Santander Consumer Finance, S.A. and subsidiaries

Independent auditor´s report on
the consolidated annual accounts at December, 31 2017

This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Independent auditor´s report on the consolidated annual accounts

To the shareholders of Santander Consumer Finance, S.A.

Report on the consolidated annual accounts

Opinion

We have audited the consolidated annual accounts of Santander Consumer Finance, S.A. (the Parent company) and its subsidiaries (the Group), which comprise the balance sheet as at December 31, 2017, and the income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes, all consolidated, for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the equity and financial position of the Group as at December 31, 2017, as well as its financial performance and cash flows, all consolidated, for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for opinion

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated annual accounts* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the consolidated annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

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 annual accounts of the current period. These matters were addressed in the context of our audit of the consolidated annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers Auditores, S.L., Torre PwC, Pº de la Castellana 259 B, 28046 Madrid, España
Tel.: +34 915 684 400 / +34 902 021 111, Fax: +34 915 685 400, www.pwc.es

R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and receivables The estimate of the impairment of Loans and receivables due to credit risk is one of the most significant and complex estimates in the preparation of the accompanying consolidated annual accounts. The assessment of impairment due to credit risk is based on models, mostly developed by the Group and to a lesser extent by the regulators, that assume a major judgement component to determine impairment losses, considering such factors as: • The risk-based classification of the loan portfolios. • Identification and classification as such of impaired assets. • Utilisation of significant assumptions such as future income levels, interest rate trends, employment rates, etc. • Utilisation of significant assumptions such as historical default rates, estimate of expected recovery flows, valuation of guarantees, estimated term for identifying impairment (*emerge period*), etc. • Construction of parameters for these models such as probabilities of impairment (PI) and loss given impairment (LGI). The Group's business mainly centres on products for financing automobile purchases and consumer financing and focuses on nine principal markets (Germany, Scandinavia - Norway, Sweden, Denmark, Finland -, Spain, France, Italy and Austria). In this context, the Group implements a general framework for its risk models in order to estimate both collective provisions and provisions for risks estimated individually, although in each geographical area and line of business the specific features of each market are taken into account. See Notes 2 and 10 to the accompanying consolidated annual accounts.	Our work on the estimate of credit risk impairment has focused on the analysis, assessment and verification of internal control and the performance of tests of detail on provisions estimated both collectively and individually. We have carried out procedures on the following processes, among others, in relation to internal control: • Calculation methodologies, recalibrations and backtesting processes completed by management. • Regulatory compliance and operation of internal models approved by management. • Reliability of the source of data used in the calculations and the suitability of the models, taking the relevant circumstances into account. • Regular evaluation of risks and monitoring alerts made by Banco Santander. • Regular review of borrower records to determine their classification and assessment. Tests of detail have also been conducted consisting of: • Verifications with respect to: i) calculation and segmentation methods; ii) historical loss rates in the estimate of future cash flows and of historical discount rates; iii) correct classification of loans in the relevant categories. • Recalculation of collective provisions for the main portfolios. • Obtainment of a sample of individual records to assess the classification and recognition thereof, cash-flow discounting models and any impairment. • Comparison of impairment losses actually incurred with those estimated in previous periods. No differences outside a reasonable range were identified in the tests described above.

Key audit matter	How our audit addressed the key audit matter
Analysis of estimated impact of entry into force of IFRS 9 In relation to the entry into force in 2018 of the new IFRS 9 on the Classification and Measurement of Financial Instruments, as is mentioned in Note 1.b the Group has designed an implementation plan to adopt this standard. This plan includes an assessment of the population of financial instruments affected by the IFRS classification and measurement requirements and the development of a methodology for the impairment of loans and receivables due to credit risk in order to determine expected impairment losses. In this first application of the standard, the Group has decided not to adopt the new standard relating to hedge accounting, as detailed in Note 1.b. and envisaged in IFRS 9. Due to their relevance for the Group, the directors and management monitor particularly closely the implementation projects completed in the following business units: Germany, Scandinavia - Norway, Sweden, Denmark and Finland - Spain, France and Italy. In this line, the Group has completed the definition of the main assumptions used in the valuation, classification and provision process, such as: the main business models used, definition of the circumstances that determine impairment evidence, future information included in the provision models or completed evaluation for determining the significant increase in credit risk. Therefore, as a disclosure requirement in the consolidated annual accounts and in line with the requirements of IAS 8, the Group has estimated the impacts of the adoption of the new standard. See Note 1.b to the consolidated annual accounts.	For these geographical areas our work has centred on performing tests of detail in relation to the disclosure of financial information concerning the estimated impact of the entry into force of the new standard in each of its key areas: classification, measurement and impairment. Concerning internal control and in line with the requirements of IAS 8, we have focused on controls relating to the presentation and disclosure of information in the consolidated annual accounts. The controls over the following areas deserve particular attention: • Accounting policies and the methodological framework developed by the Group in order to assess compliance with the new standard. • Analysis of the main calculation methodologies and variables considered in the quantification. We have also carried out tests of detail on the calculations presented and broken down in Note 1.b: • Obtainment of a sample of operations performing verifications to assess their proper classification, recognition and measurement based on the business models analysed and an evaluation of whether the contractual cash flows of the financial assets analysed are based only on payments of principal and interest (SPPI approach). • For the main portfolios, checks related to: i) methodology for estimating expected loss parameters, ii) historical and forward-looking information used, (iii) classification criteria for loans by stages. • Review of impairment calculations including information on scenarios and related assumptions. As a result of our procedures, we have no observations to add, outside a reasonable range.

Key audit matter

Measurement of goodwill

The Group evaluates goodwill impairment on an annual basis.

Management estimates the recoverable amount of the most representative cash generating units (CGUs), calculating their value in use by discounting cash flow projections. These estimates are inherently uncertain and include a high level of judgement as they are based on assumptions concerning such matters as discount rates, profit forecasts and constant long-term growth rates. These estimates are sensitive to the variables and assumptions used, and in view of their nature there exists a risk of inaccuracy in their valuation.

Due to their relevance for the Group, Management monitors particularly closely the goodwill derived from Germany, Austria and Nordics (Norway, Sweden and Denmark).

See Notes 2 and 15 to the accompanying consolidated annual accounts.

How our audit addressed the key audit matter

We have documented, with the assistance of our valuation experts, our understanding and review of the estimate process followed by Management.

With respect to internal control, we have focused on control mechanisms over the following areas:

- Criteria for defining the Group's CGUs.
- Managements' method for estimating goodwill impairment, including control mechanisms to supervise the process and the approvals implicit in it.
- Budgeting process on which the profit projections used in the discounting of cash flow projections are based.
- Management's reliable prediction capacity through the comparison of prior-year forecasts and evaluations of impairment against the results obtained.
- Obtainment and understanding of annual valuation reports by the Group's experts on the evaluation of goodwill impairment.

We have also carried out tests to verify the discounting of cash-flow projections used by the Group in its estimate, taking into account the relevant regulations, market practice and specific banking sector expectations. This evaluation has included the verification of assumptions such as growth rates and discount rates.

We have also carried out the following procedures:

- Verification of the mathematical accuracy of the discounts of cash-flow projections, including validation of key inputs against external data.
- Performance of a specific sensitivity analysis on key inputs, such as those relating to: i) financial projections for the coming years; ii) expected long-term growth rate; and iii) methodology and assumptions in the discount rate calculation.
- We have also checked the adequacy of the information disclosed in the accompanying consolidated annual accounts.

As a result of the above procedures, we consider that Management's estimates are within a reasonable range.

