital requirements			562,470	506,167
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Weighted risk assets			7,030,872	6,327,092
C.2 Capital primary class1 / Risk			11.94 %	11.11%
C.3 Capital Class 1 / Risk-weighted assets (Total capital ratio)			12.14 %	11.11%
C.4 Total own funds / Risk-weighted assets (Total capital ratio)			13.54 %	12.16%

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

During the year there were no business combinations, as regulated by IFRS 3, which resulted in the acquisition of control of business or legal entities.

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 2017 to members of the management and control bodies and to managers with strategic responsibilities that fall within the definition of "related party".

	12/31/2017
Short-term benefits	3,074
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	389,388	3,341	1,897,328	12,481	9,419
Santander Consumer Finance		3,893,500		25,489	
Banque PSA Finance Group companies	402	2,807		11,475	1,054
Other Santander Group companies	2,260	87,597	330,877	7,070	2,747

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 380,989 thousand);
- the payables mainly 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;
- 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;
- the charges relate to interest expenses on loans received and to negative differentials on the hedging result;

Relationships are also maintained with other companies of the Santander Group. Receivables relate mainly to the measurement of derivatives and related accruals of Euro 1,033 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 84,682 thousand) and traded derivatives entered into in connection with securitisations (Euro 1,117 thousand), whereas the expenses mainly consist of interest expense accrued on loans requested (Euro 2,400 thousand) and costs for consulting and services offered by Group companies (Euro 4,044 thousand). Income derives mainly from reimbursement of expenses (Euro 60 thousand), fees earned for the distribution of insurance products (Euro 2,438 thousand) and the result of the derivatives for securitisation transactions (Euro 17 thousand).

Finally, the relations between the subsidiary Banca PSA Italia and the Banque PSA Finance Group, which owns 50% of the shares, are shown.
The receivables refer to fees not yet paid, while the payables include the subordinated loan with PSA Nederland.

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		148,900
	PricewaterhouseCoopers SpA	Subsidiaries	Audit services (annual report, consolidated financial statements, interim report, accounting checks)	141,478
	PricewaterhouseCoopers SpA	SPV Golden Bar		23,000
Other services	PricewaterhouseCoopers SpA	Parent Company	Validation of specific long term funding operations (TLTRO).	16,000
	PricewaterhouseCoopers SpA	Parent Company	Limited audit of the Non-Financial Disclosures.	24,000
	PricewaterhouseCoopers SpA	Parent Company	Audit of annual report - Additional activities concerning the application of IFRS9.	92,000
				445,378

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.

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

Against the background of the dynamic outlined above, Santander Consumer Bank operations are geared to a sustainable growth of profits aimed at creating value for shareholders, to an ability to independently generate capital and to a conscious assumption and management of risks.
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 (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.
- **Digitalisation and dematerialisation.** To promote digitisation as a necessary process for the creation of competitive advantages and the automation of procedures.
- **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 level in dispute using an effective strategy of acceptance and recovery.
- **Capital.** Ability to generate capital independently and achieve levels of capitalisation in line with current regulations 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.

The Sales Network

As regards consumer credit, Santander Consumer Bank recorded a significant increase in volumes compared to the previous year, with a good performance in the automotive sector and the area of special-purpose loans, and a slight contraction in salary assignment.
The Automotive sector recorded an increase of 11.4%, a significant proportion of which related to brands involved in Captive Agreements which in the course of the year reached a weighting of 52% of new production, reflecting the efforts made by the Group to strengthen such partnerships.
In 2017, sales of the salary assignment product were down compared with the previous year (-11.1%), mainly due to a very competitive market linked to the presence of competitors with more aggressive financial positions. Special-purpose loans, on the other hand, closed the year with strong growth compared to the performance achieved in the previous year; this increase was due mainly to the widening of the new agent network through acquisition of a business unit from a third-party banking group which took place at the end of last year.
In terms of personal loans, the Bank closed 2017 with a result 4.1% higher than the previous year.

Marketing

In 2017, in addition to continuing with the traditional marketing activities in progress on all Group products, several Digital initiatives were launched, in coordination with the new Strategic Marketing and Digital Innovation Office.

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.

As regards personal loans, customised Customer contact campaigns were optimised through the use of email and SMS channels, in order to increase the effectiveness of the contact and to maximise the probability of acceptance. The coverage of Direct Marketing activities was extended to the agency network, quadrupling the points sale to which Customers are directed.
As regards salary assignment products, the campaign focused on renewals was extended across almost the entire agency network.
In respect of Digital, two web lead generation initiatives were launched for Salary Assignment products and Deposit Account products.
With regard to Insurance, there was a stable trend relative to the placement of insurance services combined with loans being granted, whereas there was an increase in their placement through remote channels. In 2017, insurance commission came to Euro 21.2 million, which was substantially in line with the 2016 figure (Euro 22.0 million).
In general, on the traditional “Point of Sale” channel there was a worsening of the performance of “Creditor Protection Insurance” products (CPI), partially offset by CVT products (Theft & Fire in particular). In terms of Leasing financial products, the Motor Third Party Liability insurance product was launched.
The trend in “alternative” channels has been very positive, with a proportion of overall insurance sales of 26.8%. The campaign of stand-alone products through the telemarketing channel was enhanced with the introduction of a fully digital channel which, by reducing the cost of contact, will allow the customer offering to be improved.
Profits in absolute terms are 22.5% short of budget, mainly due the worsening of performances on CPI products and to the increase in commissions being refunded, attributable to a phenomenon of early repayments.

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 growing capacity and specialisation in managing the bank’s Captives programmes have allowed the volumes financed to be increased, in the majority of cases with the best sales penetration performances in the market.
More specifically, the volumes financed for Hyundai increased compared to the previous year (+4% compared to 2017), as was the case for KIA (+9.8%), and for Mazda (+13.7%), while Mitsubishi/SsangYong remained stable as a result of a slowdown in Retail sales.
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, 2017 saw a general growth in volumes financed with particularly interesting performances on the main brands (Yamaha +17%, Harley-Davidson +29%), with sales market share exceeding 30% in some cases.
Of note in 2017 is the multiannual renewal of three main Captive agreements (Hyundai, KIA and Mazda).

Salary assignment

Again in 2017, the salary and pension assignment market saw a slight increase in volumes compared with the previous year. As regards the more general scenario, the market saw the consolidation of trends already underway since 2016, which can be summarised in three macro directions: a) the entry of new operators; b) the proactivity of credit institutions specialising in the purchase of loans without recourse; c) the increase in the direct disbursement of salary assignment and delegation of payment loans by Financial Intermediaries (pursuant to Articles 106 and 107 of the Consolidated Banking Act) approved by the Bank of Italy, post reform of the relative special Registers and Lists. The Bank has maintained its commercial strategy aimed at sustainable development, pursuing profitability objectives appropriate to the nature of the business, focusing in the course of the year both on fully integrating the volumes coming from the agency network acquired at the end of 2016, and on broadening the distribution of salary assignment products through the Bank’s branches, present across the entire country. Conversely, the Bank’s activities for the distribution of its products through Financial Intermediaries were further reduced as compared to the previous year: the financed capital of new disbursements in 2017 stood at Euro 341.95 million, with a clear majority brought in by tied agents with respect to the total volumes of new disbursements, reaching just over 87%. The mix of new disbursements, with distinctions made between the different sectors of employment of the customers, was as follows: State and public, 51.77%; para-public, 4.56%; pensioners, 26.67%; private individuals, 17.00%. Finally, as from 1 June the Bank has endorsed the “Memorandum of Understanding” drawn up by Assofin and the Consumer Associations participating in the “Consumer Associations - Assofin” panel, aimed at promoting operational and business best practices in the salary and pension assignment market.

Personal Loans

In the overall context of the personal loans market, 2017 was generally a positive year.

By consolidating the strategies undertaken in the Personal Loans sector over the previous two-year period, Santander Consumer Bank achieved steady growth in this line of business (approximately +4% compared to 2016 volumes). The results obtained, which were in line with the Bank’s objectives, were achieved as a result of efficient management of customer segmentation processes and the relative customisation of the offer.

The distribution model adopted by Santander Consumer Bank is one of the most complete in the market and is adequate to meet the current needs of customers, who may request a personal loan through various channels, ranging from classic channels, through the Branch channel and the Agency Network - which is highly specialised in consumer credit-, to remote and digital channels.

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.
What the market offers essentially comes down to deposit accounts with or without a time constraint and an interest rate linked to this constraint.
The Bank has always offered its clients a demand deposit account and a time deposit account in order to provide a balance between funding stability and cost.

The new management software platform has made it possible to stabilise the product offering, which is made up of:

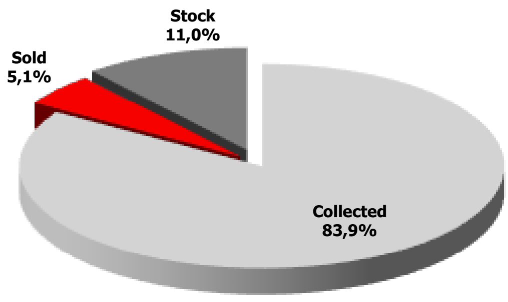
- *IoPosso* (demand deposit account)
- *IoScelgo* (basic demand deposit account to which the opening of a series of tied lines can be linked)

From the commercial point of view, there was an expansion of the portfolio of customers for both products which has increased the funding volume in line with the Group's funding policies.
Set out below is a summary of the more quantitative aspects pertaining to 2017 compared to prior year:

- Time Deposit funding amounted to Euro 326 million (+163%);
- Demand Deposit funding amounted to Euro 663 million (+4%);

Debt Collection

In 2017, the financial situation in Italy improved 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 2017, the management of recovery was impacted by a change in the portfolio mix, a reflection of the commercial strategy put in place by the Bank aimed at growing volumes of Durables products, which resulted in increased transfers to recovery of contracts with a lower overall risk than the average of the other products managed.
The sum of flows handled monthly consisted of 413,624 contracts, for a total of Euro 2.0 billion, +22.0% compared to the previous year in terms of the number of contracts and -5.0% 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 83.9% of the volumes handled in 2017, with a residual stock still being handled at 31 December 2017 of 11.0%.
In 2017, non-performing loans were sold, with the transactions in question having taken place in March: the amount of loans sold to third parties during the year corresponds to 5.1% of risk assets under management.



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 2017, the managed collection portfolio consisted of Euro 410 million.

In 2017, the stock of claims decreased slightly compared to 2016 in terms of the number of open positions; the process is focused on minimising the time needed to open and manage claims.
The stock of claims opened has gone from 4,472 positions with a risk of Euro 38.2 million (2.3% of the total portfolio) to 4,223 positions with a risk of Euro 41.5 million (2.5% of the total portfolio). The stock of rejected claims at the end of 2017 was 189 positions amounting to Euro 2.5 million. In 2017, 4,755 new claims were opened, of which 890 were life claims, 2,653 related to occupational accidents and 1,212 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 2017, the net amount of financial indebtedness of Santander Consumer Bank came to Euro 5,363 million (+5.38% compared with 2017).

At the end of September 2017, a repo transaction for the amount of Euro 412 million with an underlying ABS expired.

As of 31 December 2017, the total amount that had arisen from having participated in ECB auctions amounted to Euro 1,595 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 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 the first quarter of 2017, the Bank issued EMTNs for a total of Euro 154 million over more tranches, with a two-year maturity. In November 2017, bonds totalling Euro 200 million reached maturity.
As at the reporting date, outstanding issues represented a total of Euro 264 million (approximately 5% of the total).

Retail customer deposits increased significantly, from approximately Euro 760 million at the end of 2016 to approximately Euro 1,020 million at December 2017 (+31%). Further details on funding results are provided in the Deposit accounts section of the separate financial statements of Santander Consumer Bank.

On the whole, the cost of funding decreased in 2017 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 as from 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 80% for 2017.

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.

A three-year strategic plan (P20) was developed during the year. The plan supports the challenges and priorities established by the Board of Directors and by senior management, and identifies the following macro objectives in its development strategy:

- Total Customer Value: to understand and serve our customers better and to go beyond their expectations, launching a project to integrate all processes and channels that involve customers;
- Digital Experience: to innovate, digitise and streamline our customers' business, and thereby promote the growth of our business and improve the efficiency of processes through initiatives to develop platforms for the digitisation of business processes;
- Empowerment & Continuous Improvement: to begin optimisation analysis, in order to ensure the efficiency of processes, in terms of time, costs and resources, through the use of methods aimed at digitisation and innovation.

In addition to the strategic developments mentioned above, the merger of the ISBAN business unit with Santander Consumer Bank S.p.A is in progress. The merger will be of benefit both from an economic point of view and from the point of view of the management and planning of projects.

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 2017 consists of 622 persons (including 11 managers, 165 middle managers and 446 office workers). The office workers include nine fixed-period contracts. At the end of the year, there are 6 employees on post-graduate internships.
The average age is 40.7 years, with female workers representing 45% of total employees.
Resources are allocated 38.5% in the commercial area, the rest in the various functions of General Management.
Personnel costs for the year amount to Euro 42.6 million.
In September 2017, the 4th edition of the People Survey was conducted, involving all of the Group's employees. Participation in the survey nationally was 86%. The initiative provides an important opportunity for listening about issues relating to the management of staff and about the internal climate. This year showed a particular improvement in the innovation and risk culture indicators.

Innovative co-design methods were used to define the initiatives of the now traditional Santander Week during which the Bank organises specific activities for employees, for their well-being, for their children and to support the local community through volunteering.
To better prepare employees for the transfer to the head office in Turin, a programme of initiatives was launched aimed at familiarising them with the features and capabilities of the new workplace, using all the Bank's internal communication instruments.
There has been renewed collaboration with the major Italian universities, particularly locally, including internationally renowned business schools: more than 40 undergraduates and recent graduates were able to take part in curricular and extra-curricular training programmes. A number of high school pupils got to know the business by participating in several weeks of professional training.
A solid partnership has also been established with the consortium Almalaurea in order to promote the Santander brand at national level through the creation of a "company profile" on the Almalaurea website and participation in 3 national events (Rome, Turin and Milan).

Industrial relations continued in 2017 in the interest of sharing and coordination between the parties.
The Chief Executive Officer and General Manager periodically met with various trade unions to illustrate the business performance of the Bank.
Moreover, in 2017, 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:
An Accessory Agreement dated 6 March 2017 on the "Variable Results Bonus" governing the achievement of the RoRWA parameter, an improvement compared to 2015, the increase of which is intended to provide for the welfare bonus amount as per the Stability Law of 28 December 2015.
A second Statement of Agreement dated 13 April 2017 relating to the "Election of Employee Health and Safety Representatives". The elections took place as planned in May 2017.
On 7 July 2017, as per an agreement signed between the parties, the Committee for Trade Policies and Work Organisation was set up within Santander Consumer Bank pursuant to the National Agreement for the sector signed on 8 February 2017.

All further details regarding human resources training and development activities are described in detail in the section "Consolidated Non-Financial Statement" included in the Financial Statements.

Taxation

The Bank's fiscal policies are governed by the general principles of the Group in the field of taxation, set out in Corporate Tax Policy which defines the guidelines adopted by the Parent Company Banco Santander in relation to the governance and management of tax risk.
Transposition of the corporate policy at local level is ensured through the definition of the "Tax Strategy", approved annually by the Board of Directors of the Bank.
In application of the aforesaid policy, the Bank implemented a specific Tax Control Framework, containing the policy, principles, governance, risk analyses, processes and related controls aimed at managing, monitoring and mitigating tax risk; this was carried out in accordance with regulatory requirements and with a view to collaborative performance. This model was approved by the Board of Directors of the Bank on 13 December 2016, after obtaining the opinion of the group's tax office and the bank's supervisory bodies.
As required by Group policies, the annual report was also presented to the Board of Directors of the bank. The report described the tax policies implemented in the course of the year, which are fully compliant with the principles provided for by the said tax strategy.

On 23 October 2017, the tax inspection on the Parent Company Santander Consumer Bank for the 2012 tax year, which was started on 19 April 2017 by the Revenue Agency, Regional Piedmont Division, Large Taxpayers Audit Department, came to an end.
The Report on Findings reported exceptions in respect of:

- inclusion, for the purposes of determining the upper limit on the basis of which to determine the immediately deductible portion equal, according to the rules in force at the time, to 0.3% of loans to customers, of receivables relating to loans in place in respect of the two subsidiaries Santander Consumer Finance Media Srl and Unifin SpA for a total of Euro 45,000,000;
- inclusion in the write-downs amount of "provisions" with a negative figure (and therefore a reduction of write-downs) for a total of Euro 1,667,115. The auditing body decided not to recognise such amount as a reduction of write-downs, not considering it possible to treat them as write-backs, and consequently reallocated these "provisions" as increases, with a subsequent increase in the non-immediately deductible portion of write-downs;
- Improper exclusion from the calculation of the deductibility limit of the interest expense on differentials relating to a derivative entered into to hedge the interest rate risk related to the cash flows of liabilities.

The resulting cross-examination had the following results:
With reference to the recaptures of tax in relation to points b) and c), the company voluntarily corrected its IRES and IRAP returns as per the procedure referred to in Article 13 of Legislative Decree 472/97. Specifically, supplementary declarations were submitted on 13 December 2017 in order to comply with the points raised and on the same date i) for IRES purposes, the sums owed by way of higher taxes were paid, as was the statutory interest accrued from the date of the infringement and the penalty reduced to 1/5 (attached hereto F24 receipted) and ii) for IRAP purposes, given the negative value of production, the reduced formal penalty was paid.

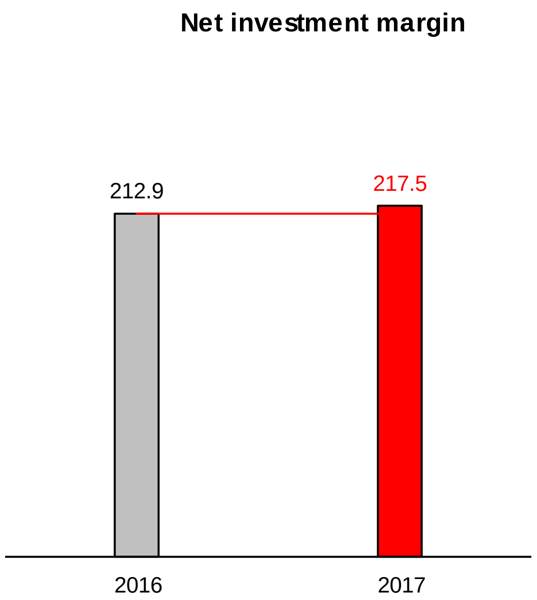
With reference to the "determination of total receivables for the purposes of quantifying the write-downs deductible in the year" referred to under a) above, the Company submitted a memorandum in order to provide the Office with further particulars in support of its tax conduct, considering itself to have correctly considered the above loans to the two subsidiaries as loans to customers and therefore included in the scope for determining the upper limit on the basis of which to calculate the portion deductible in the tax period of 0.3%.

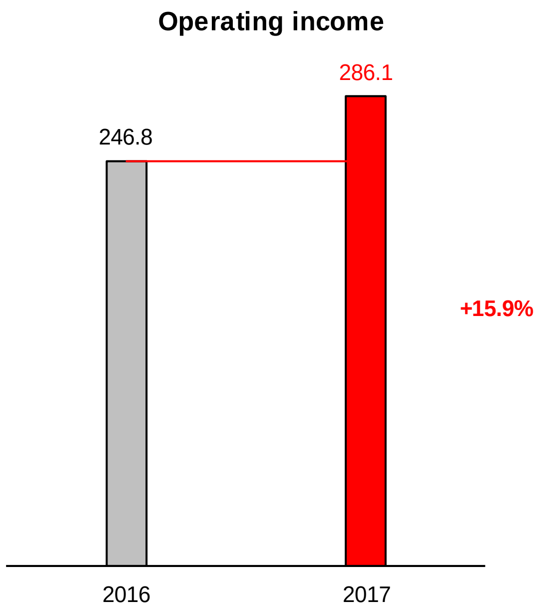
Again with reference to the Parent Company Santander Consumer Bank, mention was made in the 2013 financial statements of the conflict of powers between states and regions that had emerged as regards the annual ownership tax on leased vehicles. Indeed, starting from 15 August 2009, as a result of the changes introduced by Law 99/2009, only the user and not also the leasing company, would be required to pay the tax.
In 2017, recourse was made to the so-called "settlement of tax files" in order to close out the files notified by the Region of Lazio in relation to vehicle tax concerning the years 2010, 2011 and 2012. On 20 April 2017, all the forms were filled out in order to proceed with the request for "facilitated settlement" of 337 files and on 31 July 2017 the company paid an amount equal to Euro 317 thousand - covered, in the amount of Euro 266 thousand, by provisions for risks entered under liabilities - thereby obtaining a reduction of penalties and interest amounting to Euro 245 thousand.