Key audit matter	How our audit addressed the key audit matter
Measurement of pension commitments	
The legislation applicable to pension commitments is complex and additionally, the estimation of these commitments requires actuarial calculations involving a high degree of judgement, a high volume of data and the utilisation of estimates on assumptions in various geographical areas. These estimates are particularly relevant in geographical areas such as Spain and Germany. In its estimates, Management takes into account certain considerations to evaluate the recognition of pension commitments, among which the most relevant are as follows: • Ensure that the legal regulations in each country are correctly applied. • Maintain and validate the calculations to ensure that the measurement and recognition of pension commitments are appropriate. • Revise the main assumptions used in the calculations and estimates made by actuaries at the year end. See Notes 2 and 21 to the accompanying consolidated annual accounts.	We have documented, with the assistance of our actuaries, our understanding and review of the estimate process followed by Management. With respect to internal control, we have focused on control mechanisms over the following processes: • Updating of personnel data bases. • Assumptions used to estimate pension commitments, including a review thereof and an assessment of evidence of any changes that might have affected them. • Actuarial criteria used in the pension commitment estimate and calculation process in each geographical area and for the Group. In addition, we have conducted the following tests of detail: • Verification of the basic information and assumptions used by Management to estimate pension commitments. • Obtainment of letters of confirmation from insurers working with the Group to check information relating to the savings policies concluded with them. • Verification of the Group's assessment of assets and liabilities associated with pension commitments. • Obtention and understanding of actuarial reports prepared by the external experts of Group management. As a result of the above processes, no differences have been identified outside a reasonable range in the assumptions applied by the Group.
Provisions for restructuring	
In certain geographical areas, mainly Germany and France, the Group is undergoing a business restructuring process to adapt its size and business activities to the current market conditions in those countries.	We have documented our understanding and review of the estimate process followed by Management.

Key audit matter	How our audit addressed the key audit matter
The estimates of the outflow of resources and additional costs in these processes, based on the plans prepared by Management, have given rise to a relevant restructuring provision in those areas. Group Management decides when to record a provision for the estimated disbursements arising directly from the restructuring, which are those that necessarily arise as a result of the restructuring and are not associated with ongoing activities, bearing in mind the fulfilment of the following: • Existence of a formal plan describing the restructuring. • A valid expectation has arisen among the persons affected that the processes will be implemented in the short term, or they have been notified of the essential aspects thereof. See Notes 2 and 21 to the accompanying consolidated annual accounts.	With respect to internal control, we have focused on control mechanisms over the following processes: • Preparation of the restructuring plans, including the review and approval thereof. • Evaluation of the monitoring and accuracy of the provisions recorded for restructuring operations. In addition, we have conducted the following tests of detail: • Checking of the assumptions used in the calculation of the provision against the plans approved by Management. • Obtainment of the minutes of governing bodies, including the Board of Directors, Audit Committee and Executive Committee, and notifications to the parties involved. • Verification of payments arising directly from the restructuring. • Verification of the recognition, reasonableness and movements of the restructuring provisions. We have obtained sufficient evidence to confirm the estimates made by Management on this matter.
Information systems - access control	
The Group's activity relies to a considerable extent on its information technology (IT) systems in the geographical areas in which it operates and therefore appropriate control over these systems is vital to ensuring the correct processing of information. In addition, as the systems become more numerous and complex, the risk relating to the organisation's information systems and therefore to the information processed increases. The technological environment has been developed mainly by the Group, while part of the environment was developed by its business partners.	With the assistance of our specialists in information technology systems, our work consisted of testing internal control over the systems, databases and applications that support the main business activity and which impact the Group's financial information. In this respect, procedures have been implemented on controls related to: • Operation of the IT governance framework. • Access control and software security on applications, operating systems and databases that contain relevant financial information.

Key audit matter	How our audit addressed the key audit matter

In this context, it is critical to evaluate issues such as the organisation of the Technology and Operations Area of the Group and business partners, controls over applications maintenance and development, hardware and software security and systems operation.
 	
In this respect, Management has a systems efficiency plan covering such areas as system access control, databases and applications.
	• Change management and application development.
	
	• Maintenance of IT operations.
	
	In the course of our audit, incidents emerged related to the access controls for certain applications in the Group environment and in certain operating systems, databases and applications in the business partner environment. In response to this, in both environments plans to rectify the incidents were defined, which are currently being addressed in the Group environment, as well as on the implementation of mitigating control mechanisms.
	In this context, our approach and audit plan have focused on the following aspects:
	
	• In relation to the Group environment:
	
	    • Obtainment of the rectification plan and controls implemented by the Group in 2017.
	
	    • Controls over segregation of duties (access authorisations) and access to critical transactions.
	
	    • Increase in samples on mitigating control mechanisms identified by Management.
	
	    • Increase in the samples analysed in the tests of detail on derivatives and other financial assets to confirm their existence and valuation as well as the operation of the IT governance framework.
	
	• Concerning the business partner environment and the rectification plan, the new controls implemented mainly during the second half of 2016 have been checked.
	
	The results of our procedures on the additional samples in the control tests and in the tests of detail concluded satisfactorily and we have not identified any key observation in relation to this matter.

Other information: Consolidated management report

Other information comprises only the 2017 consolidated management report, the formulation of which is the responsibility of the Parent company´s directors and does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not cover the consolidated management report. Our responsibility regarding the information contained in the consolidated management report is defined in the legislation governing the audit practice, which establishes two distinct levels in this regard:

a) A specific level applicable to the consolidated statement of non-financial information, that consists of verifying solely that the aforementioned information has been provided in the management report or, if appropriate, that the consolidated management report includes the pertinent reference in the manner provided by the legislation and if not, we are required to report that fact.

b) A general level applicable to the rest of the information included in the consolidated management report that consists of evaluating and reporting on the consistency between that information and the consolidated annual accounts as a result of our knowledge of the Group obtained during the audit of the aforementioned financial statements and does not include information different to that obtained as evidence during our audit, as well as evaluating and reporting on whether the content and presentation of that part of the consolidated management report is in accordance with applicable regulations. If, based on the work we have performed, we conclude that material misstatements exist, we are required to report that fact.

On the basis of the work performed, as described above, we have ascertained that the consolidated management report includes a reference that the information mentioned in paragraph a) above has been provided in the Group Banco Santander, S.A. and subsidiaries consolidated management report in which the Group is integrated and that the rest of the information contained in the consolidated management report is consistent with that contained in the consolidated annual accounts for the 2017 financial year, and its content and presentation are in accordance with the applicable regulations.

Responsibility of the directors and the audit committee for the consolidated annual accounts

The Parent company´s directors are responsible for the preparation of the accompanying consolidated annual accounts, such that they fairly present the consolidated equity, financial position and financial performance of the Group, in accordance with International Financial Reporting Standards as adopted by the European Union and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as the directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts, the Parent company´s directors are responsible for assessing the Group´s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Parent company´s audit committee is responsible for overseeing the process of preparation and presentation of the consolidated annual accounts.

Auditor's responsibilities for the audit of the consolidated annual accounts

Our objectives are to obtain reasonable assurance about whether the consolidated annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor´s report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with legislation governing the audit practice in Spain 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 annual accounts.

As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group´s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent company´s directors.

- Conclude on the appropriateness of the Parent company´s directors´ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group´s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor´s report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor´s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Parent company´s audit committee 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 identify during our audit.

We also provide the Parent company´s audit committee with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate with the audit committee those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Parent company´s audit committee, we determine those matters that were of most significance in the audit of the consolidated annual accounts of the current period and are therefore the key audit matters.

We describe these matters in our auditor´s report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

Report to the Parent company´s audit committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent company's audit committee dated February 21, 2018.

Appointment period

The General Ordinary Shareholders' Meeting held on March 31, 2016 appointed us as auditors of the Group for a period of three years, as from the year ended December 31, 2016.

Services provided

Services provided to the Group for services other than the audit of the accounts are described in the note 40 to the consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by
José María Sanz Olmeda (05434)

February 22, 2018

Santander Consumer Finance, S.A. and Subsidiaries composing the Santander Consumer Finance Group (Consolidated)

Consolidated Financial Statements
and Consolidated Directors' Report
for the year ended 31 December 2017

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 48). In the event of a discrepancy, the Spanish-language version prevails.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 48). In the event of a discrepancy, the Spanish-language version prevails.

SANTANDER CONSUMER FINANCE, S.A. AND SUBSIDIARIES
COMPOSING THE SANTANDER CONSUMER FINANCE GROUP
CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2017 AND 2016

(Thousand Euros)

ASSETS	Note	2017	2016 (*)
CASH, CASH BALANCES AT CENTRAL BANKS AND OTHERS DEPOSITS ON DEMAND	2	4,565,157	4,837,901
FINANCIAL ASSETS HELD FOR TRADING:	9	34,064	56,035
Trading derivatives		34,064	56,035
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS		-	-
FINANCIAL ASSETS AVAILABLE FOR SALE:		2,617,771	3,170,929
Equity instruments	8	12,048	12,366
Debt instruments	7	2,605,723	3,158,563
LOANS AND RECEIVABLES:		86,930,859	82,677,048
Debt instruments	7	-	103,299
Loans and advances		86,930,859	82,573,749
Central Banks		12,566	10,200
Credit institutions	6	283,125	580,381
Customers	10	86,635,168	81,983,168
INVESTMENTS HELD-TO-MATURITY		-	-
HEDGING DERIVATIVES	11	133,399	122,492
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	11	47,823	117,973
INVESTMENTS:	13	567,348	538,019
Jointly controlled entities		147,183	120,050
Associates		420,165	417,969
INSURANCE CONTRACTS LINKED TO PENSIONS		-	-
TANGIBLE ASSETS:	14	304,411	333,691
Property, plant and equipment-		304,411	333,691
For own use		157,862	180,114
Leased out under an operating lease		146,549	153,577
Investment property		-	-
Memorandum items: Acquired in finance lease		49,157	50,321
INTANGIBLE ASSETS:	15	2,114,230	2,171,345
Goodwill		1,870,036	1,889,262
Other intangible assets		244,194	282,083
TAX ASSETS:	22	968,221	909,175
Current		340,466	227,567
Deferred		627,755	681,608
OTHER ASSETS:	16	1,426,157	1,296,950
Inventories		99,746	96,139
Other		1,326,411	1,200,811
NON-CURRENT ASSETS HELD FOR SALE	12	6,872	9,943
TOTAL ASSETS		**99,716,312**	**96,241,501**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 47 and Appendices I to VI are an integral part of the consolidated balance sheet as at 31 December 2017.

SANTANDER CONSUMER FINANCE, S.A. AND SUBSIDIARIES
COMPOSING THE SANTANDER CONSUMER FINANCE GROUP
CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2017 AND 2016
(Thousand Euros)

LIABILITIES	Note	2017	2016 (*)
FINANCIAL LIABILITIES HELD FOR TRADING:		28,851	53,277
Derivatives	9	28,851	53,277
FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS		-	-
FINANCIAL LIABILITIES AT AMORTISED COST:		84,657,096	82,665,341
Deposits		55,383,466	53,458,916
Central banks	17	10,244,875	10,001,944
Credit institutions	17	11,598,898	10,199,494
Customers	18	33,539,693	33,257,478
Marketable debt securities	19	28,305,252	27,865,655
Other financial liabilities	20	968,378	1,340,770
Memorandum items: subordinated liabilities	17	*957,370*	*866,346*
HEDGING DERIVATIVES	11	167,800	248,041
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST	11	-	-
LIABILITIES UNDER INSURANCE CONTRACTS		-	-
PROVISIONS:	21	826,519	760,083
Pensions and other employement defined benefit obligations		*491,729*	*508,851*
Other long term employee benefits		*66,330*	*70,549*
Taxes and other legal contingencies		*53,511*	*50,715*
Commitments and guarantees given		*6,338*	*5,053*
Other provisions		*208,611*	*124,915*
TAX LIABILITIES:	22	823,679	740,468
Current		179,538	207,541
Deferred		644,141	532,927
OTHER LIABILITIES	16	1,452,163	1,377,004
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE			-
TOTAL LIABILITIES		**87,956,108**	**85,844,214**
SHAREHOLDERS' EQUITY:		10,724,814	9,398,682
Capital	23	5,638,639	5,638,639
Called up paid capital		5,638,639	5,638,639
Share Premium	24	1,139,990	1,139,990
Equity instruments issued other than capital	23	850,000	-
Other equity instruments		-	-
Accumulated retained earnings	25	2,175,234	1,887,666
Other reserves:	25	241,907	218,443
Reserves or accumulated losses of investments in joint ventures and associated		281,386	258,345
Other reserves		(39,479)	(39,902)
(-) Own shares		-	-
Profit attributable to shareholders of the parent		1,079,387	1,055,253
(-) Interim Dividends	3	(400,343)	(541,309)
OTHER COMPREHENSIVE INCOME		(413,350)	(325,557)
ITEMS NOT RECLASSIFIED TO PROFIT OR LOSS		(129,544)	(133,544)
Actuarial gains or losses on defined benefit pension plans	26	*(129,567)*	*(133,574)*
Other recognised income and expense of investments in subsidaries, joint ventures and associates		*23*	*30*
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS		(283,806)	(192,013)
Hedge of net investments in foreign operations (effective portion)	26	*13,048*	*(30,632)*
Exchange differences		*(303,344)*	*(146,420)*
Hedging derivatives. Cash flow hedges (effective portion)	26	*(196)*	*(7,539)*
Financial assets available-for-sale	26	*5,558*	*2,374*
Debt instruments		*3,877*	*2,019*
Equity instruments		*1,681*	*355*
Other recognised income and expense of investments in subsidaries, joint ventures and associates		*1,128*	*(9,796)*
NON-CONTROLLING INTEREST	27	1,448,740	1,324,162
Other comprehensive income		*(247)*	*1,609*
Others items		1,139,990	*1,322,553*
TOTAL EQUITY		**11,760,204**	**10,397,287**
TOTAL LIABILITIES AND EQUITY		**99,716,312**	**96,241,501**
Memorandum items			
CONTINGENT LIABILITIES	28	771,551	832,951
CONTINGENT COMMITMENTS	28	23,068,568	21,184,195

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 47 and Appendices I to VI are an integral part of the consolidated balance sheet as at 31 December 2017.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 48). In the event of a discrepancy, the Spanish-language version prevails.

SANTANDER CONSUMER FINANCE, S.A. AND SUBSIDIARIES
COMPOSING THE SANTANDER CONSUMER FINANCE GROUP

CONSOLIDATED INCOME STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

(Thousand Euros)

		Income/(Expenses)	
	Note	2017	2016 (*)
INTEREST INCOME	30	3,689,075	3,629,917
INTEREST EXPENSE	31	(484,233)	(552,450)
CAPITAL EXPEDITURE REIMBURSABLE TO THE VIST		-	-
NET INTEREST INCOME		**3,204,842**	**3,077,467**
DIVIDEND INCOME		92	59
SHARE OF RESULTS OF ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD	32	94,119	68,907
COMMISSION INCOME	33	1,157,010	1,171,986
COMMISSION EXPENSE	34	(311,199)	(351,875)
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net	35	(3,372)	19,549
Gains or losses on financial assets and liabilities held for trading, net	35	269	(3,677)
Gains or losses from hedge accounting, net	35	18,706	(11,257)
EXCHANGE DIFFERENCES (net)	36	(12,742)	3,424
OTHER OPERATING INCOME:	37	101,746	119,803
OTHER OPERATING EXPENSES:	38	(133,505)	(139,821)
Income from assets under insurance and reinsurance contracts		-	-
Expenses from liabilities under insurance and reinsurance contracts		-	-
GROSS INCOME		**4,115,966**	**3,954,565**
ADMINISTRATIVE EXPENSES:		(1,618,293)	(1,547,032)
Staff costs	39	*(723,618)*	*(697,822)*
Other general administrative expenses	40	*(894,675)*	*(849,210)*
DEPRECIATION AND AMORTISATION CHARGE	14 and 15	(167,487)	(189,281)
PROVISIONS OR REVERSAL OF PROVISIONS	21	(133,162)	(24,346)
IMPAIRMENT OR REVERSAL OF IMPAIRMENT AT FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS, NET	10	(205,195)	(328,248)
Financial assets available-for-sale		*(732)*	*(245)*
Loans and receivables	*10*	*(204,463)*	*(328,003)*
Held-to-maturity investments		-	-
PROFIT FROM OPERATIONS		**1,991,829**	**1,865,658**
Impairment of investments in subsidiaries, joint ventures and associates, net	3.b	(60,000)	-
Impairment on non-financial assets, net	41	(37,942)	(2,100)
Tangible assets		*(904)*	*(826)*
Intangible assets		*(32,329)*	*(652)*
Others		*(4,709)*	*(622)*
Gains or losses on non financial assets and investments, net	42	216	(16,391)
Which in subsidiaries, joint ventures and associates		*146*	*(8,999)*
Negative goodwill recognised in results		-	-
Gains or losses on non-current assets held for sale classified as discontinued operations	43	1,526	(9,078)
Profit or loss before tax from continuing operations		**1,895,629**	**1,838,089**
Tax expense or income from continuing operations	22	(603,750)	(614,554)
Profit for the period from continuing operations		**1,291,879**	**1,223,535**
Profit or loss after tax from discontinued operations		-	
Profit for the period		**1,291,879**	**1,223,535**
Profit attributable to non-controlling interests	27	*212,492*	*168,282*
Profit attributable to the parent		*1,079,387*	*1,055,253*
Earnings per share			
Basic	4	*0.57*	*0.56*
Diluted	4	*0.57*	*0.56*

(*) Presented for comparison purposes only. The accompanying Notes 1 to 47 and Appendices I to VI are an integral part of the consolidated income statement for 2017

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 48). In the event of a discrepancy, the Spanish-language version prevails.