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	2017	% TAA	2016	% TAA	Change Amounts	%
Net investment margin	**217.5**	**3.5**	**212.9**	**3.5**	**4.6**	**2.2**
Net fee and commission	31.2	0.5	32.1	0.5	-0.9	(2.8)
Commercial margin	**248.6**	**3.9**	**244.9**	**4.0**	**3.7**	**1.5**
Net income (loss) financial assets and liabilities held for trading and FV adjustment in hedge accounting	0	0.0	1.6	0.0	-1.6	(100.0)
Gains and losses on disposal of financial assets and liabilities	31.3	0.5	0.3	0.0	31.0	10,333.3
Operating income	**286.1**	**4.5**	**246.8**	**4.1**	**39.3**	**15.9**
other operating income (charges)	8.9	0.1	14.9	0.2	-6.0	(40.3)
Administrative costs:	-110.0	(1.7)	-110.3	(1.8)	0.3	(0.3)
payroll costs	-42.6	(0.7)	-41.2	(0.7)	-1.4	3.4
other administrative costs	-67.4	(1.1)	-69.2	(1.1)	1.8	(2.6)
Depreciation	-4.3	(0.1)	-4.2	(0.1)	-0.1	2.4
Net operating margin	**180.7**	**2.9**	**147.2**	**2.4**	**33.5**	**22.8**
Impairment losses on financial assets	-49.0	(0.8)	-41.0	(0.7)	-8.0	19.5
Other provisions	-14.9	(0.2)	-11.4	(0.2)	-3.5	30.7
Total profit or loss before tax	**116.8**	**1.9**	**94.8**	**1.6**	**22.0**	**23.2**
Tax	-36.5	(0.6)	-28.3	(0.5)	-8.2	29.0
Net profit or loss	**80.2**	**1.3**	**66.5**	**1.1**	**13.7**	**20.6**



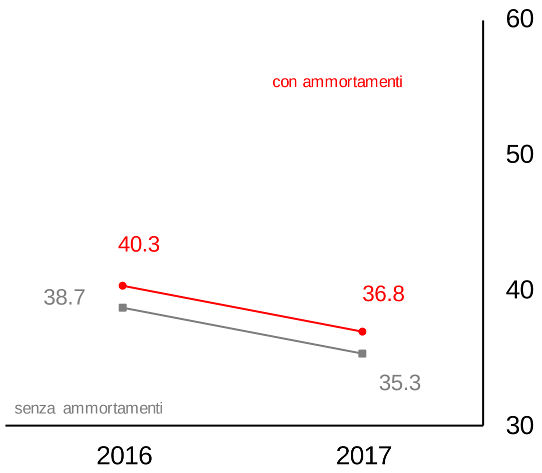


In the year in question there was an increase in the net investment margin compared to the previous year, from Euro 212.9 million in 2016 to Euro 217.5 million in 2017. There was a slight reduction in interest income (-3.0%) mainly attributable to the change in the portfolio mix, as well as a marked reduction in interest expense (-20.5%), driven by a fall in market interest rates and spreads.
Net fee and commission income reduced compared to the comparative prior period, from Euro 32.1 million to Euro 31.2 million, recording a decrease of 2.8%.
Operating income increased significantly (+15.9%) from Euro 246.8 million in 2016 to Euro 286.1 million in 2017. In addition to the above-mentioned effects, it is noted that the results for the year were positively influenced by the dividends received from Banca PSA Italia S.p.A. (Euro 6.1 million) and by the positive balance of the receivables sold without recourse during the first half of the year (Euro 31.3 million).

Impairment losses on financial assets increased significantly (+19.6%) as a result of the change in the mix of the managed portfolio.
Administrative costs remained largely in line with the previous year.

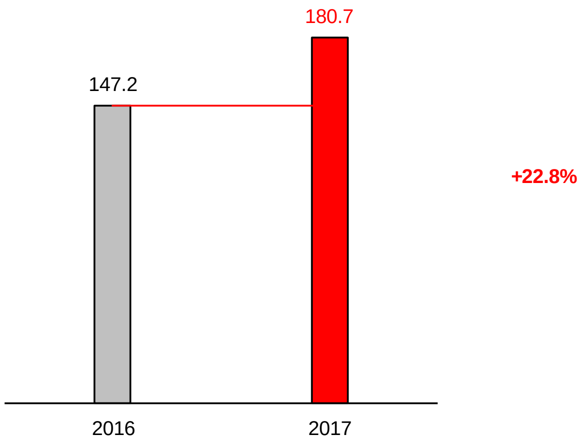
“Other provisions” increased, mainly due to higher provisions for litigation.
2017 closed with a net profit of Euro 80.2 million, an increase of 20.7% compared to 2016.

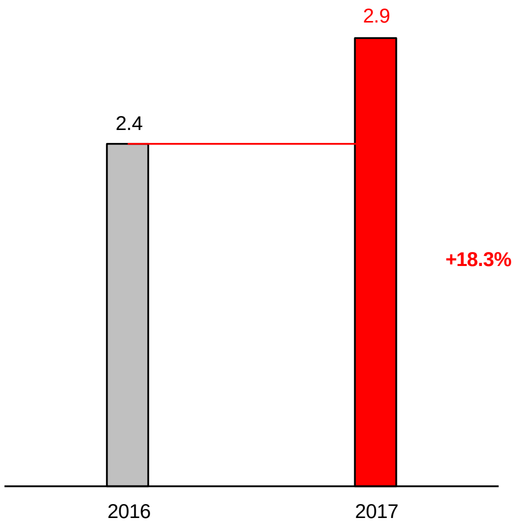
Efficiency Ratio



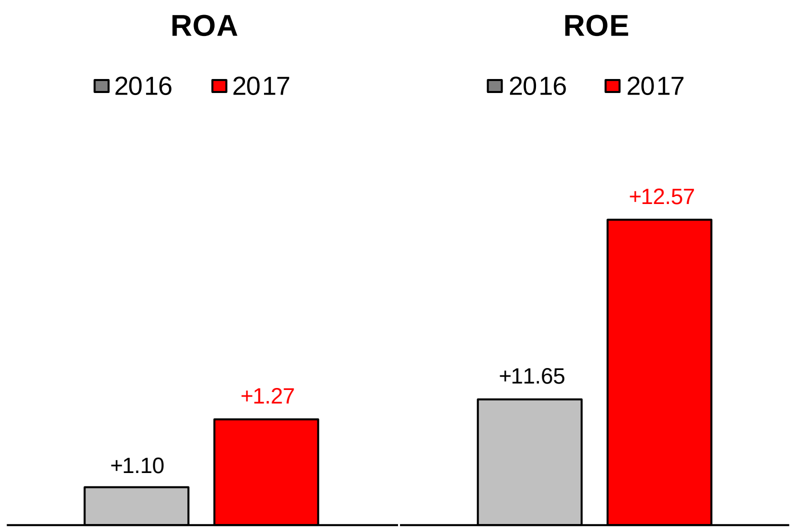
The efficiency ratio, which is the ratio of the sum of administrative costs and other net operating income (with and without depreciation and amortisation) and operating income, improved compared with the previous year from 40.3% (38.7% without depreciation and amortisation) to 36.8% (35.3% without depreciation and amortisation).

Net operating margin

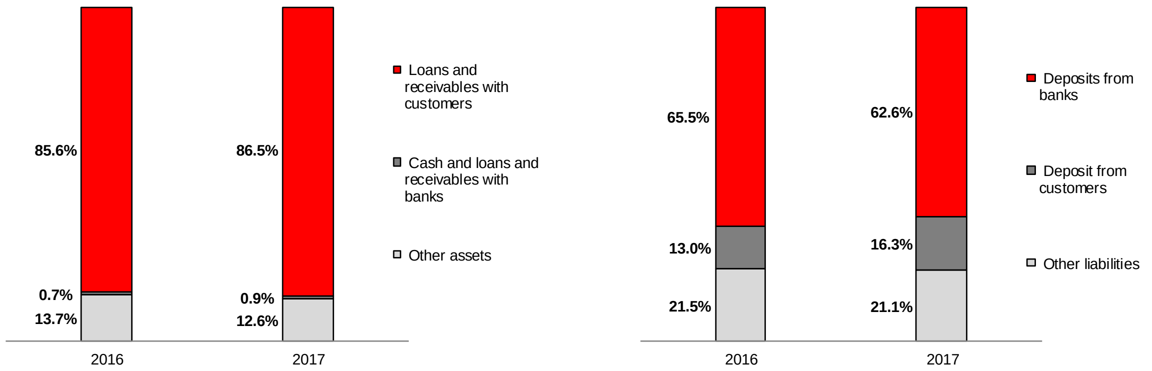




Net operating margin, calculated as the sum of operating income, other income and expenses, administrative costs and depreciation and amortisation, grew by 22.8%. It increased by around 18.3% compared to the previous year as a proportion of average total assets.



As a result of these trends, ROA (Return On Assets) shows an increase to 1.27% and ROE (Return On Equity) came to 12.57%.



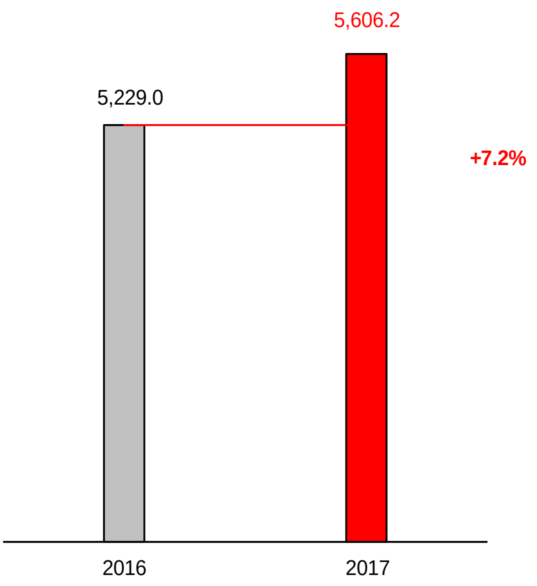
As regards the asset mix, customer loans increased, mainly due to the increase of the portfolio, partially offset by the reduction of tax assets, while loans to credit institutions increased in absolute terms while the percentage of assets remained more or less stable.

Regarding the structure of sources of funds, on the other hand, there was an increase in amounts due to customers, consisting mainly of demand and time deposit accounts, a decrease in the amounts owed to credit institutions as a result of lower borrowings, and a slight reduction in other liabilities.

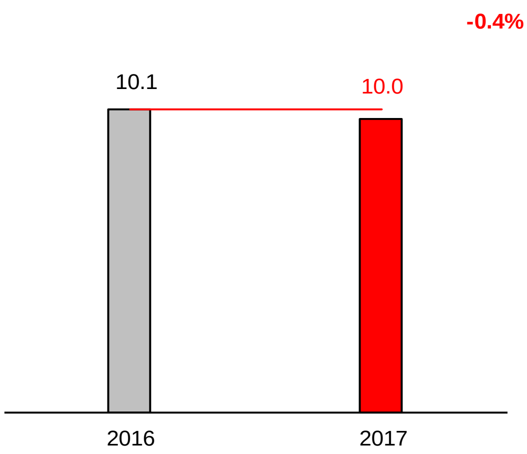
Amounts in millions of Euro			**Change**	
	2017	**2016**	**Amounts**	**(%)**
Car loan	2,228	2,036	192	9.0
Special-purpose loan	217	34	183	538.0
Personnel loan	777	1,027	(250)	(24.0)
Cards	8	9	(1)	(11.0)
Leasing	57	50	7	14.0
Salary assignment	1.63	1,685	(55)	3.0
Stock financing	454	309	145	47.0
Other loans to customers	387	360	27	8.0
Other components of amortised cost	83	68	15	22.0
Gross loans to customers	**5,841**	**5,578**	**263**	**5.0**
Provision for loan losses	-235	-349	114	(33.0)
Net loans to customers	**5,606**	**5,229**	**377**	**7.0**

As regards the change in loans to customers, the total increased compared to the previous year (+7.2%). Analysing the details by product, there was an increase in both retail car loans (+9.4%) and wholesale car loans (stock financing +46.9%), while special-purpose loans saw a significant increase as a result of the widening of the new agent network through acquisition of a business unit from a third-party banking group which took place at the end of last year. Salary assignment (-3.3%), personal loans (-24.3%) and credit cards (-11.1%) are down.
The increase in “Other loans to customers” (+7.5%) is due to the increase 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



Loans per employee



Report of the Board of Statutory Auditors on the Financial Statements at 31 December 2017

Report of the Board of Statutory Auditors on the Financial Statements at 31 December 2017

SANTANDER CONSUMER BANK SPA
Head office in Turin, Corso Massimo D'Azeglio no. 33/E
Share capital Euro 573,000,000
Turin Companies' Register no. 05634190010
Parent Company of Santander Consumer Bank Spa Banking Group

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING PURSUANT TO ART. 2429 OF THE ITALIAN CIVIL CODE

Dear Shareholders,

This report refers to the supervision and control activities performed by the Board of Statutory Auditors in the course of financial year 2017, in fulfilment of the mandate received and in accordance with articles 2403 and 2403-*bis* of the Italian Civil Code, and the primary and secondary regulations in force.

In the course of financial year 2017, the Board of Statutory Auditors carried out its institutional tasks in accordance with the Italian Civil Code, Legislative Decree 385/1993 (Consolidated Banking Act) and subsequent amendments and/or additions thereto, statutory provisions and those issued by the Authorities that perform supervision and control activities, also taking into consideration the rules of conduct recommended by the National Council of Chartered Accountants.

In particular, we note that the Board of Statutory Auditors:

- monitored compliance with the Law and with the company's articles of association and compliance with the principles of sound administration;
- participated in the Shareholders' Meetings and the meetings of the Board of Directors held during the financial year, continuously monitoring the development of company decisions and the Bank's performance in its various operational aspects; the meetings were held in compliance with the statutory, legislative and regulatory provisions that govern their functioning;
- obtained information from the Chief Executive Officer, during the meetings held, on the general business performance and on the outlook for operations,

as well as on transactions of greater importance, in terms of size or characteristics, carried out by the company and, on the basis of the acquired information, we do not have specific comments to report.

- carried out checks on the matters subject to supervision and control, drawing on the findings of the second and third-level corporate control functions;
- monitored the activities performed by the Bank in compliance with requirements in relation to anti-money laundering and countering terrorist financing;
- held periodic meetings with "PricewaterhouseCoopers S.p.A.", the company responsible for the statutory audit, aimed at exchanging information relating to the monitoring and control activities within their respective areas of competence;
- acquired knowledge and monitored, to the extent of its responsibility, the adequacy of the organisational structure of the Bank, including through the collection of data and information from the heads of the Corporate functions;
- monitored the adequacy of the administrative structure of the Bank and compliance with the principles of proper administration;
- monitored the adequacy of the "Internal Control System";
- monitored the adequacy of the "Corporate Governance" rules established by Law, by the Articles of Association and by the secondary legislation on the matter;
- monitored the independence of the statutory auditor; in particular, the report on independence issued by the latter within the meaning of Article 17 of Legislative Decree 39/2010 does not reveal any situations that have compromised independence or any causes of incompatibility;
- monitored the adequacy, and the compliance with the regulatory framework, of the remuneration policies and practices adopted by the Bank.

The Board of Statutory Auditors also acknowledged that:

- in the course of financial year 2017, no complaints were received pursuant to Article 2408 of the Italian Civil Code or claims of other kinds such as to warrant mention in this Report;
- no evidence was found of any atypical and/or unusual transactions carried out with third parties and/or related parties; transactions with related parties are illustrated in part H of the Notes to the Financial Statements;
- relations and transactions with corporate officers were performed in respect of Article 2391 of the Italian Civil Code, Article 136 of the Consolidated Law on Banking, and the Provisions on risk activities and conflicts of interest in respect of related parties.

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 confirm again that the Financial Statements at 31 December 2017 have been prepared, in application of Legislative Decree No. 38 of 28 February 2005, in accordance with the IAS/IFRS adopted by the European Union and presented in the technical form prescribed by Circular 262/05 "*Guidelines for the preparation of the financial statements and the consolidated financial statements of banks and financial companies holding banking groups*" issued by the Bank of Italy, in the exercise of the powers established by art. 9 of Legislative Decree No. 38/2005. In preparing the Financial Statements the IAS/IFRS in force at 31 December 2017 have been applied (including the SIC and IFRIC interpretations), as endorsed by the European Commission.

The Board of Statutory Auditors also acknowledges that the company has drawn up a "*Consolidated Non-Financial Statement*" pursuant to Article 4 of

Legislative Decree No. 254 of 30 December 2016 on the matter of "*disclosure of non-financial information and information on diversity by certain companies and certain large groups*". This has been verified by the party responsible for carrying out the statutory audit of the financial statements of the Bank, which has also attested to, by means of a separate report pursuant to Article 14 of Legislative Decree No. 39 of 27 January 2010, the conformity of the information provided in relation to the requirements of Legislative Decree 254/16.

In view of the foregoing and taking into consideration the contents of the reports drawn up by the independent statutory auditor, the Board of Statutory Auditors, in as far as it falls under its responsibility, does not see any impediments to the approval of the separate financial statements at 31 December 2017 drawn up by the Board of Directors.

Turin, 6 March 2018

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 7 March 2018 at 9.30 in Turin, Corso Massimo D'Azeglio no. 33/E, and, if necessary, on second call for 8 March 2018, at the same place and time, to discuss and vote on the following agenda:

1. The Report on Operations, Non-Financial Reports and the Financial Statements at 31 December 2017. Statutory Auditors' Report and Independent Auditors' Report. Related resolutions;
2. Appointment of Board of Directors for the period 2018-2020, with prior determination of the number of members to be appointed, and determination of their fees; related resolutions;
3. Appointment of the Board of Statutory Auditors and its Chairman for the period 2018-2020 and determination of their fees; related resolutions;

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 80,222,830.
We propose that profit be allocated as follows:

	Euro
Net profit for the period	80,222,830
Legal reserve	4,011,142
Previous losses coverage	590,476
Extraordinary reserve	75,621,213
Dividends	-

Santander
CONSUMER BANK

Independent Auditors' Report on the Financial Statements at December 2017

Independent Auditors’ Report on the Financial Statements at December 2017

Santander Consumer Bank SpA

Independent auditor’s report
in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

Financial Statements as of 31 December 2017

Independent auditors' report

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

To the shareholders of Santander Consumer Bank SpA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Santander Consumer Bank SpA (the Company), which comprise the balance sheet as of 31 December 2017, the profit and loss accounts, comprehensive profit and loss account, statement of changes to net equity, cash flows statement for the year then ended and notes to the accounts, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2017, 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. 38/05 and article 43 of Legislative Decree No. 136/15.

Basis for opinion

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

Key audit matters

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

PricewaterhouseCoopers SpA

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

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Key audit matters	*Auditing procedures performed in response to key audit matters*
Valuation of loans to customers *Notes to the accounts:* *Part B – Information on the balance sheet, Assets, section 7;* *Part C – Information on the profit and loss account, section 8;* *Part E – Information on risks and related hedging policies* Loans to customers as of 31 December 2017 were equal to Euro 5.6 billion, corresponding to 86% of total assets. We paid special attention to those items during our audit because the accounting processes and policies adopted by the Bank are characterised by high subjectivity and the use of estimations for a number of variables such as, mainly, existence of indicators of impairment, calculation of the expected future cash flows and related timing of recovery, realisation value of guarantees, type of customers, as well as by the use of internal and external inputs observable at the measurement date.	As part of the audit, to address this key audit matter we performed the following main activities: • analysis of the adequacy of the IT environment and tests of the operating effectiveness of relevant controls in place on the IT systems and application software used; • analysis of business procedures and processes and testing of the operating effectiveness of relevant controls in place for the purpose of the valuation of loans to customers; • comparative analysis procedures with reference to the most significant variances from the prior year's figures and discussion of findings with the corporate functions involved; • analysis of the valuation models, both in aggregate and individually, and sample testing of the reasonableness of the variables estimated in those models, with the support of experts from the PwC network; • On a sample basis, testing of the valuation and classification in the financial statements in accordance with the categories established by the applicable framework on financial and regulatory reporting.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Company's ability to continue as a going concern and, when preparing the financial statements, for the appropriateness of the application of the going concern assumption, and for appropriate disclosure thereof. In preparing the financial statements, management uses the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The statutory audit committee (“collegio sindacale”) is responsible for overseeing, in the terms prescribed by law, the Company’s financial reporting process

Auditors’ responsibilities for the audit of the financial statements

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

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

- We identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures in response to those risks; we obtained sufficient and appropriate audit evidence on which to base our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
- We obtained an understanding of the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of the management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention, in our auditor’s report, to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in such a manner as to give a true and fair view.

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

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

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

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

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

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

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the statutory audit committee ("collegio sindacale"), in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with Other Laws and Regulations

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

Management of Santander Consumer Bank SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of Santander Consumer Bank SpA as of 31 December 2017, including their consistency with the relevant financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the financial statements of Santander Consumer Bank SpA as of 31 December 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of Santander Consumer Bank SpA as of 31 December 2017 and are prepared in compliance with the law.