SANTANDER CONSUMER FINANCE, S.A. AND SUBSIDIARIES
COMPOSING THE SANTANDER CONSUMER FINANCE GROUP

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

A) CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

(Thousand Euros)

		2017	2016 (*)
CONSOLIDATED PROFIT FOR THE YEAR		**1,291,879**	**1,223,535**
OTHER RECOGNISED INCOME AND EXPENSE		**(89,649)**	**(18,459)**
Items that will not be reclassified to profit or loss		**3,844**	**(4,057)**
Actuarial gains and losses on defined benefit pension plans	26	6,071	(8,837)
Non-current assets held for sale		-	-
Other recognized income and expense of investments in subsidaries, joint ventures and associates		(7)	
Other valuation adjustments		-	30
Income tax relating to items that will not be reclassified to profit or loss	22	(2,220)	4,750
Items that may be reclassified subsequently to profit or loss		**(93,493)**	**(14,402)**
Hedges of net investments in foreign operations (Effective portion):		43,680	(52,525)
Revaluation gains (losses)	*26*	*43,680*	*(52,525)*
Amounts transferred to income statement		-	-
Other reclassifications		-	-
Exchanges differences:		(158,752)	76,339
Revaluation gains (losses)	*26*	*(158,752)*	*76,339*
Amounts transferred to income statement		-	-
Other reclassifications		-	-
Cash flow hedges (Effective portion)	26	8,887	(6,954)
Revaluation gains (losses)		*718*	*(25,798)*
Amounts transferred to income statement		*8,169*	*18,844*
Transferred to initial carrying amount of hedged items		-	-
Other reclassifications		-	-
Financial assets available-for-sale:	26	4,145	(16,870)
Revaluation gains (losses)		*314*	*2,467*
Amounts transferred to income statement		*3,831*	*(19,337)*
Other reclassifications		-	-
Non-current assets held for sale:		-	-
Revaluation gains (losses)		-	-
Amounts transferred to income statement		-	-
Other reclassifications		-	-
Share of other recognised income and expense of investments	26	10,924	(16,674)
Income tax relating to items that may be reclassified to profit or loss	22	(2,377)	2,282
TOTAL RECOGNISED INCOME AND EXPENSE		**1,202,230**	**1,205,076**
Attributable to non-controlling interests		*210,636*	*170,944*
Attributable to the Parent		*991,594*	*1,034,132*

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 47 and Appendices I to VI are an integral part of the consolidated statement of recognised income and expense for 2017.

SANTANDER CONSUMER FINANCE, S.A. AND SUBSIDIARIES
COMPOSING THE SANTANDER CONSUMER FINANCE GROUP

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016 (CONTINUED)

B) CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

(Thousand Euros)

	Share Capital (Note 23)	Share Premium (Note 24)	Other instruments (not capital)	Other equity instruments	Accumulated retained earnings (Note 25)	Revaluation reserves	Other reserves	(-) Own Equity instruments	Parent result for the period	(-) Dividends	Other comprehensive income	Non-Controlling interest (Note 27)		Total
												Other comprehensive income	Others elements	
Opening balance at 1 January 2017	**5,638,639**	**1,139,990**	**-**	**-**	**1,887,666**	**-**	**218,443**	**-**	**1,055,253**	**(541,309)**	**(325,557)**	**1,609**	**1,322,553**	**10,397,287**
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted opening balance at 01-01-2017	**5,638,639**	**1,139,990**	**-**	**-**	**1,887,666**	**-**	**218,443**	**-**	**1,055,253**	**(541,309)**	**(325,557)**	**1,609**	**1,322,553**	**10,397,287**
Total recognised income and expense (Note 4)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,079,387**	**-**	**(87,793)**	**(1,856)**	**212,492**	**1,202,230**
Other changes in equity	**-**	**-**	**850,000**	**-**	**287,568**	**-**	**23,464**	**-**	**(1,055,253)**	**140,966**	**-**	**-**	**(86,058)**	**160,687**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	850,000	-	-	-	-	-	-	-	-	-	-	**850,000**
Maturity of other financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (Note 4)	-	-	-	-	(201,111)	-	-	-	-	(400,343)	-	-	(113,952)	**(715,406)**
Purchase of equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dispossal of equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity items	-	-	-	-	488,679	-	25,265	-	(1,055,253)	541,309	-	-	-	-
Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Others increases or (-) decreases of the equity	-	-	-	-	-	-	(1,801)	-	-	-	-	-	27,894	**26,093**
Ending balance at 31 December 2017	**5,638,639**	**1,139,990**	**850,000**	**-**	**2,175,234**	**-**	**241,907**	**-**	**1,079,387**	**(400,343)**	**(413,350)**	**(247)**	**1,448,987**	**11,760,204**

The accompanying Notes 1 to 47 and Appendices I to VI are an integral part of the consolidated statement of changes in total equity for 2017.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 48). In the event of a discrepancy, the Spanish-language version prevails.

SANTANDER CONSUMER FINANCE, S.A. AND SUBSIDIARIES
COMPOSING THE SANTANDER CONSUMER FINANCE GROUP

B) CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016 (CONTINUED)

(Thousand Euros)

	Share Capital (Note 23)	Share Premium (Note 24)	Other instruments (not capital)	Other equity instruments	Accumulated retained earnings (Note 25)	Revaluation reserves	Other reserves	(-) Own Equity instruments	Parent result for the period	(-) Dividends	Other comprehensive income	Non-Controlling interest (Note 27) Other comprehensive income	Non-Controlling interest (Note 27) Others elements	Total
Opening balance at 1 January 2016	**5,638,639**	**1,139,990**	**-**	**-**	**1,168,480**	**-**	**158,477**	**-**	**1,059,788**	**(280,052)**	**(304,436)**	**(1,053)**	**872,512**	**9,452,345**
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted opening balance at 01-01-2016	**5,638,639**	**1,139,990**	**-**	**-**	**1,168,480**	**-**	**158,477**	**-**	**1,059,788**	**(280,052)**	**(304,436)**	**(1,053)**	**872,512**	**9,452,345**
Total recognised income and expense (Note 4)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,055,253**	**-**	**(21,121)**	**2,662**	**168,282**	**1,205,076**
Other changes in equity	**-**	**-**	**-**	**-**	**719,186**	**-**	**59,966**		**(1,059,788)**	**(261,257)**	**-**	**-**	**281,759**	**(260,134)**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Maturity of other financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (Note 4)	-	-	-	-	-	-	-	-	-	(541,309)	-	-	(101,147)	**(642,456)**
Purchase of equity instruments	-	-	-	-	-	-	-	-	-				-	-
Dispossal of equity instruments	-	-	-	-	-	-	-	-	-				-	-
Transfer from equity to liabilities	-	-	-	-	-	-	-	-	-				-	-
Transfer from liabilities to equity	-	-	-	-	-	-	-	-	-				-	-
Transfers between equity items	-	-	-	-	719,187		60,549	-	(1,059,788)	280,052	-	-	-	-
Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	375,545	**375,545**
Share-based payment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Others increases or (-) decreases of the equity	-	-	-	-	(1)	-	(583)	-	-	-	-	-	7,361	**6,777**
Ending balance at 31 December 2016	**5,638,639**	**1,139,990**	**-**	**-**	**1,887,666**		**218,443**	**-**	**1,055,253**	**(541,309)**	**(325,557)**	**1,609**	**1,322,553**	**10,397,287**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 47 and Appendices I to VI are an integral part of the consolidated statement of changes in total equity for 2017.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Note 1 and 48). In the event of a discrepancy, the Spanish-language version prevails.

SANTANDER CONSUMER FINANCE, S.A. AND SUBSIDIARIES
COMPOSING THE SANTANDER CONSUMER FINANCE GROUP

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

(Thousand Euros)

	Notes	2017	2016 (*)
CASH FLOWS FROM OPERATING ACTIVITIES		**148,403**	**892,814**
Consolidated profit for the year		**1,291,879**	**1,223,535**
Adjustments made to obtain the cash flows from operating activities:		**1,444,085**	**1,404,857**
Depreciation		*167,487*	*189,281*
Other adjustments		*1,276,598*	*1,215,576*
Net (increase)/decrease in operating assets:		**(5,235,186)**	**(3,472,544)**
Financial assets held for trading		*20,014*	*96,967*
Financial assets at fair value through profit or loss		-	-
Financial assets available-for-sale	*7, 8*	*507,823*	*2,113,423*
Loans and receivables	*6, 7, 10*	*(5,819,747)*	*(5,699,315)*
Other operating assets		*56,724*	*16,381*
Net increase/(decrease) in operating liabilities:		**3,129,588**	**1,973,344**
Liabilities held-for-trading financial		*(22,972)*	*(74,779)*
Financial liabilities held for trading		-	-
Financial liabilities at amortised cost		*3,209,919*	*2,558,737*
Other operating liabilities		*(57,359)*	*(510,614)*
Income tax recovered/(paid)		**(481,963)**	**(236,378)**
CASH FLOWS FROM INVESTING ACTIVITIES		**(83,907)**	**(1,554,334)**
Payments-		**(241,728)**	**(1,648,451)**
Tangible assets	*14*	*(96,111)*	*(55,731)*
Intangible assets	*15*	*(132,288)*	*(82,657)*
Investments	*13*	*(13,329)*	*(5,000)*
Subsidiaries and other business units	*3*	-	*(1,505,063)*
Non-current assets held for sale and associated liabilities		-	-
Held-to-maturity investments		-	-
Other payments related to investing activities		-	-
Proceeds		**157,821**	**94,117**
Tangible assets	*14*	*87,150*	*35,507*
Intangible assets	*15*	-	-
Investments	*13*	*28,295*	*3,408*
Subsidiaries and other business units		-	*13,411*
Non-current assets held for sale and associated liabilities		*42,376*	*41,791*
Held-to-maturity investments		-	-
Other proceeds related to investing activities		-	-
CASH FLOWS FROM FINANCING ACTIVITIES		**(325,283)**	**(345,885)**
Payments		**(1,275,283)**	**(345,885)**
Dividends		*(1,142,763)*	-
Subordinated liabilities	*19*	*(18,568)*	*(244,738)*
Redemption of own equity instruments	*17*	-	-
Acquisition of own equity instruments		-	-
Other payments related to financing activities	*27*	*(113,952)*	*(101,147)*
Proceeds		**950,000**	-
Subordinated liabilities		100,000	-
Issuance of own equity instruments		850,000	-
Disposal of own equity instruments		-	-
Other proceeds related to financing activities		-	-
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(11,957)**	**10,684**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(272,744)**	**(996,721)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**4,837,901**	**5,834,622**
CASH AND CASH EQUIVALENTS AT END OF YEAR		**4,565,157**	**4,837,901**
Memorandum items	2		
Cash		*132,275*	*138,385*
Cash equivalents at central banks		*2,088,308*	*2,122,607*
Other financial assets		*2,344,574*	*2,576,909*

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 47 and Appendices I to VI are an integral part of the consolidated statement of cash flows for 2017.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Note 1 and 48). In the event of a discrepancy, the Spanish-language version prevails.

Santander Consumer Finance, S.A. and Subsidiaries composing the Santander Consumer Finance Group

Notes to the Consolidated Financial Statements for the year ended 31 December 2017

1. Introduction, basis of presentation of the consolidated financial statements, basis of consolidation and other information

a) Introduction

Santander Consumer Finance, S.A. ("the Bank") was incorporated in 1963 under the name of Banco de Fomento, S.A.. It is a private-law entity subject to the rules and regulations applicable to banks operating in Spain, and has its headquarters at Avenida de Cantabria s/n, Edificio Dehesa, Boadilla del Monte, Madrid, where the bylaws and other public information on the Bank can be consulted. The Bank is registered in the Official Register of Institutions of the Bank of Spain under code 0224.

The Bank's object is to receive funds from the public in the form of deposits, loans, repos or other similar transactions entailing the obligation to refund them, and to use these funds for its own account to grant loans and credits or to perform similar transactions. Also, as the holding company of a finance group (the Santander Consumer Finance Group, "the Group"), the Bank manages and handles the investments in its subsidiaries.

The Bank is part of the Santander Group, the parent entity of which (Banco Santander, S.A.) owned, directly or indirectly, all the share capital of the Bank at 31 December 2017 and 2016 (see Note 23). Banco Santander, S.A. has its registered office at Paseo de Pereda 9-12, Santander. In this regard, the Bank's activity should be considered to be carried on in the framework of its belonging to and the strategy of the Santander Group, with which it performs transactions that are relevant to its activity (see Note 46). The consolidated financial statements for 2016 of the Santander Group were authorised for issue by the Directors of Banco Santander, S.A. at its Board of Directors Meeting on 21 February 2017, were approved by the shareholders at the Annual General Meeting on 7 April 2017 and were filed at the Santander Mercantile Registry. The consolidated financial statements of the Santander Group for 2017 are expected to be authorised for issue by its Directors on 13 February 2018.

The Bank has one branch (Madrid), is not listed and, in 2017, it carried on most of its direct business activities in Spain.

Additionally, since December 2002 the Bank has been the head of a European corporate group, consisting mainly of financial institutions, which engages in commercial banking, consumer finance, operating and finance leasing, full-service leasing and other activities. At 31 December 2017, the Group had 385 branches distributed throughout Europe, 62 of which were located in Spain (31 December 2016: 404 branches, 64 of which were located in Spain).

As required by Article 21 of Royal Decree 84/2015, of 13 February, implementing Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions, the accompanying Appendix IV lists the agents of the Group at 31 December 2017.

b) Basis of presentation of the consolidated financial statements

Under Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002, all companies governed by the law of an EU member state and whose securities are admitted to trading on a regulated market of any Member State must prepare their consolidated financial statements for the years beginning on or after 1 January 2005 in accordance with the International Financial Reporting Standards ("IFRSs") previously adopted by the European Union ("EU-IFRSs").

In order to adapt the accounting system of Spanish credit institutions to the new standards, the Bank of Spain issued Circular 4/2004, of 22 December, on Public and Confidential Financial Reporting Rules and Formats.

The Group's consolidated financial statements for 2016 were formally prepared by the Directors of the Bank, as Parent (at the Board Meeting on 16 February 2017), in accordance with the regulatory financial reporting framework applicable to the Group (which consists of the Spanish Commercial Code and all other Spanish corporate law, International Financial Reporting Standards as adopted by the European Union, taking into account Bank of Spain Circular 4/2004, in accordance with International Accounting Standards Board (NIIF – IASB), using the basis of consolidation, accounting policies and measurement bases set forth in Note 2 to these consolidated financial statementsand, accordingly, they presented fairly the Group's consolidated equity and consolidated financial position at 31 December 2016, and the consolidated results of its operations, income and expense recognised, the changes in consolidated equity and its consolidated cash flows in the year then ended 2016.

These notes to the consolidated financial statements contain information in addition to that presented in the accompanying consolidated balance sheet, consolidated income statement, consolidated statement of recognised income and expense, consolidated statement of changes in total equity and consolidated statement of cash flows for 2017. The notes provide, in a clear, relevant, reliable and comparable manner, narrative descriptions and disaggregations of items presented in those statements.

The Group's consolidated financial statements for 2016 were approved by the Shareholders at the Annual General Meeting of the Bank on 21 March 2017 and filed at the Madrid Mercantile Registry. The 2017 consolidated financial statements of the Group and the 2017 financial statements of the Bank and of substantially all the Group entities have not yet been approved by their Shareholders at the respective Annual General Meetings. However, the Bank's Board of Directors considers that the aforementioned financial statements will be approved without any changes.

All the figures relating to 2016 included in these notes to the consolidated financial statements are presented for comparison purposes only.

Amendments to International Financial Reporting Standards and adoption of new IFRSs issued

The accounting policies used in preparing the consolidated financial statements for the year ended 31 December 2017 are the same as those applied in the consolidated financial statements for the year ended 31 December 2016.