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

Milan, 6 March 2018

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

	12/31/2017	12/31/2016	Changes	
			absolute	%
10. Cash and cash equivalents	2,414	3,695	(1,281)	-34.7%
20. Held for trading financial assets	1,032,653	2,991,723	(1,959,070)	-65.5%
40. Available-for-sale financial assets	406,363,510	410,229,107	(3,865,597)	-1.0 %
60. Due from banks	59,768,720	43,466,903	16,301,818	37.5%
70. Loans to customers	5,606,179,267	5,229,049,666	377,129,602	7.2%
80. Hedging derivatives	644,075		644,075	100.0%
90. Changes in fair value of portfolio hedged items (+/-)	713,828	9,740,921	(9,027,093)	-92.7%
100. Equity investments	127,489,712	100,989,712	26,500,000	26.2%
110. Property, plant and equipment	1,524,036	1,374,071	149,965	10.9%
120. Intangible assets	10,263,931	8,177,878	2,086,053	25.5%
130. Tax assets	222,923,721	238,000,756	(15,077,035)	-6.3%
a) current tax assets	23,207,536	27,784,555	(4,577,019)	-16.5%
b) deferred tax assets	199,716,185	210,216,201	(10,500,016)	-5.0%
of which Law 214/2011	182,361,462	198,744,352	(16,382,890)	-8.2%
140. Non-current assets and disposal groups classified as held for sale	3,000	4,600	(1,600)	-34.8%
160. Other assets	47,168,803	65,324,147	(18,155,345)	-27.8%
Total Assets	**6,484,077,669**	**6,109,353,178**	**374,724,491**	**6.1%**

	12/31/2017	12/31/2016	Changes	
			absolute	absolute
10. Due to banks	4,059,020,064	4,002,447,680	56,572,383	1.4%
20. Due to customers	1,056,883,167	793,422,712	263,460,454	33.2%
30. Debt securities in issue	264,065,259	313,036,718	(48,971,459)	-15.6%
60. Hedging derivatives	2,823,535	11,585,293	(8,761,758)	-75.6%
80. Tax liabilities	30,033,846	25,348,300	4,685,546	18.5%
a) current tax liabilities	29,993,307	25,325,950	4,667,358	18.4%
b) deferred tax liabilities	40,539	22,351	18,188	81.4%
100.Other liabilities	298,838,610	254,534,810	44,303,800	17.4%
110. Provision for employee severance pay	3,198,707	3,307,634	(108,927)	-3.3%
120. Provisions for risks and charges	25,805,029	25,919,696	(114,667)	-0.4%
b) Other reserves	25,805,029	25,919,696	(114,667)	-0.4%
130. Revaluation reserves	(552,705)	(588,994)	36,289	-6.2%
160. Reserves	90,106,741	40,222,665	49,884,076	124.0%
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 (+/-)	80,222,830	66,484,076	13,738,754	20.7%
Total liabilities and Shareholders' Equity	**6,484,077,669**	**6,109,353,178**	**374,724,491**	**6.1%**

Income Statement

In euros

	12/31/2017	12/31/2016	Changes	
			absolute	absolute
10. Interest and similar	267,047,239	275,251,928	(8,204,689)	-3.0%
20. Interest expense and similar charges	(49,588,975)	(62,386,687)	12,797,712	-20.5%
30. Net interest income	**217,458,264**	**212,865,241**	**4,593,023**	**2.2%**
40. Commissions	72,310,767	82,327,744	(10,016,977)	-12.2%
50. Commissions	(41,159,847)	(50,271,579)	9,111,732	-18.1%
60. Net commission	**31,150,919**	**32,056,165**	**(905,246)**	**-2.8%**
70. Dividends and	6,100,000		6,100,000	
80. Net trading income	37,600	1,603,927	(1,566,328)	-97.7%
90. Net hedging gains				0.0%
100. Gains (losses) on disposal or repurchase of:	31,339,096	256,213	31,082,883	12131.7%
a) loans	31,340,822	(4,992)	31,345,813	-627980.1%
b) available-for-sale financial assets	(1,726)	261,204	(262,930)	-101.0 %
120. Net banking	**286,085,879**	**246,781,546**	**39,304,332**	**16.0 %**
130. Net losses /	(48,977,196)	(40,967,023)	(8,010,173)	19.6%
a) loans	(48,245,256)	(40,721,558)	(7,523,698)	18.5%
b) available-for-sale financial assets	(731,940)	(245,465)	(486,475)	198.0 %
140. Net income from	**237,108,683**	**205,814,523**	**31,294,160**	**15.2%**
150. Administrative	(109,983,882)	(110,334,797)	350,915	-0.3%
a) payroll costs	(42,562,430)	(41,183,256)	(1,379,175)	3.3%
b) other administrative	(67,421,452)	(69,151,541)	1,730,090	-2.5%
160. Net provisions for risks and charges	(14,929,045)	(11,436,012)	(3,493,033)	30.5%
170. Net adjustments / write-backs on tangible assets	(607,087)	(652,433)	45,346	-7.0%
180. Net adjustments / write-backs on intangible assets	(3,695,449)	(3,520,559)	(174,891)	5.0%
190. Other operating expenses / income	8,868,095	14,937,936	(6,069,841)	-40.6%
200. Operating costs	**(120,347,369)**	**(111,005,865)**	**(9,341,503)**	**8.4%**
250. Profit (loss) from continuing operations before tax	**116,761,314**	**94,808,658**	**21,952,657**	**23.2%**
260. Income taxes on	(36,538,485)	(28,324,582)	(8,213,903)	29.0%
270. Profit (loss) from continuing operations after tax	**80,222,830**	**66,484,076**	**13,738,754**	**20.7%**
290. Net profit (loss) for the year	**80,222,830**	**66,484,076**	**13,738,754**	**20.7%**

Statement of comprehensive income

In euros

		12/31/2017	12/31/2016
10.	**Net Profit (Loss) for the year**	**80,222,830**	**66,484,076**
40.	Defined benefit plans	(522)	79,099
90.	Cash flow hedges		1,079,002
100.	Available-for-sale financial assets	36,810	(138,786)
130.	**Total of other comprehensive income after tax**	**36,289**	**1,019,315**
140.	**Comprehensive income (Item**	**80,259,118**	**67,503,391**

Statement of changes in shareholders’ equity

Financial year 2017

In euros

	Group shareholders' equity at 31.12.2016	Changes in opening balances	Balance at 1.1.2016	Allocation of prior year results		Changes during the year								Shareholders' equity at 31.12.2017
							Transactions on shareholders' equity							
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income for 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:	**40,222,665**		**40,222,665**	**49,884,076**										**90,106,741**
a) retained earnings	309,979		309,979	49,884,076										**50,194,055**
b) other	39,912,687		39,912,687											**39,912,687**
Valuation reserves	**(588,993)**		**(588,993)**										**36,288**	**(552,705)**
Equity instruments														
Treasury shares														
Net profit (loss) for the period	**66,484,076**		**66,484,076**	**(49,884,076)**	**(16,600,000)**								**80,222,830**	**80,222,830**
Shareholders’ equity	**679,750,335**		**679,750,335**		**(16,600,000)**								**80,259,118**	**743,409,452**

Financial year 2016

In euros

	Balance at 31.12.2015	Changes in opening balances	Balance at 1.1.2015	Allocation of prior year results		Changes during the year								Shareholders' equity at 31.12.2016
							Transactions on shareholders' equity							
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income for 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:	**(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**	**(589)**
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**		**(31.000.000)**	**80.000.000**							**67.503.391**	**679.750.335**

Cash flow statement (indirect method)

In euros

A. OPERATING ACTIVITIES	Amount 12/31/2017	Amount 12/31/2016
1. Cash generated from operations	**50,251,930**	**113,483,589**
- net profit for the year (+/-)	80,222,830	66,484,076
- net gains/losses on financial assets held for trading and		
- financial assets/liabilities designated at fair value through profit and loss (+/-)		
- gains (losses) from hedging activities (+/-)	1,909,587	1,581,266
- net adjustments for impairment (+/-)	(104,177,333)	41,020,236
- impairment/recoveries to property and equipment and intangible assets (+/-)	4,300,937	5,226,152
- net provisions for risks and charges and other costs/income (+/-)	19,387,396	7,669,828
- net premiums not collected (-)		
- other income insurance income/expense not collected (-/+)		
- unsettled taxes (+)	28,691,742	23,521,420
- impairment/recoveries to disposal groups net of tax effect (-/+)	1.6	
- other adjustments (+/-)	19,915,171	(32,019,389)
2. Cash generated/absorbed by financial assets	**(258,877,598)**	**(15,996,684)**
- financial assets held for trading		
- financial assets designated at fair value through profit and loss		
- financial assets available for sale	3,200,444	(3,217,769)
- due from banks: on demand	3,951,473	(9,384,421)
- due from banks: other receivables	8,400,000	17,350,000
- loans to customers	(265,854,923)	(36,096,289)
- other assets	(8,574,592)	15,351,795
3. Cash generated/absorbed by financial liabilities	**258,261,343**	**(51,123,018)**
- due to banks: on demand	1,259,976	(10,638,090)
- due to banks: other debts	62,820,740	(521,073,000)
- due to customers	221,085,134	414,691,636
- debt securities issued	(48,971,459)	12,992,140
- financial liabilities held for trading		
- financial liabilities designated at fair value through profit and loss		
- other liabilities	22,066,952	52,904,296
Net cash generated/absorbed by operating activities	**49,635,675**	**46,363,887**
B. INVESTING ACTIVITIES		
1. Cash generated by	295	71,398
- sale of equity investments		
- dividends collected on equity investments		
- sale of financial assets held to maturity		
- sale of property and equipment	295	71,398
- sale of intangible assets		
- sale of lines of business		
2. Cash absorbed by	**(33,037,250)**	**(95,435,518)**
- purchase of equity investments		
- purchase of financial assets held to maturity		
- purchase of property and equipment	(755,748)	(385,025)
- purchase of intangible assets	(5,781,503)	(3,610,782)
- purchase of lines of business	-26.5	(91,439,712)
Net cash generated/absorbed by investing activities	**-33,036,955**	**(95,364,120)**
C. FINANCING ACTIVITIES		
- issue/purchase of treasury shares		
- issue/purchase of equity instruments		80,000,000
- dividends distributed and other allocations	(16,600,000)	(31,000,000)
Net cash generated/absorbed by financing activities	**(16.600)**	**49.000**
NET CASH GENERATED/ABSORBED IN THE YEAR	**(1.281)**	**(233)**

Key:

(+) generated

(-) absorbed

RECONCILIATION

Items	Amount 12/31/2016	Amount 31/12/2015
Cash and cash equivalents at beginning of year	3,695	3,928
Net increase (decrease) in cash and cash equivalents	(1,281)	(233)
Cash and cash equivalents: effect of change in exchange rates		
Cash and cash equivalents at end of year	2,414	3,695

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 2017 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. 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 2017 have been applied (including the SIC and IFRIC interpretations), as endorsed by the European Commission.

Section 2 – Basis of preparation

The financial statements consist of the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders’ equity, cash flow statement and the notes to the financial statements and are also accompanied by the directors’ report on the operations, results and financial position of Santander Consumer Bank.
In accordance with the provisions of art. 5 of Legislative Decree 38/2005, the financial statements have been prepared using the euro as the functional currency.
The amounts in the financial statements are expressed in euros, whereas unless otherwise specified, those in the notes and the report on operations are expressed in thousands of euros.
The financial statements are prepared in accordance with the general principles laid down in IAS 1 and the specific accounting standards endorsed by the European Commission, as described in Part A.2 of these notes. In particular, these financial statements have been prepared on a going concern basis (IAS 1 para. 25 and para. 26), in accordance with the principle of accrual accounting (IAS 1 para. 27 and para. 28) and in compliance with the consistency of presentation and classification of items in the financial statements (IAS 1 para. 29). The assets and liabilities, income and expenses have not been offset unless required or permitted by a standard or interpretation (IAS 1 para. 32).
No exceptions have been made to the application of IAS/IFRS.
In addition to the figures for the reporting period, the financial statements and notes also provide comparatives at 31 December 2016.
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 financial statements

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

Statement of comprehensive income
The statement of changes in comprehensive income is presented in the manner prescribed by the Bank of Italy, based on the information required by IAS 1.
"Net profit (loss) for the year" is the same amount shown in the same item of the income statement.
The "other comprehensive income after tax" includes changes in the value of assets recorded during the year with contra-entry to the valuation reserves (net of tax).

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

Cash flow statement
The cash flow statement for the current and previous years has been prepared using the indirect method, whereby cash flows from operating activities are represented by the result for the year adjusted for non-monetary transactions.
Cash flows are broken down into those generated by operating activities, investing activities and financing activities.
In this statement, the cash flows generated during the year are shown without a sign, whereas those that are absorbed are preceded by a minus sign.

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

Section 3 - Subsequent events

Pursuant to IAS 10, these financial statements were authorised for publication by the Board of Directors on 7 February 2018.
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 2017.

Section 4 - Other aspects

Complete copies of the last financial statements with the reports on operations of the companies that at 31 December 2017 were subsidiaries or associates, and that their respective Boards of Directors will submit for approval of their shareholders' meeting by 30 April 2018, 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 2017 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.

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.
An analysis of the significant qualitative/quantitative impacts on the separate financial statements, as a result of the introduction of IFRS 9 in the next financial year, is provided in the following section.

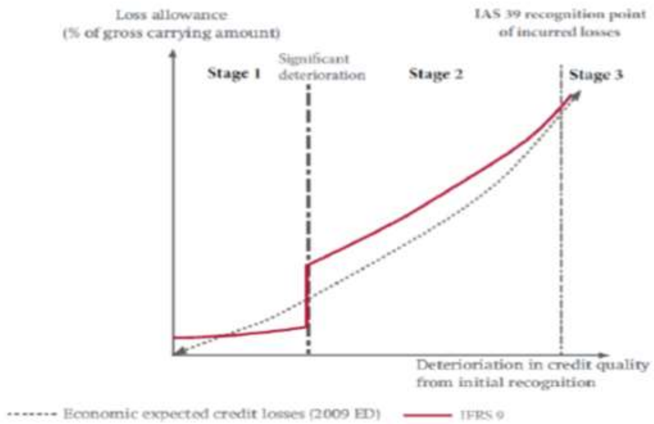
From IAS 39 to IFRS 9 - Basic Principles
As a result of the weaknesses shown by IAS 39 during the years of the financial crisis, the IASB began a cycle of reforms in 2002 which ended with the adoption of IFRS 9. The standard essentially focuses on forward-looking provisions so as to achieve both greater consistency in terms of the measurement of financial assets in the balance sheet, and an extension of the period of creation of provisions in such a way as to act promptly to correct the value of loans and to prevent the erosion of capital by correcting the risk structure.
The new accounting standard envisages the use of a new model for the classification of financial instruments and new rules for the calculation of impairment.
Financial assets can therefore be classified into three categories, two main and one residual:
- Assets measured at amortised cost (HTC)
- Assets measured at fair value through other comprehensive income (FVTOCI)
- Assets measured at fair value through profit and loss (FVTPL)

Classification is performed by assessing the Bank's business model and the characteristics of the cash flows connected to it.

The first category will therefore include assets that possess the characteristics of a loan, with cash flows relating to the repayment of the nominal amount and of interest at fixed dates connected to a business model whose purpose is to hold the instrument for the entire duration of the loan in order to collect all the cash flows.
The second category includes the instruments whose contractual flows are characterised exclusively by the payment of capital and interest. The business model that guides the holding of these instruments is referred to as “Hold to Collect and Sell”, the objective being both to collect the contractual flows and to sell the asset.
The final category includes assets that cannot be classified in the first two. All assets, therefore, with a business model other than those above, in which the cash flows are secondary while the sale of the asset is the priority.
The Bank, taking account of the products marketed and of its business model, places its current portfolio in the first category.
The new impairment model also requires the classification of loans into three different stages depending on the deterioration in the credit quality observed with respect to the initial recognition and which correspond to the different methods of calculation of the expected loss and interest:

- Stage 1: classified in this stage are loans defined as performing, i.e. loans that have not deteriorated since initial recognition. In this case, the expected loss for the calculation of corrections is measured over a 12-month time period (12-month PD), while interest is calculated on the gross exposure;
- Stage 2: comprises loans that have undergone a significant qualitative worsening compared to initial recognition (more than 30 days past due). For these loans, expected loss is calculated over the lifetime of the loan (lifetime PD), and interest is calculated on the basis of the gross exposure;
- Stage 3: includes impaired assets, i.e. that have objective evidence of deterioration (over 90 days past due). Included in this category are past due non-performing, unlikely to pay and doubtful. In this case a lifetime PD is calculated, while interest is calculated on the basis of the receivable net of impairment.

A comparison of the IAS and IFRS 9 impairment model shows differences in the provision trend. IAS recognises a loss in the financial statements when an event occurs which according to the new standard is identifiable in stage 3. As regards IAS, the Expected Loss model applied shows loan loss provisions as initially almost zero but that constantly increase along the entire life of the credit. With IFRS 9 on the other hand, provisions are made from initial recognition of the loan in the financial statements and the trend observed is not constant but rather in steps, depending on the impairment of the credit risk of the exposure. A comparison of the two approaches therefore shows that the IFRS 9 methodology initially overestimates provisions with respect to IAS, and being held in stage 1 tends to underestimate them. This effect is overcome with the increase of the level risk with transfer to stages 2 and 3 where prudentially the IFRS 9 provision is greater than the IAS provision with progressive impairment of the loan until it converges with transfer to stage 3.



IFRS 9 also makes changes to hedge accounting, providing for greater alignment between hedging relationships and the underlying risk management strategies. The standard provides for use of the option to continue to apply the rules provided by IAS 39. It is noted that the Bank makes use of said option.

IFRS 9 implementation
The process to implement IFRS 9 was carried out under the supervision and direction of the Spanish parent company and saw the participation of all the business areas involved in the development and application of the new accounting standard. The project began in September 2016 and was carried out over the course of 2017. The Risk Control Unit was put in charge of managing the implementation of the project locally. It regularly provided, both at corporate level and local level to the relevant Committees and the Board of Directors, extensive information about the state of development of the project and the findings of the processing during the Parallel Run stage.

Below is a comparison of the estimates of losses expected with the adoption of IAS 39 and IFRS 9.

SCB	LLR	
	IAS 39	IFRS9
Consumer and leasing	198.58	211.35
off wich Write off	*73.57*	*73.57*
Salary assignment	32.35	29.56
off wich Write off	*22.30*	*22.30*
Credit card	0.88	0.82
off wich Write off	*0.47*	*2.27*
Stock finance and revolving	3.11	2.27
Total	234.92	244.01
	Gap	9.1

The changes in value of the financial instruments impacted by the application of IFRS 9 shall be accounted for through equity as at 1 January 2018.
With reference instead to measurement criteria, no significant reclassifications of the credit portfolio that will impact on profitability are envisaged; reclassifications are however expected for the portfolio of securities currently held by the Bank which will be recognised at amortised cost, without however having a significant impact on profitability.

Application method
The application method was taken directly from the parent company and implemented locally drawing on the advice of a leading consulting company in the sector.
The main development milestones were fixed to correspond with the following objectives:

- Definition of Governance and of the Target Operative Model;
- Segmentation of the portfolio;
- Definition of the parameters and models;
- Implementation of the impairment calculation tool;
- Test, Parallel Run & Validation stages.

The main development milestones managed by the subsidiary were the following:

- Setting of the project
- Segmentation of the portfolio
- Modelling and determination of parameters
- Setting up of the impairment calculation tool in accordance with new rules
- Test and Parallel Run stages
- Independent Auditor validation
- Go live.

IFRS 9 process – Activities and roles

Recognition and measurement

Adoption of IFRS 9 required the identification of various business models. In particular, the portfolios of securities and loans were analysed in order to assess their characteristics and classify them correctly.

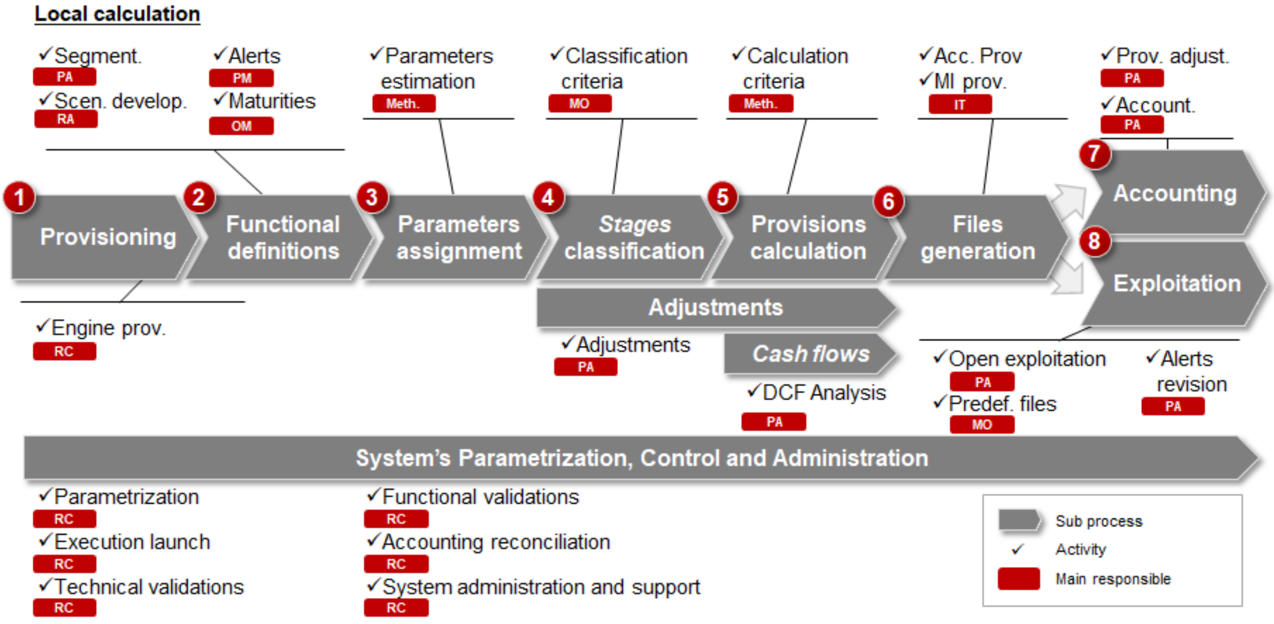
This analysis was performed by clustering the portfolios on the basis of the conditions characterising them and then retracing individual transactions to them, in order to verify conformity in relation to the requirements of the accounting standard and to assess whether they pass the SPPI test.

The management and control process and the appropriate implementations within the system for verifying the SPPI test were designed to ensure the efficient and effective correct application of the requirements laid down by the accounting standard.

Impairment
Adoption of the IFRS 9 model required the development of new activities and the modification of certain existing operating processes. The functions and roles identified within the process were the following:

- Meth.: Methodology
- PM: Portfolio Managers / Credit Risk
- MO: Model Owner (IFRS 9 provisions)
- RA: Research area
- PA: Planning & Administration
- RC: Risk Controls
- IT: Information Technology.

The following activities are identified in the local process of provisions calculation



Taking into account the key elements of the IFRS 9 process, the steps to be managed are the following:

1. Extraction of information;
2. Configuration and assignment of parameters;
3. Classification of the portfolio into stages;
4. Calculation and accounting treatment of funds.

<u>Extraction of Information</u>

The process implemented provides for monthly extraction from the datawarehouse environment, according to a defined plan, of the data necessary to supply the calculation tool.

<u>Configuration and Assignment of Parameters</u>

The process is managed on a quarterly basis, according to the technical indications received, attributing the parameters approved in the Executive Risk Committee (ERC) responsible for the allocation of the thresholds and calculation parameters necessary for each portfolio. The Executive Risk Control Committee (ERCC) is instead responsible for monitoring activities.

<u>Classification into Stages</u>

The process is managed on a monthly basis and begins at the end of the month upon receipt of the portfolio to be classified according to the rules of the three stages.

<u>Calculation and accounting treatment of funds</u>

Calculation is performed for all positions in accordance with the rules and specifications provided by the parent company and at the end of processing the output is used for final accounting.

A.2 – Main items in the financial statements

This section explains the accounting policies used to prepare the 2017 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, financial assets held for trading are measured at fair value. The effects of the application of this criterion are recognised in the income statement. For the determination of fair value, estimates and valuation models are used based on prices quoted on an active market.

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

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, “Available-for-sale financial assets” 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.
“Available-for-sale financial assets” 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 "Available-for-sale financial assets". 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 to such adjustments. The write-back 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.

There are no CFH derivatives as at 30 June 2017.

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 amount of an asset and its recoverable amount.

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

8. Non-current assets held for sale and discontinued operations and liabilities associated with groups of assets held for sale

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

Classification and recognition of components affecting the income statement
Assets that meet the criteria to be classified as non-current assets held for sale are shown separately in the balance sheet.

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

Method of determining the impairment of other non-financial assets

Tangible and intangible assets with a defined useful life are subject to impairment testing if there is an indication that the carrying amount of the asset may no longer be recovered in full. The recoverable amount is determined with reference to the fair value of the tangible or intangible asset net of disposal costs or the value in use if determinable and if it is higher than the fair value.
For other tangible and intangible fixed assets (other than goodwill) it is assumed that the carrying amount usually corresponds to the value in use, as it is determined by an amortisation process estimated on the basis of the actual contribution of the asset to the production process resulting in the determination of a fair value being extremely uncertain. The two values differ, giving rise to impairment, in the event of damages, exit from the production process or other similar non-recurring circumstances.
Receivables classified to Other Assets are subject to impairment losses on the basis of the recoverability of the loan itself.

Intercompany transactions

Banking and commercial transactions with the shareholder, with the subsidiaries 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 item 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 item 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 amount, 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

	12/31/2017			12/31/2016		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading		1,033			2,992	
2. Financial assets at fair value through P&L						
3. Available for sale financial assets	406,364			410,229		
4. Hedging derivative assets		644				
5. Property, plant and equipment						
6. Intangible assets						
Total	**406,364**	**1,677**		**410,229**	**2,992**	
1. Financial liabilities held for trading						
2. Financial liabilities at fair value through P&L						
3. Hedging derivative liabilities		2,824			11,585	
Total		**2,824**			**11,585**	

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

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

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

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

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

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

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

	12/31/2017				12/31/2016			
	BV	**L1**	**L2**	**L3**	**BV**	**L1**	**L2**	**L3**
1. Held to maturity financial assets								
2. Due from banks	59,769			59,769	43,467			43,467
3. Loans to customers	5,606,179			5,488,048	5,229,050			5,137,085
4. Investment property								
5. Non-current assets held for sale and discontinued operations	3		3		5		5	
Total	**5,665,951**		**3**	**5,547,817**	**5,272,521**		**5**	**5,180,552**
1. Due to banks	4,059,020			4,062,109	4,002,448			4,011,390
2. Due to customers	1,056,883			1,048,558	793,423			789,917
3. Debt securities in issue	264,065			264,723	313,037			311,919
4. Liabilities associated with non-current assets held for sale								
Total	**5,379,968**			**5,375,390**	**5,108,907**			**5,113,226**

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 2 thousand (Euro 4 thousand at 31 December 2016) and includes the liquidity held at the head office and at branches throughout the country in the form of cash:

	12/31/2017	12/31/2016
a) Cash b) Demand deposits with Central banks	2	4
Total	**2**	**4**

Section 2 – Financial assets held for trading – item 20

2.1 Financial assets held for trading: breakdown by type

These amount to Euro 1,033 thousand (Euro 2,992 thousand at 31 December 2016) and include the fair value of derivatives entered into in connection with securitisations with the Santander Group.

Items/Values	12/31/2017			12/31/2016		
	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		1,033			2,992	
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)		**1,033**			**2,992**	
Total (A+B)		**1,033**			**2,992**	

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

Items/Values	12/31/2017	12/31/2016
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	1,033	2,992
b) Customers		
Total B	**1,033**	**2,992**
Total (A+B)	**1,033**	**2,992**

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 – Available-for-sale financial assets – item 40

4.1 Available-for-sale financial assets: breakdown by type

These amount to Euro 406,364 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	12/31/2017			12/31/2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	406,364			410,229		
1.1 Structured securities						
1.2 Other	406,364			410,229		
2. Equity instruments						
2.1 Designated at fair value						
2.2 Recognised at cost						
3. Units investment funds						
4. Loans						
Total	**406,364**			**410,229**		

4.2 Available-for-sale financial assets: breakdown by borrower/issuer

Items/Values	12/31/2017	12/31/2016
1. Debt securities	**406,364**	**410,229**
a) Governments and central banks	406,364	410,229
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 funds)		
4. Loans		
a) Governments and Central Banks		
b) Other public-sector entities		
c) Banks		
d) Other entities		
Total	**406,364**	**410,229**

4.3 Available-for-sale financial assets with specific hedges

No specific write-downs 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 59,769 thousand (Euro 43,467 thousand at 31 December 2016) and are made up as follows:

Type of transaction / Values	12/31/2017				12/31/2016			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Loans to Central Banks	**12,169**			**12,169**	**19,365**			**19,365**
1. Time deposits		X	X	X		X	X	X
2. Compulsory reserves	12,169	X	X	X	19,365	X	X	X
3. Repurchase agreements		X	X	X		X	X	X
4. Other		X	X	X		X	X	X
B. Loans to banks	**47,600**			**47,600**	**24,102**			**24,102**
1. Loans	47,600			47,600	24,102			24,102
1.1 Current accounts and	21,448	X	X	X	12,078	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	26,152	X	X	X	12,024	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	**59,769**			**59,769**	**43,467**			**43,467**

Key:
BV = book value
FV = Fair value
L1 = Level 1
L2 = Level 2
L3 = Level 3

Amounts due from central banks of Euro 12,169 thousand (Euro 19,365 thousand at 31 December 2016) 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 2,680 thousand (Euro 2,001 thousand at 31 December 2016) and to the temporary debit balances on current accounts to affiliates for Euro 18,768 thousand (Euro 10,077 thousand at 31 December 2016).
Other loans relate mainly to the capital granted in 2017 as a subordinated loan to the subsidiary Banca PSA Italia in the amount of Euro 22,500 thousand. The item also includes the amounts paid as a guarantee deposit to the other party, Banco Santander, in the amount of Euro 3,600 thousand (Euro 12,024 thousand at 31 December 2016), 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 5,606,179 thousand (Euro 5,229,050 thousand at 31 December 2016) and are made up as follows:

Type of transaction / Values	12/31/2017						12/31/2016					
	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	**5,552,851**		**53,328**			**5,488,048**	**5,171,561**		**57,488**			**5,137,085**
1. Current accounts	13,301		4	X	X	X	12,339		129	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	2,243,195		36,276	X	X	X	2,416,209		48,610	X	X	X
5. Financial leasing	53,020		2,053	X	X	X	45,799		2,472	X	X	X
6. Factoring	396,792		158	X	X	X	262,710			X	X	X
7. Other loans	2,846,543		14,838	X	X	X	2,434,505		6,278	X	X	X
Debts securities												
8. Structured				X	X	X				X	X	X
9. Other				X	X	X				X	X	X
Total	**5,552,851**		**53,328**			**5,488,048**	**5,171,561**		**57,488**			**5,137,085**

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

In particular, loans to customers include:

- Euro 13,305 thousand (of which, Euro 4 thousand non-performing loans) for current accounts balances to customers and postal current accounts;
- Euro 2,279,471 thousand (of which, Euro 36,276 thousand non-performing loans) for loans to customers arising from financing personal loan transactions, credit cards and loans guaranteed by salary assignment;
- Euro 55,073 thousand (of which, Euro 2,053 thousand non-performing loans) for loans to customers for finance leases, recorded at amortised cost;
- Euro 396,950 (of which Euro 158 thousand non-performing loans) for factoring receivables related to operations with automotive companies;
- Euro 2,861,381 thousand (of which, Euro 14,838 thousand non-performing loans) for loans to customers resulting from financing for car loans and other special-purpose loans. This item also includes the amount due from the SPE for the proceeds arising from the portfolio involved in the self-securitisation (Euro 379,991 thousand).

The total of assets assigned and not derecognised, which, net of impairment adjustments, amounts to Euro 2,713,323 thousand, of which Euro 19,857 thousand is non-performing, was allocated to the various forms of financing, as required by the instructions for preparation of the financial statements. This amount does not include the amount due from the SPE for the proceeds arising from the portfolio involved in the self-securitisation.

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	12/31/2017			12/31/2016		
	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	5,082					
b) Other public-sector entities	6,695			10,460		
c) Other entities						
- non-financial companies	744,052		3,100	571,139		3,300
- financial companies	390,532		22	355,238		9
- insurance companies	11			9		
- other	4,406,479		50,206	4,234,715		54,180
Total	**5,552,851**		**53,328**	**5,171,561**		**57,488**

7.3 Loans to customers with specific hedges

There are no loans to customers with specific hedges.

7.4 Finance leases

	Amounts at 12/31/2017	
INFORMATION BY LESSOR	**Minimum lease payments**	**Present value of minimum lease payments**
Finance lease instalments due		
Up to 12 months	18,974	18,468
1 to 5 years	41,896	36,634
Beyond 5 years		
Total	**60,870**	**55,102**
of which:		
Unguaranteed residual values accruing to the lessor		
Less: unearned finance income	5,768	X
Present value of minimum lease payments	**55,102**	**55,102**

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

	12/31/2017				12/31/2016			
	Level 1	Level 2	Level 3	12/31/2017	Level 1	Level 2	Level 3	12/31/2016
A) Financial derivatives								
1) Fair value		644		615,908				
2) Cash flows								
3) Net investments in foreign operations								
B) Credit derivatives								
1) Fair value								
2) Cash flows								
Total		**644**		**615,908**				

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

The amount shown in the above table refers to the positive fair value of interest rate swaps entered into by the bank 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 positive fair values at 31 December 2017 (in euros):

Notional (euro)	Start date	Settlement date	Counterparty	Fair value (euro)
125,360,500	04/26/2017	07/28/2025	Banco Santander	104,443
126,079,500	04/26/2017	08/26/2025	Banco Santander	175,661
126,073,000	04/26/2017	09/26/2025	Banco Santander	214,970
77,627,000	05/31/2017	06/30/2023	Banco Santander	41,860
78,619,000	05/31/2017	07/31/2023	Banco Santander	9,875
32,149,000	09/29/2017	12/31/2025	Banco Santander	30,842
50,000,000	06/30/2020	12/31/2027	Banco Santander	66,423
615,908,000				**644,075**

8.2 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 risk				
1. Available-for-sale financial instruments						X		X	X
2. Loans and receivables				X		X		X	X
3. Held-to-maturity investments	X			X		X		X	X
4. Portfolio	X	X	X	X	X	644	X		X
5. Others						X		X	
Total assets						**644**			
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		

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	12/31/2017	12/31/2016
1. Positive fair value changes		
1.1 of specific portfolios:		
a) loans and receivables	714	9,741
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	**714**	**9,741**

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	12/31/2017	12/31/2016
1. Loans	1,371,594	749,855
Total	**1,371,594**	**749,855**

Section 10 – Equity investments – item 100

10.1 Equity investments: disclosures

The Bank's equity investments at 31 December 2017 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 liquidation	Torino	Torino	65.0 %	
2. Banca PSA Italia S.p.A.	Milano	Milano	50.0 %	
B. Joint ventures				
C. Companies under significant influence				

For further information, please refer to the notes to the consolidated financial statements, Part A – Section 3 – paragraph 2 - Main considerations and assumptions for the determination of the scope of consolidation.

10.2 Significant investments: carrying amount, fair value and dividends received

Pursuant to the applicable legislation, with reference to the information on subsidiaries with significant minority interests, please refer to the information provided in the consolidated financial statements.

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 2017 for Euro 127,490 thousand (Euro 100,990 thousand at 31 December 2016), as shown in the following table:

	Total 12/31/2017	Total 12/31/2016
A. Opening balance	**100,990**	**9,550**
B. Increases	**26,500**	**91,440**
B.1 Purchases	26,500	91,440
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	**127,490**	**100,990**
E. Total revaluations		
F. Total adjustments		

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

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

Section 11 - 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 1,524 thousand (Euro 1,374 thousand at 31 December 2016) and are made up as follows, net of accumulated depreciation:

Activities/Values	12/31/2017	12/31/2016
1.1 Own assets		
a) lands		
b) buildings		
c) office furniture and fitting	108	143
d) electronic system	996	1,024
e) other	420	207
1.2 Leased assets		
a) lands		
b) buildings		
c) office furniture and fitting		
d) electronic system		
e) other		
Total	**1,524**	**1,374**

The item “other” mainly includes telephone systems, appliances and equipment for Euro 208 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			**3,553**	**9,438**	**7,968**	**20,959**
A.1 Total net reduction value			(3,411)	(8,414)	(7,761)	(19,585)
A.2 Opening net balance			**143**	**1,024**	**207**	**1,374**
B. Increase			**10**	**375**	**371**	**756**
B.1 Purchases			10	375	371	756
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			**44**	**403**	**159**	**606**
C.1 Sales						
C.2 Depreciation			44	403	158	605
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 Transfers to:						
- a) held-for-sales investments						
- b) assets classified as held-for-sales						
C.7 Other adjustment						
D. Closing net balance			**108**	**996**	**420**	**1,524**
D.1 Total net write-down			(3,455)	(8,816)	(7,919)	(20,190)
D.2 Final gross balance			**3,563**	**9,812**	**8,339**	**21,714**
E. Carried at cost						

Each class of assets is measured at cost. Sub-item E (Carried at cost) shows a zero balance because, in accordance with Bank of Italy's Circular 262/2005, it is only for tangible assets that are carried in the balance sheet at fair value.
The main increases for the year relate to upgrades to data processing equipment (Euro 375 thousand).
Depreciation relates, in particular, to data processing equipment (Euro 403 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 10,264 thousand (Euro 8,178 thousand at 31 December 2016) and are made up as follows:

Assets/Values	Total 12/31/2017		Total 12/31/2016	
	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	10,264		8,178	
A.2.2 Assets valued at fair value:				
a) Internally generated Intangible assets				
b) Other assets				
Total	**10,264**		**8,178**	

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				**74,359**		**74,359**
A.1 Total net reduction in value				(66,181)		(66,181)
A.2 Opening net balance				**8,178**		**8,178**
B. Increases				**5,782**		**5,782**
B.1 Purchases				5,782		5,782
B.2 Increases in internally generated	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				**3,695**		**3,695**
C.1 Disposals						
C.2 Write-downs				3,695		3,695
- Amortization	X			3,695		3,695
- 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						
D. Closing net balance				**10,264**		**10,264**
D.1 Total net reduction in value				(69,877)		(69,877)
E. Closing balance				**80,141**		**80,141**
F. Carried at cost						

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

12.3 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 13 – Tax assets and liabilities – asset item 130 and liability item 80

Current tax assets recognised in asset line item 130 amount to Euro 23,208 thousand (Euro 27,785 thousand in 2016), while current liabilities recognised in liability line item 80 amount to Euro 29,993 thousand (Euro 25,326 thousand in 2016).

13.1 Deferred tax assets: breakdown

	12/31/2017	12/31/2016
Deferred tax assets balancing the income statement	199,403	209,903
Deferred tax assets balancing net equity	314	313
Total	**199,716**	**210,216**

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 199,403 thousand (Euro 209,903 thousand at 31 December 2016) is mainly attributable to temporary differences arising from the deferred deductibility for IRES and IRAP purposes of loan adjustments (Euro 182,361 thousand), to temporary differences generated mainly by provisions for risks and charges (Euro 16,832) 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 210 thousand).
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 314 thousand relate to the tax effect of actuarial gains and losses pertaining to termination indemnities.

13.2 Deferred tax liabilities: breakdown

	12/31/2017	12/31/2016
Deferred tax liabilities recognised to the income statement		
Deferred tax liabilities recognised to the net equity	41	22
Total	**41**	**22**

The Bank has recognised deferred tax liabilities at 31 December 2017 of Euro 41 thousand, relating to changes in fair value of the available-for-sale securities portfolio.

13.3 Changes in deferred tax assets (through income statement)

	12/31/2017	12/31/2016
1. Opening balance	**209,903**	**220,309**
2. Increases	**13,267**	**7,081**
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)	13,267	7,081
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	**23,767**	**17,487**
3.1 Deferred tax assets derecognised in the year		
a) reversals of temporary differences	23,767	17,487
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	**199,403**	**209,903**

The increase in deferred tax assets included in “Deferred tax assets of the year - other” reflects the temporary IRES and IRAP differences deriving mainly from the provisions for risks and charges made in the year.
“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 16,769 thousand, to the use of the provisions allocated for other risks and charges in the amount of Euro 6,707 thousand, and to the reversal in the income statement of the portion for the year, equal to Euro 292 thousand, of deferred taxation arising from a consistent application of accounting policies for the salary assignment loan portfolio, 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)

	12/31/2017	12/31/2016
1. Opening balance	**198,744**	**209,244**
2. Increases	**386**	
3. Decreases	**16,769**	**10,500**
3.1 Reversals of temporary differences	16,769	10,500
3.2 Conversion into tax credits		
a) from year losses		
b) from tax losses		
3.3 Other decreases		
4. Closing balance	**182,361**	**198,744**

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)

	12/31/2017	12/31/2016
1. Opening balance		**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		

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

	12/31/2017	12/31/2016
1. Opening balance	**313**	**886**
2. Increases		
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		
3. Decreases		**572**
3.1 Deferred tax assets derecognised in the year		
a) reversals of temporary differences		572
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	**314**	**313**

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

	12/31/2017	12/31/2016
1. Opening balance	**22**	**91**
2. Increases	**18**	
2.1 Deferred tax liabilities of the year	18	
a) relating to previous years		
b) due to change in accounting principles		
c) Other (creation of temporary differences)	18	
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	**41**	**22**

The increases 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

	12/31/2017	12/31/2016
A. Individual assets		
A.1 Financial assets		
A.2 Equity investments		
A.3 Property and equipment	3	5
A.4 Intangible assets		
A.5 Other non-current assets		
Total A	**3**	**5**
of which carried at cost		
of which carried at fair value level 1		
of which carried at fair value level 2	3	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 liabilities 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 47,169 thousand (Euro 65,324 thousand at 31 December 2016), is made up as follows:

	12/31/2017	12/31/2016
Advances to suppliers	3,904	4,163
VAT receivables		125
Stamp duties	515	4,945
Withholding taxes	25	2,760
Other tax receivables	2,174	3,163
Due from dealers	3,926	1,316
Due from insurances	18,045	15,238
Accruals and prepaid expenses	552	447
Assets in transit	15,346	14,464
Other items	2,529	18,589
Due from Banca PSA S.p.a.	143	82
Due from SCFM S.r.l.	9	32
Total	**47,169**	**65,324**

“Due from insurances” relate to receivables due for insurance brokerage commission.
“Assets in transit” include items temporarily in transit relating to instalment collection.
“Other items” includes, among other things, loans to the SPE Golden Bar in the amount of Euro 796 thousand, receivables for guarantee deposits in the amount of Euro 198 thousand, and loans to Santander Private Banking, a company belonging to the group, in the amount of Euro 293 thousand.