Adoption of new standards and interpretations issued

The following standards amendments came into force and were adopted by the European Union in 2017:

The following standards came into force and were adopted by the European Union in 2017:

- Modification of IAS (International Accounting Standards) 12 Recognition of deferred tax assets for unrealized losses (effective for annual reporting periods beginning on or after 1 January 2017) clarify that the existence of a deductible temporary differences depends just on the comparison between the carrying amount and tax base of assets and liabilities at the end of the informed period and it is not affected by possible future changes on the carrying amount or the expected standard of the asset recovery.

- Modification of IAS 7 Disclosure initiative (effective for annual reporting periods beginning on or after 1 January 2017) has as its main objective to improve the presentation and the breakdown in the statement of cash flows. The modifications require disclousers about changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The application of the aforementioned accounting standards did not have any material effects on the Group's consolidated financial statements.

Also, at the date of preparation of these consolidated financial statements, the following amendments with an effective date subsequent to 31 December 2017 were in force:

- IFRS 9 Financial instruments - Classification and measurement, hedging and impairment (mandatory for annual periods starting from 1 January 2018). IFRS 9 establishes the recognition and measurement requirements for financial instruments and certain classes of contracts for trades involving non-financial assets. These requirements should be applied in a retrospective manner, by adjusting the opening balance at 1 January 2018, without restating the comparative financial statements. The main aspects of the new standard are:

  (a) Classification of financial instruments: the classification criteria for financial assets depends on the business model for their management and the characteristics of their contractal flows. Depending on these factors, the asset can be measured at amortised cost, at fair value with changes reported in other comprehensive income, or at fair value with changes reported through profit and loss for the period. IFRS 9 also establishes an option to designate an instrument at fair value with changes in profit or loss, under certain conditions. Santander Group uses the following criteria for the classification of financial debt instruments:

    - Amortised cost: financial instruments under a business model whose objective is to collect principal and interest cash flows, over those where no significant unjustified sales exist and fair value is not a key factor in managing these financial assets. In this way, unjustified sales are those that are different from sales related with an increase in the asset´s credit risk, unanticipated funding needs (stress case scenario), even if such sales are significant in value, or from sales of assets that no longer met the credit criteria specified in the entity´s investment policy. Additionally, the contractual flow characteristics substantially represent a "basic financing agreement".

    - Fair value with changes recognised through other comprehensive income: financial instruments held in a business model whose objective is to collect principal and interest cash flows and the sale of these assets, where fair value is a key factor in their management. Additionally, the contractual cash flow characteristics substantially represent a "basic financing agreement".

- Fair value with changes recognised through profit or loss: financial instruments included in a business model whose objective is not obtained through the above mentioned models, where fair value is a key factor in managing of these assets, and financial instruments whose contractual cash flow characteristics do not substantially represent a “basic financing agreement”.

Santander Consumer Finance Group’s main activity revolves around retail and credits operations, and its exposure does not focus on complex financial products. The Group's main objective is to achieve consistent classification of financial instruments in the portfolios as established under IFRS 9. To this end, it has developed guidelines containing criteria to ensure consistent classification across all of its units. Additionally, the Group has analysed its portfolios under these criteria, in order to assign its financial instruments to the appropriate portfolio under IFRS 9, with no significant changes being identified. Based on this analysis, Santander Consumer Finance Group concludes that:

- In relation to fixed income assets classified as financial assets available for sale, as a result of the business model definition according to the assets managed, a 48.9% of the total balance at 31 December 2017 under IAS 39 will be reclassified to amortised cost, which represent a 1.2% of the Group's total assets as of 31 December 2017.

However, the expected impact in shareholders´ equity due to the reclassifications mentioned above is not considered significant.

Available-for-sale equity instruments will be classified at fair value under IFRS 9, with changes recognised through profit or loss, unless the Group decides, for non-trading assets, to classify them at fair value with changes recognised through other comprehensive income (irrevocably).

IAS 39 financial liabilities classification and measurement criteria remains substantially unchanged under IFRS 9. Nevertheless, in most cases, the changes in the fair value of financial liabilities designated at fair value with changes recognised through profit or loss for the year, due to the entity credit risk, are classified under other comprehensive income.

On 12 October 2017, the IASB (International Accounting Standards Board) published a clarification on the treatment of certain prepayment options in relation to the assessment of contractual cash flows of principal and interest on financial instruments, which is currently pending approval by the European Union. However, the Group does not expect a significant impact in the transition period prior to the adoption of this amendment.

(b) Credit risk impairment model: the most important new development compared with the current model is that the new accounting standard introduces the concept of expected loss, whereas the current model (IAS 39) is based on incurred loss.

- Scope of application: The IFRS 9 impairment model applies to financial assets valued at amortised cost, debt instruments valued at fair value with changes reported in other comprehensive income, lease receivables, risks and contingent commitments not valued at fair value.

- Use of practical expedients under IFRS 9: IFRS 9 includes a number of practical expedients that may be implemented by entities to facilitate implementation. However, in order to achieve full and high quality implementation of the standard, considering industry best practices, these practical expedients will not be widely used:

- Rebuttable presumption that the credit risk has increased significantly when payments are more than 30 days past due: this threshold is used as an additional – but not primary - indicator of significant risk increase. Additionally, there may be cases in the Group where its use has been rebutted as a result of studies that show a low correlation of the significant risk increase with this past due threshold.

- Assets with low credit risk at the reporting date: in general, the Group assesses the existence of significant risk increase in all its financial instruments.

- Impairment estimation methodology: the portfolio of financial instruments subject to impairment is divided into three categories, based on the stage of each instrument with regard to its level of credit risk:

  - Stage 1: financial instruments for which no significant increase in risk is identified since its initial recognition. In this case, the impairment provision reflects expected credit losses arising from defaults over the following 12 months from the reporting date.

  - Stage 2: if there has been a significant increase in risk since the date of initial recognition, but the impairment event has not materialised the financial instrument is classified as Stage 2. In this case, the amount relating to the valuation correction for losses reflects the expected losses from defaults over the residual life of the financial instrument.

  - Stage 3: a financial instrument is catalogued in this stage when shows effective signs of impairment as a result of one or more events that have already occurred resulting in a loss. In this case, the amount relating to the valuation correction for losses reflects the expected losses for credit risk over the expected residual life of the financial instrument.

  Additionally, the amount relative to the valuation correction for losses reflects expected credit risk losses through the expected residual life in those financial instruments purchased or originated credit impaired (POCI).

  The methodology required for the quantification of expected loss due to credit events will be based on an unbiased and weighted consideration of the occurrence of up to five possible future scenarios that could impact the collection of contractual cash flows, taking into account the time-value of money, all available information relevant to past events, and current conditions and projections of macroeconomic factors deemed relevant to the estimation of this amount (e.g. GDP (Gross Domestic Product), house pricing, unemployment rate, etc.).

  In estimating the parameters used for provisions calculation (EAD (Exposure at Default), PD (Probability of Default), LGD (Loss Given Default) and discount rate), the Group leveraged on its experience developing internal models for calculating parameters for regulatory and management purposes. The Group is aware of the differences between such models and provision requirements. As a result, it has focused on adapting to such requirements to the development of its IFRS 9 models.

- Determination of significant increase in risk: with the purpose of determine whether a financial instrument has increased its credit risk since initial recognition, proceeding with its classification into Stage 2, the Group considers the following criteria.

Quantitative criteria	Changes in the risk of a default occurring through the expected life of the financial instrument are analyzed and quantified with respect to its credit level in its initial recognition. With the purpose of determining if such changes are considered as significant, with the consequent classification into Stage 2, each Group unit has defined the quantitative thresholds to consider in each of its portfolios.
Qualitative criteria	In addition to the quantitative criteria mentioned above, the Group considers several indicators that are aligned with those used in ordinary credit risk management (e.g.: over 30 days past due, forbearances, etc.). Each unit has defined these qualitative criteria for each of its portfolios, according to its particularities and with the policies currently in force. The use of these qualitative criteria is complemented with the use of an expert judgement.

- Default definition: the definition considered for provisioning purposes is consistent with that used in the development of advanced models for regulatory capital requirements calculations.