LIABILITIES AND SHAREHOLDERS' EQUITY

Section 1 – Due to banks – item 10

1.1 Due to bank: breakdown by type

Amounts due to banks amount to Euro 4,059,020 thousand (Euro 4,002,448 thousand at 31 December 2016) and are made up as follows:

	12/31/2017	12/31/2016
1. Due to central banks	**1,591,475**	**1,372,438**
2. Due to banks	**2,467,545**	**2,630,009**
2.1 Other current accounts and demand deposits	45,000	29,000
2.2 Time deposits	900,004	160,122
2.3 Loans		
2.3.1 Repos		412,434
2.3.2 Other	1,522,381	2,028,273
2.4 Payables for commitments to repurchase own equity		
2.5 Other payables	160	181
Total	**4,059,020**	**4,002,448**
Fair value - level 1		
Fair value - level 2		
Fair value - level 3	**4,062,109**	**4,011,390**
Total Fair value	**4,062,109**	**4,011,390**

"Due to central banks" includes loans received from the Bank of Italy in connection with TLTRO operations with the European Central Bank (Euro 1,591,475 thousand).
"Due to banks" consist of:

- Parent Company overnight financing transactions (Euro 45,000 thousand);
- Parent Company short-term loans granted (Euro 900,004 thousand);
- other loans, relating to subordinated loans, inclusive of interest accrued thereon (Euro 164,704 thousand), loans granted by Santander Group companies as part of ordinary funding operations (Euro 1,356,627 thousand) and deposits offered as collateral against changes in fair value of derivatives linked to securitisation transactions (Euro 1,050 thousand);
- accrued amounts due to banks (Euro 160 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 164,500 thousand (Euro 147,500 thousand at 31 December 2016), includes loans granted by Santander Group companies consisting of:

Type	12/31/2017	12/31/2016
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	6,500	13,000
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	5,000	7,500
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	8,000	12,000
TIER II subordinated debt to Santander Consumer Finance - maturing in 2025	50,000	50,000
TIER II subordinated debt to Santander Consumer Finance - maturing in 2027	30,000	
Total	**164,500**	**147,500**

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 1,056,883 thousand (Euro 793,423 thousand at 31 December 2016) and are made up as follows:

	12/31/2017	12/31/2016
1. Current accounts and demand deposits	720,280	663,355
2. Time deposits	336,603	130,068
3. Loans		
3.1 Repos		
3.2 Other		
4. Payables for commitments to repurchase own equity instruments		
5. Other payables		
Total	**1,056,883**	**793,423**
Fair value - level 1		
Fair value - level 2		
Fair value - level 3	**1,048,558**	**789,917**
Fair value	**1,048,558**	**789,917**

"Current accounts and demand deposits" include demand deposits from customers (Euro 660,466 thousand), the current account held by the subsidiary Santander Consumer Finance Media S.r.l. (Euro 4,461 thousand) and the current account held by Santander Private Banking, a company belonging to the group (Euro 36,941 thousand), the ordinary current accounts for affiliates (Euro 16,316 thousand) and payments in transit to customers (Euro 2,095 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	12/31/2017				12/31/2016			
	Book Value	*Fair Value*			Book Value	*Fair Value*		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities	**264,065**			**264,723**	**313,037**			**311,919**
1. Bonds								
1.1 structured								
1.2 other	264,065			264,723	313,037			311,919
2. Other								
2.1 structured								
2.2 other								
Total	**264,065**			**264,723**	**313,037**			**311,919**

"Debt securities issued" relate to securities underlying bond issue programmes that have been placed with institutional customers. This item also includes accrued interest.
For further details relating to the issues, please see the information provided on funding in the report on operations.

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

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 12/31/2017			NV	Fair Value 12/31/2016			NV
	L1	L2	L3	12/31/2017	L1	L2	L3	12/31/2016
A. Financial								
1) Fair value		2,824		782,822		11,585		748,387
2) Cash flows								
3) Net investments in								
B. Credit derivatives								
1) Fair value								
2) Cash flows								
Total		**2,824**		**782,822**		**11,585**		**748,387**

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 2017 (in euros):

Notional (euro)	Start date	Settlement date	Counterparty	Fair value (euro)
3,937,000	12/27/2010	04/27/2018	Banco Santander	38,843
12,000,000	02/14/2011	03/14/2019	Banco Santander	220,555
1,500,000	05/27/2011	02/27/2018	Banco Santander	22,933
10,000,000	06/21/2011	03/21/2018	Banco Santander	28,703
26,000,000	07/14/2011	01/14/2019	Banco Santander	349,604
16,000,000	08/12/2011	08/12/2019	Banco Santander	338,482
14,100,000	07/06/2012	10/08/2018	Banco Santander	103,453
9,000,000	07/12/2012	10/12/2018	Banco Santander	74,531
45,000,000	08/02/2012	11/02/2018	Banco Santander	264,808
39,000,000	09/25/2012	03/25/2019	Banco Santander	235,654
46,750,000	11/09/2012	06/10/2019	Banco Santander	362,032
16,000,000	06/10/2013	04/10/2018	Banco Santander	50,489
30,500,000	06/21/2013	03/21/2019	Banco Santander	230,994
28,000,000	07/01/2013	02/01/2019	Banco Santander	233,496
209,850,000	01/30/2017	10/31/2025	Banco Santander	22,783
97,029,500	07/31/2017	11/29/2024	Banco Santander	56,427
98,155,500	07/31/2017	12/31/2024	Banco Santander	36,571
80,000,000	07/31/2017	01/31/2025	Banco Santander	153,179
782,822,000				**2,823,535**

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. Portfolio	X	X	X	X	X	2,824	X		X
5. Others						X		X	
Total assets						**2,824**			
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 298,839 thousand (Euro 254,535 thousand at the end of 2016) and consist of:

	12/31/2017	12/31/2016
Tax consolidation	177	153
Due to suppliers	14,840	21,807
Due to dealers	27,529	24,634
Payables to employees	5,930	5,548
Due to Social Security institutions	2,780	2,452
Tax payables	3,400	3,436
Other amounts due to customers	15,963	15,202
Due to insurances	18,643	12,702
Factoring payables	134,494	115,717
Accruals and deferred income	128	129
Items in transit	57,621	32,048
Other liabilities for commissions	6,612	7,888
Other payables	10,723	12,817
Due to SCFM S.r.l.		1
Total	**298,839**	**254,535**

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

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

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

Section 11 – Provision for employee termination indemnities – item 110

11.1 Provision for employee termination indemnities: change in the year

	12/31/2017	12/31/2016
A. Opening balance	**3,308**	**3,639**
B. Increases	**41**	**60**
B.1 Provision of the year	41	60
B.2 Other increases	1	
C. Decreases	**150**	**391**
C.1 Payments made	150	273
C.2 Other decreases		118
D. Closing balance	**3,199**	**3,308**

The provision for employee termination indemnities amounts to Euro 3,199 thousand (Euro 3,308 thousand at 31 December 2016) 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: 1.25%;
- expected inflation rate: 1.75%;
- frequency of advances: 5.00%;
- frequency of termination for reasons other than death, disability, retirement: 6.50%
- number of retirements: 100% in the year in which they become eligible pursuant to law.

The following demographic assumptions were used:

- death: IPS55 generational table with age-shifting;
- disability: 1998 INPS tables;
- retirement: in accordance with law 214/2011.

With the introduction of the reform envisaged by Law 296/2006 (2007 Finance Act) on supplementary pensions, amounts provided relate to interest cost, corresponding to interest cost accrued at the beginning of the period and interest cost pertaining to movements in the year.
In addition, in line with the amendment to IAS 19 regarding the recognition of actuarial gains and losses accrued at the balance sheet date, they have been recognised with the OCI method as decreases or increases under item "other changes" (Euro 1 thousand at 31 December 2017).

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 3,199 thousand at the reporting date. Excluding the components relating to actuarial gains and losses, the provision amounts to Euro 2,250 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	**12/31/2017**
Sensitivity to the discount rate	
a. Assumption (+50 bps)	1.80%
b. DBO	3,088
c. Assumption (-50 bps)	0.75%
d. DBO	3,317

Section 12 – Provisions for risks and charges – item 120

12.1 Provisions for risks and charges: breakdown

Items / Values	12/31/2017	12/31/2016
1. Provisions for pensions and similar obligations		
2. Other provisions for risk and charges	25,805	25,920
2.1 Legal disputes	6,221	11,069
2.2 Staff expenses		
2.3 other	19,584	14,850
Total	**25,805**	**25,920**

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

	12/31/2017		
	Pensions and post retirement benefit	Other provisions	Total
A. Opening balance		**25,920**	**25,920**
B. Increases		**15,658**	**15,658**
B.1 Provision for the year		15,658	15,658
B.2 Time value change			
B.3 Difference due to discount-rate changes			
B.4 Other increases			
C. Decreases		**15,772**	**15,772**
C.1 Utilisations during the year		729	729
C.2 Difference due to discount-rate changes			
C.3 Other decreases		15,044	15,044
D. Closing balance		**25,805**	**25,805**

The main increases in item "B.1 - Provision for the year" relate to provisions for legal disputes with customers and dealers, as well as allocations to provisions for customer disputes relating to the salary assignment loan portfolio. These provisions cover commissions that are a matter of dispute. For further details, please refer to the corresponding income statement table.
Item C.1 "Utilisations during the year" relates to reversals of provisions through line item 160 of the income statement, set up in prior years for lawsuits, whereas item C.3 "Other decreases" includes utilisations of provisions set up in prior years as a result of disbursements made for Euro 7,738 thousand.

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 743,409 thousand (Euro 679,750 thousand at 31 December 2016) broken down as follows:

Items/Amounts	12/31/2017	12/31/2016
1. Share capital	573,000	573,000
2. Share premium reserve	633	633
3. Reserves	90,107	40,223
4. (Treasury shares)		
5. Valuation reserve	(553)	(589)
6. equity instruments		
7. Profit (loss) of the year	80,223	66,484
Total	**743,409**	**679,750**

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 2017, the share capital of the Bank amounts to Euro 573 million.

	Total 12/31/2017	**Total 12/31/2016**
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 2017 consist mainly of the legal reserve of Euro 5,504 thousand, the extraordinary reserve of Euro 45,705 thousand, the capital reserve of Euro 39,913 thousand and the negative merger reserve of Euro -1,015 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	**90,107**			1,457	
Legal reserve	*5,504*	A(1), B			
Extraordinary reserve	*45,705*	A, B, C	*45,705*		
FTA reserve					
Changes in previous period earning		(2)			
Reserve Earning	*(1,015)*				
Capital reserve		A, B		1,457	
Merger reserve					
Other reserve	*39,913*				
Revaluation reserves	**(553)**				
Cash flow hedges reserves		(2)			
Revaluation reserves available for sale financial assets	*82*	(2)			
Actuarial gains(losses) on defined benefit plans	*(635)*	(2)			
Net income (loss)	**80,223**			11,266	47,600
Total	**743,409**				

(*) 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 2016 has been allocated to the legal reserve (Euro 3,324 thousand), to the extraordinary reserve (Euro 45,270 thousand), and to cover accumulated losses (Euro 1,290 thousand), and dividends were distributed (Euro 16,600 thousand).

OTHER INFORMATION

1. Guarantees given and commitments

Operations	12/31/2017	12/31/2016
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	27,552	103,610
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	**27,552**	**103,610**

Irrevocable loan commitments relate to factoring arrangements with car manufacturers.

2. Assets used to guarantee own liabilities and commitments

Portfolios	12/31/2017	12/31/2016
1. Financial instruments held for trading		
2. Financial instruments designated at fair value		
3. Financial instruments available for sale		
4. Financial instruments held to maturity		
5. Loans and receivables with banks	3,600	12,000
6. Loans and receivables with customers	1,951,837	2,489,301
7. Property, plant and equipment		

“Loans and receivables with customers” includes the portfolio of receivables underlying the securities provided as collateral for the loans received from the Bank of Italy in connection with TLTRO operations with the European Central Bank, specifically:

- the portfolio of loans subject to securitisation;
- the amount due from the SPE for the proceeds arising from the portfolio involved in the self-securitisation.

“Loans and receivables with banks” includes the amounts paid as guarantee deposit to Santander Group companies as part of derivatives operations.

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 financial asset (c=a-b)	Related amounts not subject to offsetting in Balance Sheet		Net amount 12/31/2017	Net amount 12/31/2016
				Financial instruments (d)	Cash deposits posted as collateral (e)		
1) 2) Repos 3) 4) Others	1,677		1,677		1,033	644	32
Total 12/31/2017	**1,677**		**1,677**		**1,033**	**644**	**X**
Total 12/31/2016	**2,992**		**2,992**		**2,960**	**X**	**32**

As required by IFRS 7, it is hereby disclosed that the derivatives outstanding at 31 December 2017 have the following characteristics:

- The derivatives with Banco Santander with positive fair value, equal to Euro 644 thousand (column c), are subject to an ISDA based framework agreement and are thus subject to net settlement arrangements. There are no arrangements in place for the offsetting of derivatives recognised as liabilities, corresponding to the negative fair value.

- The derivatives with the Spanish Group company Abbey National Treasury Services Plc, with positive fair value, equal to Euro 1,033 thousand (column c), are subject to an ISDA based framework agreement.

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

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

Technical forms	Gross amounts of financial liabilities (a)	Financial assets offset in Balance Sheet (b)	Net Balance Sheet values of financial liabilities (c=a-b)	Related amounts not subject to offsetting in Balance Sheet		Net amount 12/31/2017	Net amount 12/31/2016
				Financial instruments (d)	Cash deposits posted as collateral (e)		
1) Derivatives 2) Repos 3) Securities lending 4) Others	2,824		2,824		2,824		
Total 12/31/2017	**2,824**		**2,824**		**2,824**		**X**
Total 12/31/2016	**424,019**		**424,019**	**412,434**	**11,585**	**X**	

As required by IFRS 7, it is hereby disclosed that derivatives entered into with Banco Santander, with negative fair value, equal to Euro 2,824 thousand (column c), are subject to an ISDA based framework agreement and are thus subject to net settlement arrangements. There are no arrangements in place for the offsetting of derivatives recognised as assets, corresponding to the positive fair value.

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

7. Securities lending

The Bank is not party to any securities lending.

8. Information on joint arrangements

The Bank is not party to any joint arrangements.

Part C - Information on the income statement

Section 1 - Interest - items 10 and 20

1.1 Interest and similar income: breakdown

Interest and similar income amounts to Euro 267,047 thousand (Euro 275,252 thousand at 31 December 2016) and is made up of:

Items/Technical forms	Debt securities	Loans	Other transactions	Total 12/31/2017	Total 12/31/2016
1. Financial assets held for trading					
2. Available-for-sale financial assets					
3. Held-to-maturity investments					
4. Due from banks		32		**32**	**37**
5. Loans to customers		263,644		**263,644**	**274,195**
6. Financial assets designated at fair value through P&L					
7. Hedging derivatives	X	X			
8. Other assets	X	X	3,371	**3,371**	**1,020**
Total		**263,676**	**3,371**	**267,047**	**275,252**

Against a background of negative rates, the item “Other assets” mainly consists of interest income accrued on financing transactions through TLTRO-II with the European Central Bank (Euro 3,323 thousand) and repos with third-party banks (Euro 35 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.

Interest on non-performing loans relates to interest on loans and advances to customers and amounts to Euro 33 thousand.

1.2. Interest and similar income: differentials on hedging transactions

The balance of differentials on hedging interest rate swaps is negative (as in 2016).
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 2017 amounts to Euro 2,447 thousand (Euro 1,927 thousand in 2016).

	12/31/2017	12/31/2016
Interest income on financial leasing activities	2,447	1,927

1.4 Interest and similar expense: breakdown

Interest and similar expense amounts to Euro 49,589 thousand at 31 December 2017 (Euro 62,387 thousand at 31 December 2016) and is made up of:

Items/Technical forms	Payables	Securities	Other transactions	Total 12/31/2017	Total 12/31/2016
1. Due to central banks		X			277
2. Due to banks	21,943	X		21,943	29,772
3. Due to customers	14,418	X	876	15,294	13,546
4. Debt securities issued	X	719		719	326
5. Financial liabilities held for trading					
6. Financial liabilities at fair value					
7. Other liabilities and provisions	X	X	916	916	278
8. Hedging derivatives	X	X	10,717	10,717	18,187
Total	**36,361**	**719**	**12,509**	**49,589**	**62,387**

Interest expense on amounts due to banks mainly derives from loans granted by Santander Group companies as part of ordinary funding operations (Euro 20,747 thousand) and by other banks (Euro 1,196 thousand).
Interest expense on amounts due to customers consists of the cost of funding provided by customers through current and deposit accounts (Euro 14,418 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

	12/31/2017	12/31/2016
A. Positive differentials related to hedging operations		
B. Negative differentials related to hedging operations	(10,717)	(18,187)
C. Net differentials (A-B)	**(10,717)**	**(18,187)**

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 72,311 thousand (Euro 82,328 thousand at 31 December 2016) and is broken down as follows:

Type of service/Segments	Total 12/31/2017	Total 12/31/2016
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	35,018	35,490
9.3 other products	21,275	31,520
d) collection and payment services	12,875	12,144
e) securitization servicing		
f) factoring services		
g) tax collection services		
h) management of multilateral trading facilities		
i) management of current accounts		
j) other services	3,143	3,173
Total	**72,311**	**82,328**

Item c) includes commission income on insurance products placed with financed customers of Euro 35,018 thousand and on salary assignments of Euro 21,275 thousand;
Item d) includes commissions generated during the year for collection and payment services provided to customers for Euro 11,610 thousand and servicing fees accrued versus the subsidiary Santander Consumer Finance Media s.r.l. in liquidation for Euro 47 thousand.
Item j) “other services”, on the other hand, comprises:

- income recognised in respect of damages and penalties for late payment (Euro 1,989 thousand);
- fees and commission income for the management of credit cards (Euro 137 thousand);
- commission income on stock financing (Euro 983 thousand);
- commissions for other services (Euro 34 thousand).

2.2 Commission income: distribution channels for products and services

Channels/Values	Total 12/31/2017	Total 12/31/2016
a) through Group bank branches		
1. portfolio management		
2. placement of securities		
3. third-party services and products	56,293	67,010
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 35,018 thousand relates to income from insurance products placed with customers and Euro 21,275 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 41,160 thousand (Euro 50,272 thousand at 31 December 2016) and is broken down as follows:

Services/Amounts	Total 12/31/2017	Total 12/31/2016
a) guarantees received	22	24
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	80	92
5. financial instruments placement	48	49
6. off-site distribution of financial instruments. products and	37,866	47,563
d) collection and payment services	3,133	2,406
e) other services	10	138
Total	**41,160**	**50,272**

Point 6 in item c) mainly refers to commissions paid on the sale of salary assignment loans (Euro 21,733 thousand) and insurance products (Euro 14,105 thousand), contributions and termination indemnities accrued by the network of agents based on targets for the placement of loans with customers (Euro 2,028 thousand).
The total of item d) in the table refers to the cost incurred for the collection of loan instalments and for payments made.

Section 3 – Dividends and similar income – item 70

3.1 Dividends and similar income: breakdown

Items/Income	Total 12/31/2017		Total 12/31/2016	
	Dividends	Income from units in investment funds	Dividends	Income from units in investment funds
A. Financial assets held for trading				
B. Available for sale financial assets				
C. Financial assets at fair value thought profit or loss- others				
D. Investments	6,100	x		x
Total	**6,100**			

In 2017, dividends were distributed by the subsidiary Banca PSA Italia.

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

4.1 Net trading income (loss): breakdown

Transactions / Income components	Unrealized profits (A)	Realized profits (B)	Unrealized losses (C)	Realized losses (D)	Net Profit (A+B)-(C+D) 12/31/2017
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	38				38
- on equity securities and shares					
- On currencies and gold	X	X	X	X	
- Other					
4.2 Credit derivatives					
Total	**38**				**38**

The item includes the net positive result arising from financial derivatives held to hedge interest rate risk associated with securitisations that do not meet the requirements under IAS 39 for classification as hedging derivatives.

Section 5 – Net hedging gains (losses) – item 90

5.1 Net hedging gains (losses): breakdown

This table shows the income generated by the valuation of the derivatives hedging the fair value of financial assets and the corresponding charge resulting from the valuation of the hedged assets.

Items / Income components	Total 12/31/2017	Total 12/31/2016
A. Income relating to:		
A.1 Fair value hedges	9,092	14,506
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 ineffectiveness of		
A.5 Foreign currency assets and liabilities		
Total income from hedging activity (A)	**9,092**	**14,506**
B. Expenses relating to:		
B.1 Fair value hedges	(65)	
B.2 Hedged asset items (in fair value hedge relationship)	(9,027)	(14,506)
B.3 Hedged liabilities items (in fair value hedge relationships)		
B.4 Cash-flow hedging derivatives (including ineffectiveness of		
B.5 Foreign currency assets and liabilities		
Total charges from hedging activity (B)	**(9,092)**	**(14,506)**
C. Net profit from hedging activity (A-B)		

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

6.1 Gains (losses) on disposal or repurchase: breakdown

Items / Income components	Total 12/31/2017			Total 12/31/2016		
	Gains	Losses	Net profit	Gains	Losses	Net profit
Financial assets						
1. Due from banks						
2. Loans to customers	32,312	(972)	31,341		(5)	(5)
3. Financial assets available for sale		(2)	(2)	261		261
3.1 Debt securities		(2)	(2)	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	**32,312**	**(973)**	**31,339**	**261**	**(5)**	**256**
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 write-downs.
The item financial assets available for sale includes 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

	Adjustments (1)			Write - backs (2)				Total	
	Specific		Portfolio	Specific		Portfolio		12/31/2017	12/31/2016
	Write - offs	Others		A	B	A	B		
A. Due from banks									
- Loans									
- Debt securities									
B. Loans to customers	(476)	(63,453)	(33,657)		19,556		29,784	(48,245)	(40,722)
Non-performing purchased loans									
- Loans			X			X	X		
- Debt securities			X			X	X		
Other receivables									
- Loans	(476)	(63,453)	(33,657)		19,556		29,784	(48,245)	(40,722)
- Debt securities									
C. Total	**(476)**	**(63,453)**	**(33,657)**		**19,556**		**29,784**	**(48,245)**	**(40,722)**

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

Transactions/Income	Adjustments (1)		Reversals of impairment losses (2)		Total 12/31/2017	Total 12/31/2016
	Specific		Specific			
	Write-off	Others	A	B		
Debt securities						
B. Equity instruments		(732)			(732)	(245)
C. Units in investments funds			x	x		
D. Loans to banks			x			
E. Loans to customers						
F. Total		**(732)**			**(732)**	**(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

The Bank has no impairment adjustments to financial transactions.

Section 9 - Administrative expenses - item 150

9.1 Payroll: breakdown

Payroll amounts to Euro 42,562 thousand (Euro 41,183 thousand at 31 December 2016) and is split as follows:

Type of expense/Amounts	Total 12/31/2017	Total 12/31/2016
1) Employees		
a) wages and salaries	29,587	28,962
b) social security contributions	7,898	7,417
c) Severance pay (only for Italian legal entities)	1	
d) Social security costs		
e) allocation to employee severance pay provision	41	60
f) provision for retirements and similar provisions:		
- defined contribution		
- defined benefit		
g) payments to external pension funds:		
- defined contribution_old	2,115	1,996
- defined benefit		
h) Expenses resulting from share based payments		
i) other employee benefits	1,782	1,597
2) Other staff	841	676
3) Directors and Statutory Auditors	376	392
4) Early retirement costs		
5) Recovery of expenses for employees seconded to other companies	(199)	(17)
6) Reimbursement of cost of third-party employees seconded to the Bank	120	99
Total	**42,562**	**41,183**

"Social security charges" include pension costs incurred by the Bank in 2017.

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 248 thousand, while fees relating to members of the Board of Statutory Auditors amount to Euro 128 thousand.

9.2 Average number of employees, by categories

	Total 12/31/2017	Total 12/31/2016
2) Employees		
a) Senior managers	12	10
b) Managers	167	157
of which 3rd and 4th level	68	66
c) Remaining employees staff	443	427
Total	**622**	**594**
Other personnel	**16**	**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

	12/31/2017	12/31/2016
Ancillary staff expenses (contributions to rent and health insurance, luncheon vouchers and other minor benefits)	1,777	1,589
Incentive plan reserved for managers and middle managers	5	8
Total	**1,782**	**1,597**

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 67,421 thousand (Euro 69,152 thousand at 31 December 2016) and are made up as follows:

	Total 12/31/2017	Total 12/31/2016
Indirect taxes and duties	6,746	10,270
Telephone, broadcasting and postal	4,696	4,656
Maintenance, cleaning and waste disposal	2,013	916
Property lease, removals and condominium expenses	3,341	3,179
Professional fees and corporate expenses	7,246	8,073
Travel and accommodation	4,002	3,797
Stamp duty and flat-rate substitute tax	4,477	3,861
Insurance charges	77	71
Forms, stationery and consumables	331	310
Supplies, licences EDP consulting and maintenance	10,648	8,510
Debt recovery charges	12,083	13,077
Legal fees	3,690	3,059
Advertising, promotion and representation	1,642	1,354
Commercial information and searches	4,520	3,089
Other expenses	1,910	4,929
Total	**67,421**	**69,152**

Section 10 – Net provisions for risks and charges - item 160

10.1 Net provisions for risks and charges: breakdown

	Total 12/31/2017	Total 12/31/2016
Net provision for legal disputes	2,522	2,828
Other provisions	12,407	8,608
Total	**14,929**	**11,436**

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

Section 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)	Impairments adjustments (b)	Write-backs (c)	Net result (a+b+c) 12/31/2017
A. Property and equipment				
A.1 Owned				
- For business purposes	605	2		607
- For investment purposes				
A.2 Held under finance lease				
- For business purposes				
- For investment purposes				
Total	**605**	**2**		**607**

Net adjustments to property and equipment refer to the depreciation of the Bank’s fixed assets, classified under item 110 of assets for Euro 605 thousand.

Section 12 – Net adjustments to intangible assets – item 180

12.1 Net adjustments to intangible assets: breakdown

Net adjustments to intangible assets amount to Euro 3,695 thousand and relate to the amortisation of the year.

Assets/Income items	Depreciation (a)	Impairments adjustments (b)	Write-backs (c)	Net result (a+b+c) 12/31/2017
A. Intangible assets				
A.1 Owned				
- Internally generated				
- Other	3,695			3,695
A.2 Held under finance lease				
Total	**3,695**			**3,695**

Section 13 – Other operating expenses/income - item 190

13.1 Other operating expenses: breakdown

Other operating expenses amount to Euro 11,467 thousand (Euro 2,654 thousand at 31 December 2016) and are divided as follows:

	Total 12/31/2017	Total 12/31/2016
Rebates and discounts	46	55
Losses on disposal		10
Miscellaneous expenses	9,470	481
Expenses related to leasing activities	234	842
Other expenses	1,718	1,266
Total	**11,467**	**2,654**

The item “expenses related to leasing transactions” mainly includes administrative expenses and other costs related to the leasing business.
“Miscellaneous expenses” refers mainly to write-downs of other assets.
“Other expenses” includes, among other things, out-of-period expenses for legal disputes (Euro 480 thousand), miscellaneous out-of-period expenses (Euro 114 thousand) and compensation for customer appeals and claims (Euro 360 thousand).

13.2 Other operating income: breakdown

Other operating income amounts to Euro 20,335 thousand (Euro 17,592 thousand at 31 December 2016) and can be broken down as follows:

	Total 12/31/2017	Total 12/31/2016
Recovery of taxes	7,506	5,643
Other income for services rendered to Group companies	234	160
Recovery of lease instalments	66	66
Recovery of other expenses	661	508
Recovery of preliminary expenses	10,992	10,254
Rebates and discounts received	3	4
Insurance reimbursements	11	52
Gains on disposal	74	268
Income related to leasing transactions	253	518
Other income	536	120
Total	**20,336**	**17,592**

“Income related to leasing transactions” includes, among other things, the recovery of car lease expenses charged to customers for Euro 194 thousand, and recovery of provincial transcription tax (IPT) for Euro 44 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 2017.

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 continuing operations - item 260

18.1 Income taxes for the year on continuing operations: breakdown

The item "Income tax for the year" shows a balance of Euro -36,538 thousand (Euro -28,325 thousand at 31 December 2016) and represents the provision made during the year in accordance with current tax law. It is made up as follows:

Income/Value	Total 12/31/2017	Total 12/31/2016
1. Current taxes (-)	(26,038)	(17,934)
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 (+/-)	(10,500)	(10,406)
5. Change in deferred tax liabilities (+/-)		15
6. Income tax for the year (-) (-1+/-2+3+3bis+/-4+/-5)	**(36,538)**	**(28,325)**

The subheadings "Change in deferred tax assets" and "Change 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.

	12/31/2017	12/31/2016
Profit (loss) from continuing operations before tax	116,761	94,809
Profit before tax on discontinuing operations		
Theoretical taxable income	**116,761**	**94,809**
IRES - Theoretical tax charge	(32,109)	(26,072)
- effect of income and expenses that do not contribute to the tax base	4,830	3,863
- effect of expenses that are wholly or partially non-deductible	(1,060)	472
IRES - Effective tax burden	**(28,339)**	**(21,737)**
IRAP - Theoretical tax charge	(6,504)	(5,281)
- portion of non-deductible administrative expenses, depreciation and amortisation	(2,770)	(2,702)
- portion of non-deductible interest expense		(103)
- effect of income and expenses that do not contribute to the tax base	2,276	2,202
- effect of income and expenses that are wholly or partially non-deductible	(1,200)	(704)
IRAP - Effective tax burden	**(8,199)**	**(6,588)**
Effective tax burden as shown in the financial statements	**(36,538)**	**(28,325)**

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 discontinued operations - 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

		12/31/2017		
		Gross amount	**Tax Effects**	**After tax effects**
10.	**Net Profit (Loss) for the year**	**X**	**X**	**80,223**
	Other comprehensive income after tax not to be recycled to income statement			
20.	Tangible assets			
30.	Intangible assets			
40.	Defined benefit plans	(1)		(1)
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 differences:**			
	a) value changes			
	b) reclassification through profit or loss			
	c) other variations:			
90.	**Cash flow hedges:**			
	a) changes in fair value			
	b) reclassifications through profit or loss			
	c) other variations:			
100.	**Available-for-sale financial assets:**	**55**	**(18)**	**37**
	a) changes in fair value	124	(41)	83
	b) reclassifications trough profit or loss	(69)	23	(46)
	- impairment losses			
	- following disposal	(69)	23	(46)
	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.	**Valuation 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**	**54**	**(18)**	**36**
140.	**Comprehensive income (Items 10+130)**			**80,259**

Part E - Information on risks and related hedging policies

Introduction

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

The 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. A specific programme was developed in this respect during the year, as part of the Advanced Risk Management (ARM) programme and with the support of the

Spanish parent company, aimed at spreading awareness of the risks to which the Bank is exposed, the conduct required to mitigate them and finally the instruments necessary to monitor them. 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 Bank'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 functions 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 controls): these are performed by the Risk Control Unit to ensure the correct functioning of the risk management process by means of the measurement and assessment of the level of risks assumed as well as compliance with any limits assigned to operational areas;
- compliance controls (second-level controls): these are performed by Compliance and AML, 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 Executive Risk Committee;
- the Executive Risk Control Committee;
- the Collection Committee;
- the Legal and Compliance Committee;
- the Financial Risk Management Committee (ALCO);
- the Operational and Technological Risk Committee;
- the Internal Control Coordination Committee.

Main Risks

The Bank's risk profile is defined through the risk assessment carried out in accordance with the methodologies shared with the parent company Risk Identification Assessment (RIA). The assessment sees the direct involvement of the first line of defence and the supervision and support of the second line of defence, and is carried out at the beginning of the year and updated in the second half. Through the RIA methodology, the bank's risk profile is identified and assessed and a specific score is given, taking into account:

- the current level of risk;
- the current environmental risk;
- exposure to potential specific risks.

The method also makes it possible to:

- identify possible "emerging risks" to enable the effective management and mitigation of risks;
- obtain a quantitative representation of the risks assumed at the date of the analysis, on the basis of the activities of the Bank and of the development strategies put in place.

The result of the exercise performed, starting from the "Risk Map", showed a "low-medium" overall risk profile for the Bank.

Below is the evaluation of the main results of the exercise performed, to which reference is made for further details:

- Credit Risk: low-medium profile;
- Structural Risk: low profile;
- Operational Risk: medium-high profile;
- Model Risk: medium-high profile;
- Liquidity Risk: medium-high profile;
- Business Model/Strategic Risk: low-medium profile.

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:

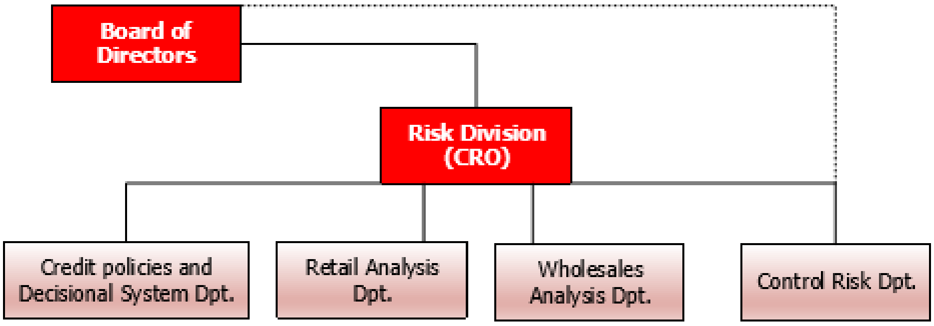
- Car loans: specific-purpose loans for the purchase of vehicles, including motorcycles, to persons who apply for loans offered by dealers affiliated with the Bank. The loan amount is granted directly by the affiliated dealer. The customer undertakes to repay the loan in accordance with a fixed rate 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 assignment: a particular type of personal loan that is settled through the assignment of a portion of salary or pension up to one fifth of the amount thereof net of withholdings. This product has a set maximum duration and a minimum duration that is not normally less than twenty-four months;
- Financing to wholesale clients: this includes the following types of products:
  - Financing the stock of new, used and demonstration vehicles;
  - Financing for general purchases and/or capital goods;
  - Financing of working capital and/or cash advances.

2. Credit risk management policies

2.1. Organisational aspects

Santander Consumer Bank's Risk Management Department ensures effective risk management in all key areas, starting with the definition of tools for the analysis and measurement of risks (in collaboration with the Parent Company's methodology functions) and the definition of policies and strategies for the acceptance and control of existing risks, ensuring a correct balance between long term strategic objectives and short-term earnings objectives. To ensure the independence of the Risk function, the Director of the above function plays the role of CRO, is responsible for second level risk controls and is a member of the Board of Directors. In addition, the CRO functionally reports to the Chief Risk Officer of the Parent Company's Consumer Finance Division.

The department is structured along four services lines as detailed below.



The mission of the **Credit Policies and Credit Decision System** is to protect the company from credit risk pertaining to customers and affiliates by defining operating policies and strategies concerning affiliation criteria and lending, by staff training and by constant monitoring of lending activities. It verifies that the operability and behaviour of staff comply with internal data acquisition procedures and current regulations.

The functions carried out are the following:

- to define the risk policies, the strategies and internal procedures for the management of products/channels, the monitoring of compliance therewith, ensuring the constant updating thereof and the communication thereof to all relevant areas of the Bank;
- to create (internally or with the help of external suppliers), to monitor, to implement and to update automatic applications for decision-making and support in setting up dossiers;
- to monitor the riskiness of products and channels, highlighting abnormal situations for timely corrective action;
- to prepare an overview of the qualitative trend of corporate loans and any balances showing significant changes in riskiness that need to be analysed;
- to handle relations with official data bases relating to its sphere of operations, especially with regard to changes in the information provided, reporting anomalies and cancellations, and monitoring their bills;
- to assign approval levels according to the degree of experience of staff members and in accordance with the guidelines authorised by the Board of Directors and to organise training sessions needed to ensure that updates are provided on new policies and/or processes, as well as the maintenance of a high level of skills of operating personnel;
- to provide support to the operating units and other corporate functions of other Group companies;
- to prepare a management budget.

The mission of the **Risk Control Unit** is to measure, control and monitor risk. This control must take place efficiently and is essential to facilitate the maximisation of profit in a context of careful and dynamic management of risk situations.
The Unit has to guarantee the comprehensive and organic treatment of risks related to the Bank's activities in order to facilitate their identification, measurement, analysis and definition of measures needed to address them.
The Unit must quantify the overall exposure of the Institution at risk to allow the delegated bodies to define a strategy for the management thereof and to define the desired risk profile (risk appetite).
The main functions are:

- monitoring of the main risk indicators;
- assistance in deciding the provisions to cover current and future losses;
- calculation and monitoring of expected losses;
- ensure the reliability and automatic generation of reports;
- monitor financial risks periodically, with particular reference to interest rate risk and liquidity risk, using Asset & Liability Management (ALM) techniques;
- to liaise with the internal and external control bodies to verify the level of implementation of company policies.

The functions assigned to the unit are performed by four Offices:

- <u>Risk Control and Monitoring</u>: handles the management of second-level controls relating to: control of market risk (liquidity risk and interest rate risk), of operational risk, of credit risk, of technological risk, of concentration risk, of reputational risk, of mitigation risk (collateral) and any other marginal risks of the Bank;
- <u>Risk models and scenario analysis</u>: 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);
- <u>Risk reporting</u>: supervises the preparation of the documentation required by the Bank of Italy as a tool for the management and control of risks, such as the Risk Appetite Framework (RAF), the ICAAP report, the activity report and the planning of and reporting on the function's activities;

- Internal Controls: identifies, together with the heads of other units, the risks associated with the major business processes and maps the related mitigating controls; develops and maintains the Internal Control Model, based on changes in relevant legislation and the organisational structure of the Company; supervises the implementation of internal control indicators and performs the monitoring thereof. It identifies weaknesses (weaknesses in the internal control model and recommendations made by internal audit, the Independent Auditors or the Supervisory Authority) in collaboration with Internal Audit, it provides support to business functions for the definition of action plans for the resolution thereof and regularly monitors their status. It coordinates the certification process for the local internal control model as required by the Sarbanes-Oxley Act (SOX).

Wholesale Analysis prepares motions concerning positions of corporate customers that are subsequently submitted for the attention of the decision-making Committees (Risk Management Committee or Board of directors depending on their signatory powers). The foregoing positions consist entirely of credit lines granted to dealers to finance their showroom cars, given that the Bank has no other corporate customer business.
The main functions assigned to this unit are:

- to prepare positions for submission to the Committees with powers of approval;
- to carry out an annual review of dealers' positions in "non-standardised" products;
- to develop together with the Collection Business Unit debt recovery strategies to be implemented with affiliates (only with respect to "non-standardised" products);
- to manage collaborations with leading automobile brands with regard to wholesale;
- to perform periodic analysis of positions subjected to special monitoring (F.E.V.E - *Firmas en Situaciòn de Vigilancia Especial* - signature powers in special monitoring situations).

Retail Analysis' mission is the assessment and approval of retail transactions that fall within its sphere of competence.
The main functions assigned thereto are the correct application of risk assumption policies and procedures laid down by the Credit Policies and Credit Decision System with regard to particular credit proposals.

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;
- 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 Bank's 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;
- processes and methodologies used for the assessment of the Bank's activities, including accounting activities, reliable and 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, inter alia, every company that is part of a 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 the Credit Policies and Credit Decision System. Through the use of rating models and policy rules, Credit Scoring provides a summary of the counterparty's credit risk, reflecting the probability of default within a time period of one year. By means of a decision engine, one of the following outcomes will be assigned: Automatic Refusal/Automatic Approval/Manual Review; the assessment is based both on data provided by the customer at the dossier input phase and certified during the credit analysis phase and on external data provided by Credit Information Systems. For dossiers subjected to manual review, as well as the usual assessment done with a scoring system, a detailed review is performed by an operator;
    - the approval phase is the third phase of the loan application process and is delegated, by the competent corporate bodies, to various persons in the structure based on grids that show the signatory powers, the type of customer, the amount to be lent, the type of product/service and, in certain cases, the asset to be financed;

- once concluded, the origination of a dossier phase may provide for a process of mitigation and collateral management, where the analyst has to analyse in detail all of the items acquired by the applicant and, where necessary, foresee the inclusion of appropriate collateral (in order to minimise the credit risk inherent in lending activities), such as a second signature and/or guarantees, insurance assignment and bills of exchange.

2. The monitoring phase is handled by Credit Policies and Credit Decision System. Its purpose is to identify, analyse, forecast and model the behaviour of all the variables that could potentially result in changes to the asset quality assumed by the Bank. It also makes it possible to recalibrate the acceptance process, given that the information obtained is used to optimise the rules for acceptance and the cut-off levels of the score grids. Further monitoring is performed by the Risk Control Unit as part of its second level control function and is aimed at forming an overall opinion on risk-taking, through checks of compliance with the risk limits or trend analysis or specific analysis. It produces detailed reports of the phenomena analysed that are distributed to the risk-taking functions, both Senior Management and the Board of Directors, in line with the agreed reporting schedule;

3. the credit collection phase is handled by the Collection Business Unit (CBU). The Unit aims for maximum efficiency in the management of the portfolio to be recovered through the application of strategies that make it possible to assign different priorities depending on the customer’s risk profile and the ageing of their balances. The objective is to collect unpaid loans with a simultaneous assessment of the customer’s current position via a qualitative and quantitative analysis; the tools adopted include the renegotiation of the amount of the instalment, repayment via bills of exchange and a settlement. It also carries out debt collection subsequent to the issue of a document known as “Loss of Benefit of Term” (LBT) that is intended to recover the full amount of the residual debt. At the same time and to support this activity, external law firms send borrowers payment orders and, later, where there are grounds for doing so, they initiate the most appropriate legal proceedings (injunction decree, writ of summons, bankruptcy petition or lawsuits).