- Use of present, past and future information: both the measurement and the classification between phases requires a high component of expert judgement and estimates that are supported in past, present and future information. Therefore, these expected loss estimates take into consideration multiple macroeconomic scenarios for which the probability is measured considering past events, current situation and future trends and macroeconomic indicators, such as GDP or unemployment rate.

  The Group already uses forward looking information in internal management and regulatory processes, considering several scenarios. In this sense, the Group has leveraged its experience in the management of such information, maintaining consistency with the information used in the other processes.

- Expected life of the financial instrument: with the purpose of its estimation all the contractual terms have been taken into account (e.g. prepayments, duration, purchase options, etc.), being the contractual period (including extension options) the maximum period considered to measure the expected credit losses. In the case of financial instruments with an uncertain maturity period and a component of undrawn commitment (e.g: credit cards), expected life is estimated considering the period for which the entity is exposed to credit risk and the effectiveness of management practices mitigates such exposure.

- Impairment recognition: the main change with respect to the current standard related to assets measured at fair value with changes recognised through other comprehensive income. The portion of the changes in fair value due to expected credit losses will be recorded at the current profit and loss account while the rest will be recorded in other comprehensive income.

(c) Hedge accounting: IFRS 9 includes new hedge accounting requirements which have a twofold objective: to simplify current requirements, and to bring hedge accounting in line with risk management, allowing to be a greater variety of derivative financial instruments which may be considered to be hedging instruments. Furthermore, additional breakdowns are required providing useful information regarding the effect which hedge accounting has on financial statements and also on the entity's risk management strategy. The treatment of macro-hedges is being developed as a separate project under IFRS 9. Entities have the option of continuing to apply IAS 39 with respect to accounting hedges until the project has been completed. According to the analysis performed until now, the Group will continue to apply IAS 39 in hedge accounting.

Transition

The European Union has already endorsed IFRS 9. The criteria established by this rule for the classification, measurement and impairment of financial assets, will be applied in a retrospective way, adjusting the first opening balances in the first application date (1 January 2018). This new international standard is aligned with the credit risk directives of the EBA and Bank of Spain Circular 4/2017.

In line with the above, the Santander Consumer Finance Group has estimated an impact of the first application of IFRS 9 on the ratio of ordinary capital (CET1) fully loadad of approximately 7 p.b.

The increase in provisions for insolvencies, or for the valuation correction for losses, amounts to 68.6 million euros.

The main causes of this impact are the requirements to record provisions for the whole life of the transaction for instruments where a significant risk increase has been identified after initial recognition, in addition to forward-looking information in the estimates of provisions.

IFRS 9 implementation strategy and governance

The Group has established a global and multidisciplinary workstream with the aim of adapting its processes to the new classification standards for financial instruments, accounting of hedges and estimating credit risk impairment, ensuring that these processes have been applied in a uniform way for all Group units, and, at the same time, have been adapted to each unit's individual features.

Accordingly, since 2016, the Group has been working towards defining an objective internal model and analysing all the changes which are needed to adapt accounting classifications and credit risk impairment estimation models in force in each unit to the previous definitions. The process was completed in 2017.

Regarding the governance structure, the Group set up a regular committee to manage the project, and a task force which is responsible for its tasks, ensuring that the pertinent responsible teams take part in coordination with all geographical areas.

Hence, the main divisions involved in the project at the highest level, and which are thus represented in the project governance bodies, are: Risks, Financial Accounting & Management Control and Technology and Operations. Internal Audit division was involved in the project, having kept regular meetings regarding the status of the project.

The governance structure currently implemented at both corporate level and in each one of the units, complies with the requirements set out in the new standards both in IFRS 9, and in other related regulatory standards (e.g, EBA credit risk guidelines).

Main project stages and milestones

In relation to the entry into force of this new international standard, in its 2016 consolidated financial statements the Group reported the progress and main milestones achieved to that date regarding the implementation plan for its adoption. This report includes an update on this information included in the 2016 consolidated financial statements.

The work undertaken by Santander Consumer Finance Group includes an assessment of the financial instruments included in the classification and measurement requirements of IFRS 9 and the development of impairment methodology for calculating expected loss impairment provisions.

The Group has drawn up the accounting policies and methodological framework for the implementation developments carried out by each local unit. These internal regulations have been approved by all relevant corporate bodies before the new standard comes into force.

With regard to classification and measurement, since 2016 the Group has been carrying out an analysis of its stock of products, focusing mainly on those that could trigger a change in accounting methodology, due to the business model involved and failure to meet SPPI test requirements (solely payments of principal and interest).

Additionally, using information from 2017, the Group has updated this analysis and reviewed any new products during the period, assessing both its asset management strategies (identifying the corresponding business model), and broadening the review of products in stock.

The local units have now finished developing impairment models for all their portfolios. The implementation of these impairment methodologies has enabled the Group to assess the cause of impact in each portfolio, the impact of each material Group unit, and to consider the total impact at group level.

The Group has started, in the second half of 2017, the parallel calculation of provisions under IFRS 9 formally, without prejudice to the fact that a preliminary parallel calculation was already being made at consolidated level for monitoring, performance tracking and impact purposes. Based on the preliminary results obtained from the impairment provisions calculations, the Santander Group, of which the Santander Consumer Finance Group is part, has addressed the disclosure requirements of the EBA's second QIS (Quantitative Impact Study).

The governance process has been completed for the development, validation and approval of the model that started with a validation of the first models by the Corporate Internal Validation team and the Internal Validation units of the countries where these exist.

Further, given the importance of the control environment in the processes, the corporate development of the governance model of the impairment provisions calculation process as well as aspects related to the classification of financial instruments has been completed. The proposed model includes a reference design of the controls to be implemented in the new developments made in the implementation of the new standard. Also, as part of the proposed government model, has defined a process of periodic review of the main elements including, among others, the following areas:

- Business models defined in each Group unit.
- Quantitative and qualitative criteria defined for significant increase in risk.
- Macroeconomic scenario defined for impairment provisions calculation.
- Model adequacy for impairment provisions calculation.

- IFRS 15 Revenue from Contracts with Customers (effective for annual reporting periods beginning on or after 1 January 2018) - the new standard on the recognition of revenue from contracts with customers. It supersedes the following standards and interpretations currently in force: IAS 18, Revenue; IAS 11, Construction Contracts; IFRIC 13, Customer Loyalty Programmes; IFRIC 15, Agreements for the Construction of Real Estate; IFRIC 18, Transfers of Assets from Customers; and SIC-31, Revenue-Barter Transactions Involving Advertising Services. Under IFRS 15, an entity recognises revenue in accordance with the core principle of the standard by applying the following five steps: identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations identified in the contract; and recognise revenue when as the entity satisfies a performance obligation.

  No significant effects derive from the application of the aforementioned accounting standard in the consolidated annual accounts of the Group

- Clarifications to IFRS 15 income coming from contracts with clients.

- IFRS 16 Leasings substitutes IAS 17, IFRIC (International Financial Reporting Interpretation Committee) 4, SIC (Standard Interpretations Committee) - 15 and SIC-27. It was adopted by the European Union on 31 October 2017 through the Regulation (EU) 2017/1986. The effective date affects the annual periods starting on of 1 January 2019. The Santander Group has not applied the possibility of early adoption.

  IFRS 16 establishes the principles for the recognition, valuation, presentation and breakdown of leases, with the aim of guaranteeing that both the lessee and the lessor provide relevant information that presents a true image of such operations. The standard foresees a single accounting model for the lessee, according to which the lessee must recognize the assets and liabilities related to all leases, unless lease term is 12 months or less or the value of the underlying asset is low.

Lessors continue to classify leases into operating or financial leases, and the approach of IFRS 16 with respect to the lessor's accounting remains in essence like the former approach, foreseen in IAS 17.

The standard includes guidance on a number of issues such as optional exemptions in its application, or the identification of a lease.

Definition of leasing

A contract is, or contains, a lease if it transfers the right to control the use of an identified asset for a period of time in exchange for a consideration. The control is transferred when the client has both the right to control the use of the identified asset and the right to obtain basically all the economic benefits derived from such use.

Lessee's accounting

The lessee recognizes a right-of-use asset and a leasing liability.

The right-of-use asset is initially valued at the amount of the leasing liability plus all initial direct costs incurred by the lessee.

Once the lease has begun, the lessee values the right-of-use asset using a cost model (unless specific conditions apply), minus accumulated amortization.