Salary or pension assignment requires a specific management process for the duration of the loan. The credit analysis phase provides for a commercial agreement for distribution of the product through the specifically dedicated sales network. Credit analysis, assessment and approval are carried out by structures specifically designed for that purpose within Santander Consumer Bank. Post-delivery monitoring is primarily based on earnings related data and is also performed by the Collection Business Unit, which also performs credit collection services.

On the other hand, as regards non-standardised risk management, the process gets split into the following phases:

- customer analysis;
- customer's credit rating;
- analysis of credit transactions;
- preparation of resolutions regarding transactions/customer;
- customer and portfolio tracking, control and checks on production volume;
- collection.

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 differentiated by product:

- 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 entities. 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)

Portafolios/quality	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					406,364	406,364
2. Held-to-maturity financial instruments						
3. Loans and receivables with banks					59,769	59,769
4. Loans and receivables with customers	2,476	18,649	32,203	113,968	5,438,884	5,606,179
5. Financial assets at fair value through profit or						
6. Financial instruments classified as held for sale						
12/31/2017	**2,476**	**18,649**	**32,203**	**113,968**	**5,905,016**	**6,072,311**
12/31/2016	**3,917**	**28,540**	**25,031**	**91,032**	**5,534,226**	**5,682,746**

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					406,364		406,364	406,364
2. Held-to-maturity financial								
3. Loans and receivables with banks					59,769		59,769	59,769
4. Loans and receivables with		233,908	(180,580)	53,328	5,607,020	(54,169)	5,552,851	5,606,179
5. Financial assets at fair value					X	X		
6. Financial instruments classified as held for sale								
Total	**12/31/2017**	**233,908**	**(180,580)**	**53,328**	**6,073,153**	**(54,169)**	**6,018,984**	**6,072,311**
Total	**12/31/2016**	**355,498**	**(298,010)**	**57,488**	**5,675,919**	**(50,661)**	**5,625,257**	**5,682,746**

Portfolio / Quality	Assets of obvious poor credit quality		Other assets
	Cumulated losses	Net exposure	Net exposure
1. Financial assets held for trading			1,033
2. Hedging instruments			644
Total 12/31/2017			**1,677**
Total 12/31/2016			**2,992**

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	104,288		(18,562)	85,726	12,972
from 3 months to 6 months	11,147		(3,470)	7,677	778
from 6 months to 1 year	4,916		(63)	4,853	26
over 1 year	16,229		(517)	15,711	666
Total	**136,580**		**(22,612)**	**113,968**	**14,441**

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 which forborne exposures					X		X	
b) Unlikely to pay					X		X	
- of which forborne exposures					X		X	
c) Impaired past due exposures					X		X	
- of which forborne exposures					X		X	
d) past due not impaired	X	X	X	X	4	X		4
- of which forborne exposures	X	X	X	X		X		
e) Other not impaired exposures	X	X	X	X	59,765	X		59,765
- of which forborne exposures	X	X	X	X		X		
TOTAL A					**59,769**			**59,769**
B. OFF-BALANCE SHEET EXPOSURE								
a) Impaired					X		X	
b) Not impaired	X	X	X	X	644	X		644
TOTAL B					**644**			**644**
TOTAL (A+B)					**60,413**			**60,413**

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 line item 80, for which no liquidity was pledged as collateral. 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	1,339	206	790	78,645	X	(78,504)	X	2,476
- of which forborne exposures	1,002	201	230	14,125	X	(15,278)	X	280
b) Unlikely to pay	26,421	6,967	6,627	43,408	X	(64,774)	X	18,649
- of which forborne exposures	16,301	3,121	2,239	10,248	X	(27,194)	X	4,714
c) Impaired past due exposures	5,764	27,718	30,344	5,679	X	(37,302)	X	32,203
- of which forborne exposures	20	1,079	788	137	X	(1,673)	X	351
d) past due not impaired	X	X	X	X	136,580	X	(22,612)	113,968
- of which forborne exposures	X	X	X	X	10,851	X	(2,461)	8,389
e) Other not impaired exposures	X	X	X	X	5,876,804	X	(31,557)	5,845,247
- of which forborne exposures	X	X	X	X	22,308	X	(399)	21,910
TOTAL A	**33,523**	**34,892**	**37,761**	**127,732**	**6,013,384**	**(180,580)**	**(54,169)**	**6,012,543**
B. OFF-BALANCE SHEET EXPOSURE								
a) Impaired					X		X	
b) Not impaired	X	X	X	X	27,552	X		27,552
TOTAL B					**27,552**			**27,552**
TOTAL (A+B)	**33,523**	**34,892**	**37,761**	**127,732**	**6,040,936**	**(180,580)**	**(54,169)**	**6,040,095**

This table gives details of impaired and performing loans to customers, gross and net of specific and portfolio adjustments. Non-performing forborne exposures falling within the time band “Up to 3 months”, which have not matured, have a gross exposure of Euro 8,676 thousand and loan adjustments of Euro 6,430 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)	**170,699**	**126,479**	**58,320**
- Sold but not derecognised	21,980	26,799	27,598
B. Increases	**38,368**	**60,075**	**92,528**
B.1 transfers from performing loans	195	23,125	87,629
B.2 transfers from other impaired exposures	37,658	32,944	1,846
B.3 other increases	514	4,005	3,053
C. Decreases	**128,087**	**103,131**	**81,342**
C.1 transfers to performing loans	740	18,673	13,341
C.2 write-offs	2,352	5,443	824
C.3 recoveries	2,746	13,561	9,413
C.4 sales proceeds	21,925	10,216	478
C.5 losses on disposals	98,265	21,518	1,836
C.6 transfers to other impaired exposures	1,281	26,340	44,826
C.7 other decreases	779	7,379	10,623
D. Closing balance (gross amounts)	**80,980**	**83,422**	**69,505**
- Sold but not derecognised	20,568	13,452	30,613

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

Description/Category	Forborne exposures impaired	Forborne exposures not impaired
A. Opening balance (gross amount)	**81,186**	**40,911**
- Sold but not derecognised	3,674	2,601
B. Increases	**30,197**	**26,540**
B.1 Transfers from performing not forborne exposures	2,461	11,643
B.2. Transfers from performing forborne exposures	8,061	x
B.3. Transfers from impaired forborne exposures	x	11,192
B.4 other increases	19,675	3,706
C. Decreases	**61,891**	**34,293**
C.1 Transfers to performing not forborne exposures	x	15,063
C.2 Transfers to performing forborne exposures	11,125	x
C.3 income	x	8,298
C.4 write-offs	983	28
C.5 recoveries	8,344	10,720
C.6 sales proceeds	9,630	
C.7 losses on disposals	31,333	35
C.8 other decreases	476	150
D. Closing balance (gross amounts)	**49,492**	**33,159**
- Sold but not derecognised	4,147	3,222

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 which: forborne exposures	Total	Of which: forborne exposures	Total	Of which: forborne exposures
A. Opening balance overall amount of	**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
B. Increases	**36,895**	**7,791**	**32,648**	**16,826**	**35,715**	**1,633**
B.1 write-downs	5,701	2,796	20,995	14,447	32,335	1,353
B.2 bis losses on disposal	591	7	131	1	74	6
B.3 transfer from other impaired exposure	30,443	4,834	9,993	854	389	109
B.4 other increases	160	155	1,529	1,524	2,917	166
C. Reductions	**125,173**	**31,956**	**65,813**	**23,686**	**31,702**	**1,069**
C.1 write-backs from assessments	513	498	8,529	7,438	2,269	107
C.2 write-backs from recoveries	1,812	976	4,343	2,374	2,091	73
C.3 gains on disposal	21,840	6,520	10,109	3,045	360	27
C.4 write-offs	2,055	544	5,349	411	1,063	12
C.5 transfers to other impaired exposures	707	512	16,017	4,569	24,102	715
C.6 other decreases	98,246	22,905	21,466	5,850	1,817	135
D. Closing overall amount of	**78,504**	**15,278**	**64,774**	**27,194**	**37,302**	**1,673**
- Sold but not derecognised	20,120	571	9,721	3,037	14,934	363

"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				466,132			5,606,179	**6,072,311**
B. Derivatives								
B.1 Financial derivatives							644	644
B.2 Credit derivatives								
C. Guarantees given								
D. Other commitments to disburse funds							27,552	**27,552**
E. Others								
Total				**466,132**			**5,634,375**	**6,100,507**

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

	Net exposure	Collaterals (1)				Unsecured Guarantees (2)									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-sector entities	Banks	Other entities	Governments and central banks	Other public-sector entities	Banks	Other entities	
1. Guaranteed cash credit exposures:															
1.1 fully guaranteed	45,420												963	44,457	45,420
- of which impaired	734													734	734
1.2 partially guaranteed	12,632												4,103	8,529	12,632
- of which impaired															
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	Governments			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	2	354	x			x	1,271	22,400	x	1,203	55,750	x
- of which: forborne exposures			x			x		35	x			x	3	800	x	278	14,444	x
A.2 Unlikely to pay			x			x	19	88	x			x	956	2,491	x	17,674	62,196	x
- of which: forborne exposures			x			x	3	15	x			x	94	381	x	4,618	26,799	x
A.3 Impaired past due exposures			x			x	1	2	x			x	874	1,719	x	31,328	35,581	x
- of which: forborne exposures			x			x			x			x	15	52	x	336	1,621	x
A.4 Not impaired exposures	411,445	x	865	6,695	x	538	390,532	x	59	11	x		744,052	x	4,108	4,406,479	x	48,600
- of which: forborne exposures							26						518		24	29,754		2,836
TOTAL A	**411,445**		**865**	**6,695**		**538**	**390,555**	**444**	**59**	**11**			**747,152**	**26,609**	**4,108**	**4,456,685**	**153,527**	**48,600**
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		27,552	x			x	
TOTAL B													**27,552**					
Total (A+B) 12/31/2017	**411,445**		**865**	**6,695**		**538**	**390,555**	**444**	**59**	**11**			**774,703**	**26,609**	**4,108**	**4,456,685**	**153,527**	**48,600**
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**

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 value)

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		782	13,129	176	5,134	633	15,864	884	44,378
A.2 Unlikely to pay		2,791	11,211	957	4,459	3,123	12,031	11,777	37,073
A.3 Impaired past due exposures		4,754	5,835	2,228	2,678	5,185	6,603	20,037	22,186
A.4 Not impaired exposures		1,814,817	10,879	727,288	6,062	1,517,958	10,499	1,899,152	26,729
TOTAL A		**1,823,144**	**41,054**	**730,649**	**18,332**	**1,526,899**	**44,997**	**1,931,851**	**130,366**
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		27,552							
TOTAL B		**27,552**							
Total (A+B)	**12/31/2017**	**1,850,696**	**41,054**	**730,649**	**18,332**	**1,526,899**	**44,997**	**1,931,851**	**130,366**
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**

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 exposures		56,169		3,600							
TOTAL A		**56,169**		**3,600**							
B. Off-balance sheet											
B.1 Non-performing loans											
B.2 Unlikely to pay											
B.3 Other impaired assets											
B.4 Not impaired exposures				644							
TOTAL B				**644**							
Total A+B	**12/31/2017**	**56,169**		**4,244**							
Total A+B	**12/31/2016**	**31,467**		**126,585**							

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.

B.4 Large exposures

	12/31/2017
Number	
Book value	350,279

At the balance sheet date there were two counterparties that could be classified as large exposures, relating to the exposures to the Ministry of Economy and Finance (MEF) and to Hyundai Motor Company Italy S.r.l.

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

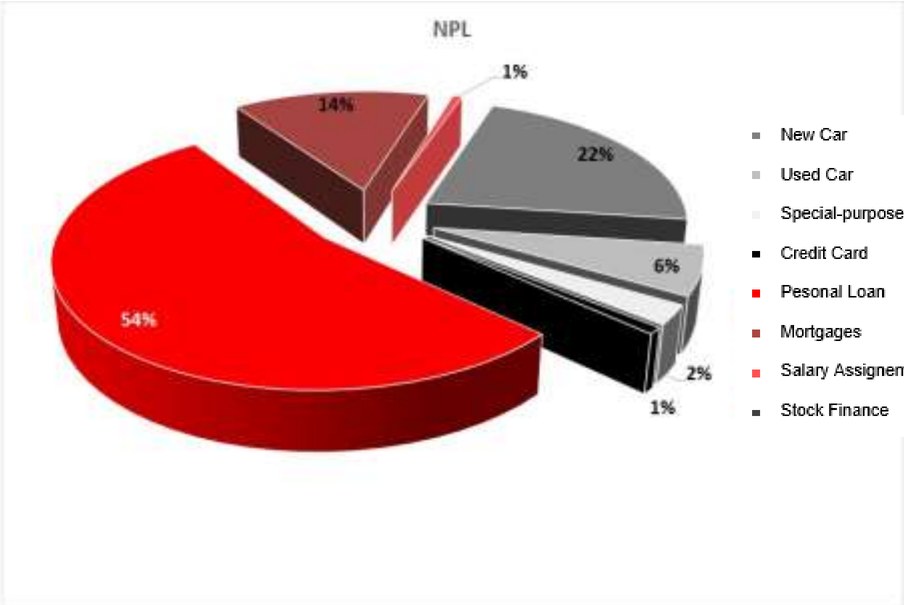
Please see the information provided above.

E.4 Covered bond transactions

The Bank has not carried out any covered bond transactions.

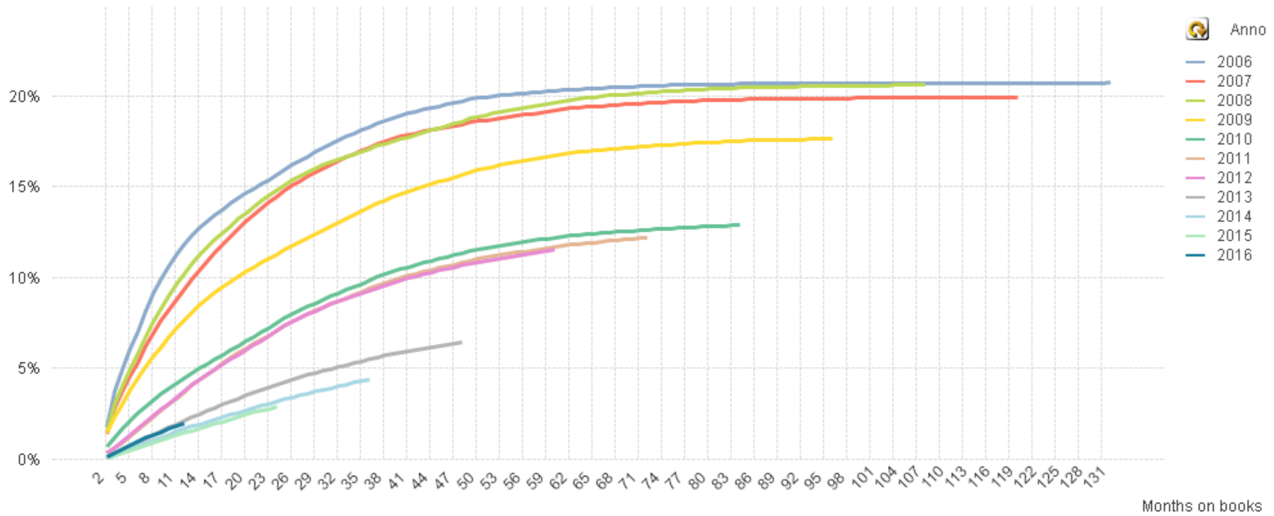
F. Models for the measurement of credit risk

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 2017.

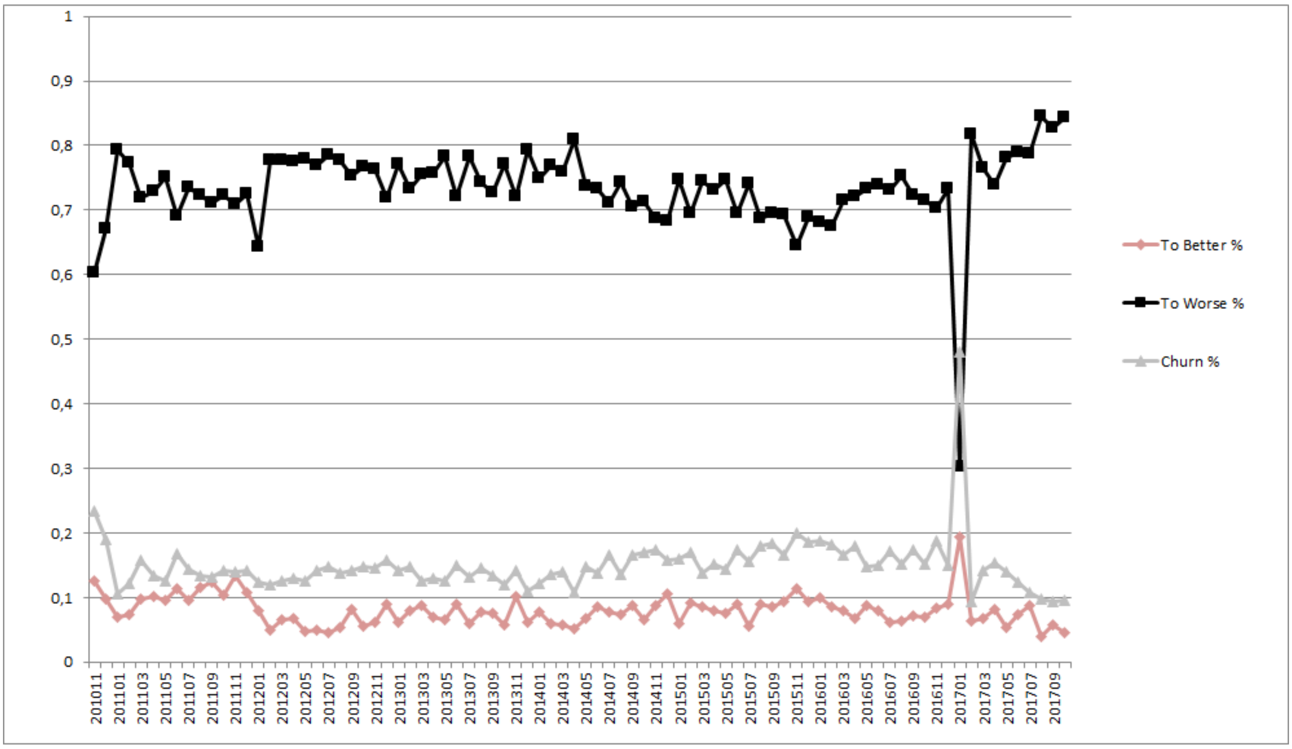


Credit risk is assessed, among other things, by:

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



- Trend analysis (roll rate). Represents the trend of loans observed over a period of time between T0 and T1, with the determination of any status change at T1 of the loans, which at the start of the observation were included in a certain past due band. This indicator is used to identify the roll rate of the loan portfolio.



Polynomial models are used (confidence/R2 ~ 95%) for stress test purposes, also to take account of the trend in default rates with a non-linear trend at the same date of the first instalment.

Please read Section F - *Models for the measurement of credit risk* in the Consolidated Financial Statements for further information on the method used.

Section 2 – Market risks

2.1 Interest rate risk and price risk - Trading portfolio reported for supervisory purposes

The Bank does not hold any trading portfolios reported for supervisory purposes.

2.2 Interest rate risk and price risk – banking book

Qualitative information

A. General aspects, management and measurement of interest rate risk and price risk

The Bank is exposed to fair value interest rate risk (risk that the value of assets and liabilities issued at fixed rates changes as a consequence of a fluctuation in the interest rate curve) and cash flow risk (risk that interest-related cash flow changes as a consequence of a fluctuation in the interest rate curve).

The sources of interest rate risk are mainly related to loans to customers, which are generated by the placement of consumer credit products and services (asset items) and their means of funding (liability items). In fact, the sector in which the Bank operates is characterised by the asset mix, which is typically composed of loans granted mainly at fixed rates; whereas the funding sources are both fixed rate and floating rate. Accordingly, the main interest rate categories to which the Bank is exposed lead to repricing risk.

Interest rate risk is managed by macro-strategies shared at Group level within well defined, formalised exposure limits. The Finance Department manages interest rate risk in accordance with the current documentation approved by the Board of Directors.

Internal processes for the management and monitoring of interest rate risk prescribe the processing of information each month at operating level by the responsible organisational units and a critical assessment by the ALCO Committee.
Monitoring involves comparing the results of stress tests performed on sensitive assets and liabilities with the limits established by the Bank of Italy and by the related documentation.

Specific ratios are 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 Bank may enter into bullet derivatives to neutralise the exposure of its liabilities to changes in future cash flows arising from unexpected fluctuations in interest rates. No transactions of this type were concluded in 2017.
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 2017, 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 change in the interest rate curve under various scenarios on shareholders' equity. With the implementation of a more evolved corporate tool, over the course of the year, in addition to the standard scenarios of parallel and immediate shock to the curve, more progressive scenarios were implemented. The following paragraph shows the results obtained by applying the scenario +100 basis points (parallel and intermediate shock) on which the monthly analysis and the decisions on interest rate risk are based. The measurement of interest rate risk is then carried out by assessing the impact of changes in interest rates on the value of interest-bearing assets/liabilities inclusive of derivatives (Interest Rate Swap); the sensitivity of the market value of equity is computed as the difference between the present value of all future cash flows discounted using market interest rate curves and the present value of future cash flows discounted using stressed interest rate curves.
At 31 December 2017, the MVE calculated with a parallel and immediate shift of +100 basis points was Euro -17.6 million. The indicator remained within the thresholds approved by the Board of Directors.

Sensitivity indicator "Net Interest Margin" (NIM)

This indicator is aimed at quantifying and monitoring the sensitivity of the interest rate risk; in particular, it quantifies the effect of a parallel and symmetric change in the interest rate curve under various scenarios on net interest income (analysis period: 12 months). As regards interest rate shift scenarios, please see the information provided in the paragraph above.
At 31 December 2017, the NIM was Euro +1.3 million (with a parallel and immediate shift of +100 basis points).

+100bps	MVE	NIM
December 2017	**-17,6**	**1,3**
Alert	±40	±10
Limit	±47	±12
-100bps	**MVE**	**NIM**
December 2017	**15,1**	**-0,7**
Alert	±40	±10
Limit	±47	±12

In the final quarter of 2017, in accordance with the Group's guidelines, the Bank began implementing dynamic analyses extending the analysis horizon to 3 years with the aim of moving toward interest margin management under progressive interest rate scenarios.

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 12/31/2017		Total 12/31/2016	
	Over the counter	Clearing House	Over the counter	Clearing House
1. Debt securities and interest rate indexes	**1,398,730**		**748,387**	
a) Options				
b) Swap	1,398,730		748,387	
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	**1,398,730**		**748,387**	
Average	**1,191,083**		**1,231,808**	

For details of interest rate swap transactions, see section 2 of assets and section 6 of liabilities.

A.2.2 Other derivatives

Underlying assets/Type of derivatives	Total 12/31/2017		Total 12/31/2016	
	Over the counter	Clearing House	Over the counter	Clearing House
1. Debt securities and interest rate indexes	**165,439**		**404,256**	
a) Options				
b) Swap	165,439		404,256	
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	**165,439**		**404,256**	
Average				

For details of interest rate swap transactions, see 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 12/31/2017		Total 12/31/2016	
	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	644			
c) Cross currency swap				
d) Equity Swap				
e) Forward				
f) Futures				
g) Other				
C. Banking book - Other derivatives				
a) Options				
b) Interest rate swap	1,033		2,992	
c) Cross currency swap				
d) Equity Swap				
e) Forward				
f) Futures				
g) Others				
Total	**1,677**		**2,992**	

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

Portfolios/Types of derivatives	Negative fair value			
	Total 12/31/2017		Total 12/31/2016	
	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	2,824		11,585	
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	**2,824**		**11,585**	

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 book – 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 book – 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			1,564,169				
- positive fair value			1,677				
- negative fair value			(2,824)				
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 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	459,574	970,577	134,018	**1,564,169**
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 12/31/2017	**459,574**	**970,577**	**134,018**	**1,564,169**
Total 12/31/2016	**644,902**	**507,742**		**1,152,643**

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 agreements							
- positive fair value			1,677				
- negative fair value			(2,824)				
- future exposure			6,863				
- net counterparty risk			8,540				
2) Bilateral credit derivatives agreements							
- 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. In accordance with the guidelines of the Spanish parent company, Santander Consumer Bank has implemented extensive documentation in this regard.
The Finance Department manages liquidity risk in accordance with the current documentation approved by the Board of Directors.

Based on the governance model adopted by the Bank, liquidity risk is monitored by the Risk Management Department (as part of second-level controls), whereas Internal Audit performs third-level controls.

The Bank manages its liquidity by means of maturity ladder methodology agreed at Santander Consumer Finance Group level. This analysis is designed to identify and quantify the imbalances between cash inflows and outflows that occur in different timeframes.

As well as the above-mentioned indicators, the Parent Company also monitors its Liquidity Coverage Ratio defined as:

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

The LCR officially came into force on 1 October 2015 and has to constantly remain above 60% throughout the year, as required by European Commission Regulation 575/2013 and by Directive 2013/36/EU and subsequent amendments to the Delegated Regulation. The limit for 2017 was set at 80%. Santander Consumer Bank's liquidity ratio meets with the above requirement and during the year the Bank also implemented daily management of the ratio. At 31 December 2017, the LCR was 166.4%.
Finally, the Bank also manages liquidity through medium-to-long-term indicators, such as the Net Stable Funding Ratio and Group indicators.

Each month an ALCO (Asset Liability Committee) meeting is held, attended by representatives from the Bank's Risk Management, Finance and Administration and Control Departments, as well as colleagues from the corresponding Spanish Parent Company Departments. The objective of this committee is to agree on the Company's strategies for interest rate and liquidity risk, funding policies and the cost of funding.

The Bank diversifies its sources of funding by recourse to financing provided by the Spanish Parent Company, bond issues, customer deposits and repurchase agreements (repos).

The Bank has also obtained credit lines from the Spanish Parent Company to mitigate its liquidity risk.

As regards transactions which require the payment of a margin call, the Company is a party to agreements for net interest margin hedging instruments entered into with Banco Santander, and with Abbey National Treasury Services plc.

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	**467,144**	**2,062**	**155,839**	**45,492**	**426,105**	**690,730**	**1,055,219**	**2,725,989**	**658,242**	**12,169**
A.1 Government securities			100,375		77,812	126,450	101,200			
A.2 Other debt securities										
A.3 Units in investment funds										
A.4 Loans	467,144	2,062	55,464	45,492	348,292	564,280	954,019	2,725,989	658,242	12,169
- Banks	25,048				135	121	242		22,500	12,169
- Customers	442,096	2,062	55,464	45,492	348,157	564,159	953,777	2,725,989	635,742	
On-balance sheet liabilities	**766,497**	**1,069**	**2,689**	**215,237**	**474,314**	**515,027**	**1,265,447**	**2,073,838**	**80,000**	
B.1 Deposits and current accounts	763,192	1,069	2,689	158,341	422,447	315,418	151,282	186,478		
- Banks	45,000			150,000	390,006	260,000		100,000		
- Customers	718,192	1,069	2,689	8,341	32,441	55,418	151,282	86,478		
B.2 Debt securities				73	8	79	113,161	151,000		
B.3 Other liabilities	3,305			56,823	51,859	199,531	1,001,004	1,736,360	80,000	
Off-balance sheet transactions										
C.1 Physically settled fin. derivatives										
- Long positions										
- Short positions										
C.2 Cash settled Fin. derivatives										
- Long positions					268	17	22			
- Short positions	310		206	543	1,109	1,528	2,432			
C.3 Deposit to be received										
- Long positions										
- Short positions										
C.4 Irrevocable commitments to disburse funds										
- Long positions										27,552
- Short positions	27,552									
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 2017, 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 2017 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 Whole Loan Note VFN 2013-1 the special purpose entity 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 three further acquisitions of performing consumer loans for a total of Euro 184,678,089, leaving the value of the securities unchanged at Euro 570,596,900 until the end of October. A repayment of Euro

61,961,201.64 was made in November. Following the aforementioned repayment, the value of the securities at year end was Euro 508,635,698.36.

As part of Operation Golden Bar Stand Alone 2014-1 the special purpose entity 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 special purpose entity 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 had been fully repaid.
A total of Euro 238,817,964 was repaid on Class A securities in 2017.

As part of Operation Golden Bar VFN 2015-1 the special purpose entity 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.
On 20 January 2017, all the classes were upsized bringing the total nominal value to Euro 1 billion thanks to a sale of receivables exceeding the replenishment amount. At the same time as the upsize, Santander Consumer Bank granted the special purpose entity a subordinated loan of Euro 7,500,000, so as to guarantee the increase of the Cash Reserve to Euro 25,000,000.
During the year, the SPE made four further revolving acquisitions of performing loans for a total of Euro 443,294,180.

As part of Operation Golden Bar VFN 2016-1, the special purpose entity 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 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 23,162,930. 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 four revolving acquisitions of loans for a total of Euro 339,996,119.

In the course of the year, the operations 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.

	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	442,346		508,636	(22,787)	7,637,530	n.a.	n.a.	n.a.	n.a.
Golden Bar Stand Alone 2014-1	266.94	195,539	75,100	26,157		n.a.	n.a.	n.a.	n.a.
Golden Bar Stand Alone 2015-1	1,016,640	890,000	110,000	56,738		n.a.	n.a.	n.a.	n.a.
Golden Bar VFN 2016-1	1,052,274	1,099,890	110	100,181		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 2017

Breakdown of the excess spread accrued during the year	12/31/2017			
	Golden Bar Whole Loan Note VFN 2013-1	Golden Bar Stand Alone 2014-1	Golden Bar Stand Alone 2015-1	Golden Bar VFN 2016-1
Interest expense on securities issued		(2,731)	(13,582)	(21,161)
Commissions and fees for the operation	(2,904)	(2,256)	(1,497)	(1,948)
- *for servicing*	(2,771)	(2,149)	(1,290)	(1,936)
- *for other services*	(133)	(107)	(207)	(12)
Other charges	(19,447)	(5,556)	(1,527)	(1,180)
Interest generated by the securitised assets	40,284	25,619	68,033	66,356
Other revenues	1,860	2,114	3,968	2
Total interest income	**19,793**	**17,190**	**55,395**	**42,069**

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 VNF 2016-1
Interest expense on securities issued	(524)	-	(5,455)	(9,667)	(8,803)
Commissions and fees for the operation	(397)	(2,669)	(3,752)	(1,050)	(1,216)
- *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**

Section 4 – Operational risk

Quantitative 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 2017 amount to Euro 24,721 thousand, of which Euro 19,246 thousand 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 2017 by risk category:

	2017			
In thousands of local unit	**Net Losses**	**Net provisions**	**Addition and Uses**	**Net Op Risk Impact**
Internal Fraud	-	-	-	-
External Fraud	2.130	-	1.699	431
Employment. Practices & Workplace Safety	-	-	-	-
Clients, Products & Business Practices	8.302	15.124	8.366	15.060
Damage to Physical Assets	-	-	-	-
Business Disruption & System Failures	-	-	-	-
Execution, Delivery & Process Management	80	9.300	67	9.313
Total	**10.512**	**24.424**	**10.132**	**24.804**

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 12/31/2017	Amount 12/31/2016
1. Share capital	**573,000**	**573,000**
2. Share premium reserve	**633**	**633**
3. Reserves	**90,107**	**40,223**
- income reserves	50,194	310
a) legal reserve	5,504	2,180
b) statutory reserve		
c) reserve for treasury shares		
d) other	44,690	(1,870)
- other	39,913	39,913
4. Equity instruments		
5. (Treasury shares)		
6. Revaluation reserves	**(553)**	**(589)**
- Financial assets available for sale	82	45
- 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	(635)	(634)
- Portion of measurement reserves relating to investments carried at equity		
- Special revaluation laws		
7. Net profit (loss)	**80,223**	**66,484**
Total	**743,409**	**679,750**

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

Assets / values	12/31/2017		12/31/2016	
	Positive reserve	**Negative reserve**	**Positive reserve**	**Negative reserve**
1. Debt securities	91	(9)	101	(56)
2. Equity securities				
3. Units in investment fund				
4. Loans				
Total	**91**	**(9)**	**101**	**(56)**

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	**45**			
2. Positive changes	**147**			
2.1 Fair value increases	147			
2.2 Reclassification through profit or loss of negative				
- due to impairment				
- following disposal				
2.3 Other changes				
3. Negative changes	**110**			
3.1 Fair value reductions	64			
3.2 Impairment losses				
3.3 Reclassification through profit or loss of positive	46			
3.4 Other changes				
4. Closing balance	**82**			

B.4 Valuation reserves related to defined-benefit pension plans: change in the year
During the year there was a decrease in valuation reserves related to defined-benefit pension plans for a positive amount equal to Euro (1) thousand (Euro (1) 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" loans).
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, reserves and fully calculated profit, and is net of intangible assets and a deduction from the value of derivatives determined on the basis of CRR recommendations.

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.

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 12/31/2017	Total 12/31/2016
A. Capital primary Class 1 (Common Equity Tier 1 - CET1) before application of prudential filters	**743,409**	**613,239**
of which CET1 instruments subject to transitional provisions	82	
B. Prudential filters CET1 (+/-)	**(326)**	
C. CET1 before items to be deducted and the effects of the transitional arrangements (A +/- B)	**743,083**	**613,239**
D. Deductions from CET1	**10,264**	**8,178**
E. Transitional arrangements - Impact on CET1 (+/-)	**(16)**	
F. Total Capital primary Class 1 (Common Equity Tier 1 - CET1) (C - D +/- E)	**732,803**	**605,061**
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	**86,493**	**66,670**
of which T2 instruments subject to transitional provisions		
N. Deductions from T2		
O. Transitional arrangements - Impact on T2 (+/-)	**8**	
P. Total Share of Class 2 (Tier 2 -T2) (M - N +/- O)	**86,501**	**66,670**
Q. Total own funds (F + L + P)	**819,304**	**671,731**

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.

	Issue date	Amount (Euro)	Interest rate	Duration
UPPER TIER II subordinated debt to Openbank S.A.	30/06/2008	16,250,000	6 month Euribor +2.8%	10 years
UPPER TIER II subordinated debt to Openbank S.A.	31/10/2008	16,250,000	6 month Euribor +2.8%	10 years
LOWER TIER II subordinated debt to Openbank S.A.	30/06/2008	6,500,000	6 month Euribor +1.8%	10 years
LOWER TIER II subordinated debt to Openbank S.A.	31/10/2008	6,500,000	6 month Euribor +1.8%	10 years
TIER II subordinated debt to Santander Consumer Finance S.A.	30/06/2015	50,000,000	6 month Euribor +3.2%	10 years
TIER II subordinated debt to Santander Consumer Finance S.A.	30/06/2017	30,000,000	Base rate 0.655 + 3.025%	10 years

B. Quantitative information

	Non weighted assets		**Weighted assets**	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
A. RISK ASSETS				
A.1 Credit and counterparty risk	6,508,229	6,734,340	4,483,427	4,197,591
1. Standardized approach	6,508,229	6,734,340	4,483,427	4,197,591
2. IRB approach				
2.1 Foundation				
2.2 Advanced				
3. Securitizations				
B. CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			358,674	335,807
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			29,296	27,589
1. Basic indicator approach (BIA)				
2. Traditional standardized approach (TSA)			29,296	27,589
3. Advanced measurement approach (AMA)				
B.6 Other calculation elements				
B.7 Total capital requirements			387,970	363,396
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Weighted risk assets			4,849,626	4,542,451
C.2 Capital primary class1 / Risk			15.11%	13.32%
C.3 Capital Class 1 / Risk-weighted assets (Total capital ratio)			15.11%	13.32%
C.4 Total own funds / Risk-weighted assets (Total capital ratio)			16.89%	14.79%

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

During the year there were no business combinations, as regulated by IFRS 3, which resulted in the acquisition of control of business or legal entities.

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 2017 to members of the management and control bodies and to managers with strategic responsibilities that fall within the definition of "related party".

	12/31/2017
Short-term benefits	404
Post-employment benefits	-
Other long-term benefits	-
Termination indemnities	-
Share-based payments	-
Total	**404**

2. Related party disclosures

All transactions with related parties were concluded at arm's-length conditions. Details are shown below (amounts in thousands of euros):

	Receivables	**Payables**	**Derivatives**	**Expenses**	**Income**
Banco Santander	4,244	2,824	1,398,730	10,812	9,092
Santander Consumer Finance		2,381,653		18,347	
Santander Consumer Finance Media	9	4,638			48
Banca PSA Italia S.p.A.	22,666				6,555
Other Santander Group companies	1,487	122,674	165,439	6,459	346

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 the measurement of derivatives and related accruals with positive FV;
- the payables relate to the measurement of derivatives and related interest with negative FV;
- 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 charges relate to hedging activities;
- 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;
- the charges relate to interest expenses on loans received;

Versus the direct subsidiary Santander Consumer Finance Media:

- the receivables relate to outsourcing fees not yet paid by the subsidiary (Euro 9 thousand);
- the payables mainly relate to the negative balance of the correspondent current account, which amounts to Euro 4,461 thousand and to a payable due to the subsidiary under domestic tax group arrangements of Euro 177 thousand;
- the income refers mainly to commissions for the servicing contract (Euro 47 thousand).

in respect of the investee company Banca PSA SpA:

- the receivables relate to outsourcing fees not yet paid by the subsidiary (Euro 143 thousand) and by the subordinated loan (Euro 22,522);

- the income relates to services deriving from the internal audit contract (Euro 233 thousand), the recovery of expenses for seconded personnel (Euro 199 thousand) and dividends received (Euro 6,100 thousand).

Relationships are also maintained with other companies of the Santander Group. Receivables relate mainly to the measurement of derivatives and related accruals of Euro 1,033 thousand. The payables mainly consist of subordinated loans and hybrid capital instruments (Euro 84,682 thousand), whereas the expenses mainly consist of interest expense accrued on loans requested (Euro 2,400 thousand) and consulting and services received (Euro 4,044 thousand). Income mainly relates to hedging activities (Euro 1,948 thousand).

Finally, it should be noted that there are credits in the amount of Euro 228 thousand and debits in the amount of Euro 165 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 2016 AND 2015

(Thousands of Euros)

ASSETS	2016	2015	LIABILITIES AND EQUITY	2016	2015
Cash, cash balances at central banks and other deposits on demand	16,326	1,069,693	**LIABILITIES**		
Financial assets held for trading	30	-			
Financial assets designated at fair value through profit or loss	-	-	Financial liabilities held for trading	1,747	109
Financial assets available for sale	1,202,855	1,268,006	Financial liabilities at amortised cost	25,884,208	23,700,087
Loans and receivables	22,346,832	20,072,847	Hedging derivatives	43,733	15,631
Investments held to maturity	-	-	Provisions	51,833	59,720
Hedging derivatives	69,953	106,459	Tax liabilities	176,113	183,642
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	-	-	Other liabilities	38,098	23,378
Investments	11,745,889	10,445,007			
Tangible assets	263	75	**TOTAL LIABILITIES**	**26,195,732**	**23,982,567**
Intangible assets	8,889	4,740			
Tax assets	120,081	245,400			
Other assets	2,665	1,203	Shareholders equity	9,327,530	9,242,341
Non current assets held for sale	5,196	9,875	Other comprehensive income	(4,283)	(1,603)
TOTAL ASSETS	**35,518,979**	**33,223,305**	**TOTAL EQUITY**	**9,323,247**	**9,240,738**
			TOTAL LIABILITIES AND EQUITY	**35,518,979**	**33,223,305**
MEMORANDUM ITEMS:					
CONTINGENT LIABILITIES	1,536,494	1,013,105			
CONTINGENT COMMITMENTS	4,588,651	3,629,640			

SANTANDER CONSUMER FINANCE, S.A.

CONDENSED INCOME STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

(Thousands of Euros)

	Income/(Expenses)	
	2016	2015
Interest Income	310,195	340,557
Interest Expense	(126,387)	(147,366)
Net interest income	**183,808**	**193,191**
Dividend Income	684,824	274,238
Commission income	29,741	31,234
Commission expense	(46,949)	(47,821)
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net	(12,634)	(360)
Gains or losses on financial assets and liabilities held for trading, net	(474)	3
Gains or losses on financial assets and liabilities measured at fair value through profit or loss, net	-	-
Gains or losses from hedge accounting, net	(13)	(12)
Exchange differences, net	(2,891)	131
Other operating income	130	434
Other operating expenses	(7,077)	(6,608)
Income from assets under insurance and reinsurance contracts	-	-
Expenses from liabilities under insurance and reinsurance contracts	-	-
Total income	**828,465**	**444,430**
Administrative expenses	(53,733)	(55,036)
Depreciation and amortisation cost	(1,811)	(236)
Provisions or reversal of provisions	4,470	(7,441)
Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss, net	12,968	(26,747)
Profit from operations	**790,359**	**354,970**
Impairment of investments in subsidiaries, joint ventures and associates, net	-	-
Impairment on non-financial assets, net	-	-
Negative goodwill recognised in results	-	-
Gains or losses on non-current assets held for sale classified as discontinued operations	(6,889)	(4,715)
Profit or loss before tax from continuing operations	**783,470**	**350,255**
Tax expense or income from continuing operations	(156,972)	63,740
Profit for the period from continuing operations	626,498	413,995
PROFIT FOR THE YEAR	**626,498**	**413,995**

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