The leasing liability is initially valued at the present value of the payable installments over the term of the lease, discounted at a rate implicit in the lease, if it can be easily determined, the lessee will apply the incremental interest rate of the debt.

Variable leasing payments that depend on an index or a rate are included in the initial valuation of the leasing liability, and are initially valued by applying the index or rate on the start date, while the remaining variable leasing payments are recognized in the income statement in the period in which the event or condition that triggers the payment takes place, unless the costs are included in the book value of another asset in accordance with another Standard.

Lessor's accounting

Lessors classify each lease as operative or as financial. A lease is classified as financial if it transfers almost all the risks and benefits derived from the ownership of an underlying asset. All other leases will be classified as operating.

The lessor recognizes the assets acquired under financial leasing as accounts receivable for an amount equivalent to the net investment in the lease at the time of start of the lease.

Sale operations and subsequent leasing

To determine whether the transfer of an asset is accounted for as a sale or not, the Bank will apply IFRS 15 requirements in order to determine if an obligation has been satisfied.

If an asset's transfer meets IFRS 15 requirements for being accounted for as a sale, the seller values the right-of-use asset in the proportion of the previous book value which refers to the retained right of use. Therefore, the seller only recognizes the amount of the benefit or loss related to the rights transferred to the buyer.

Sale and subsequent lease operations prior to the effective date of the Standard will not have retroactive effect with respect to the benefit recognition at the beginning of those operations.

Since alternative accounting treatments in the first application are allowed by the IFRS 16, the Group, from the point of view of the lessee, must take an accounting decision on the following options, which will influence the amount of the asset and liability to be recognized and, therefore, the financial ratios:

- Option 1 consists of redoing comparative statements as if active lease agreements had always been applied to it (full retrospective application, following IAS 8). The difference between the right of use and the leasing liability is recorded against reserves at the beginning of 2019 financial year.

- Option 2 does not recast comparative statements. In the case of leases which previously were operational, the liability as of 1 January 2019 is calculated by discounting the remaining future cash flows using the interest rate of the lessee's debt at the date of first application. The asset is valued as the liability (adjusted by any prepayment or accrual prior to the date of first application). Since there is no difference among the assets and liabilities, this option has no effect on equity, reflecting their impact as a higher cost (amortization and financial cost) throughout the lease's life. In the case of leases that were previously financial, assets and liabilities recognized under IAS 17 are maintained.

- Option 3 is similar to option 2 except for the asset being valued as of January 2019 as if IFRS 16 had been applied since the beginning of the contract (but discounting the cash flows at the interest rate of the first date of application). The asset is calculated at the beginning of 1 January 2019 and the amount remaining to be amortized is recorded. The liability is calculated as of January 2019 in the same way as option 2. The difference between the lease liability and the right to use is recognized against reserves as of January 2019.

- Improvements to IFRS Cicle 2014-2016 – introduce lesser modifications than IFRS 12.

Lastly, at the date of preparation of these consolidated financial statements, the following standards which effectively come into force after 31 December 2017 had not yet been adopted by the European Union:

- Modification to the IFRS 2 Classification and measurement of share-based payment transactions – The amendments address the following areas: (a) Accounting for the effects that the requirements for the consolidation of the grant have in cash–settled share-based payment transactions, (b) Classification of share–based payment transactions with net settlement features for the tax withholding obligations; and (c) Accounting for modifications of share-based payment transactions terms and conditions from cash-settled to equity-settled payment transactions.

- Annual Improvements to IFRS Standards 2014-2016 Cycle–Contains minor amendments to IFRS 1 and IAS 28.

- New interpretation to IFRIC 22 on Foreign currency transactions and advance considerations – When an entity reports a payment of advance consideration in order to recognise the profits associated to the income statement, it shall recognise both the consideration received as a non-monetary liability (deferred income or contract liabilities) in the statement of financial position at the exchange rate obtained according to the IAS 21 The Effects of changes in foreign exchange rates. When the deferred incomes are subsequently recognised in the income statement as incomes, the issue is raised on whether its measurement should reflect: the amount at which the deferred income was originally recognised, namely, when the consideration was originally received; or the consideration amount received is translated to the existing exchange rate on the date when the non-monetary element is generated as income in the income statement, generating an exchange gain or loss that reflects the difference between the amount of the consideration translated (i) to the exchange rate in force in the moment of its receipt and (ii) to the exchange rate I force when it is recognised in the income statement as a profit or loss.

- Modification of IAS 40 Transfers of investment properties; changes are made to the existing requirements or provide with some additional guidance on the implementation of such requirements.

- IFRIC 23 The uncertainty over income tax treatment; it applies to the tax gain or loss determination, tax bases, effects of tax laws, taxes and interest rates, when there is uncertainty about taxes treatment according to IAS 12.

- IFRS 17 Insurance contracts; It is a new integrated accounting standard for insurance contracts, which includes recognition, measurement, presentation and disclosure.

- Modification of IAS 28 Investments in associates and joint ventures; there are changes in associate or joint venture long-term interests and IFRS 10 Consolidated Financial Statements - sales or contributions of assets between an investor and its associates or joint ventures.

The Group is currently analysing the possible effects of these new standards and interpretations.

All accounting policies and measurement bases with a material effect on the consolidated financial statements for 2017 were applied in their preparation.

c) *Accounting estimates*

The consolidated results, the measurement of the Group's assets and liabilities and the determination of consolidated equity are sensitive to the accounting policies, measurement bases and estimates used by the Directors of the Bank in preparing the consolidated financial statements. The information in these consolidated financial statements is the responsibility of the Directors of the Bank (the Parent). In this regard, it should be noted that in the Group's consolidated financial statements for 2017 certain estimates were made by senior management, subsequently ratified by the Bank's Directors, in order to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

1. The impairment losses on certain assets (see Notes 6, 7, 8, 10, 12, 13, 14 and 15);

2. The assumptions used in the actuarial calculation of the post-employment benefit liabilities and commitments and other long-term obligations to employees (see Notes 2-q, 2-r and 21);

3. The useful life of the tangible and intangible assets (see Notes 14 and 15);

4. The measurement of goodwill (see Note 15);

5. The fair value of certain unquoted assets and liabilities (see Notes 6, 7, 8, 9, 11 and 13);

6. The calculation of provisions (see Note 21); and

7. The estimates of the recoverability of the Group's deferred tax assets and tax liabilities (see Notes 2-t and 22).

Although these estimates were made on the basis of the best information available at 31 December 2017 on the events analysed, future events might make it necessary to change these estimates (upwards or downwards) in coming years. If required, changes in accounting estimates would be applied in accordance with current legislation (prospectively, recognising the effects of any changes in estimates in the related consolidated income statements for the future years in question).

d) Comparative information

The information relating to 2016 contained in these notes to the consolidated financial statements is presented with the information relating to 2017 for comparison purposes only and, accordingly, it does not constitute the Group’s statutory consolidated financial statements for 2016.

In the annual accounts for the year 2017, the broker business in the purchase / sale of vehicles carried out by a Group company has been presented in a net basis under "Other Operating Income" heading, based on that such presentation is more appropiate for the nautre of this income.To make the statement comparable, the Group has modified the figures presented in the financial statements of the 2016 year-end, so that the amounts that were recorded under "Other operating income" and "Other operating expenses" have been reduced by EUR 139,758 thousand, this modification does not affect in any case, neither the Group's equity nor any of its margins.

e) Basis of consolidation

i. Subsidiaries

“Subsidiaries” are defined as entities over which the Bank has the capacity to exercise control; the Bank controls an entity when it has power over it and is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. This situation occurs, in general, when the Bank owns, directly or indirectly, more than half of the voting power of an entity or, in situations in which it does not attain this percentage of ownership, when there are agreements or other circumstances that give it control.

The financial statements of the subsidiaries are fully consolidated with those of the Bank. Accordingly, all balances and effects of the transactions between consolidated companies are eliminated on consolidation.

On acquisition of control of a subsidiary, its assets, liabilities and contingent liabilities are recognised at their acquisition-date fair values. Any positive differences between the acquisition cost and the fair values of the identifiable net assets acquired are recognised as goodwill (see Note 15). Negative differences are recognised in profit or loss on the date of acquisition.

Additionally, the share of third parties of the Group’s equity is presented under “Non-Controlling Interests” in the consolidated balance sheet (see Note 27). The share of the profit for the year attributable to non-controlling interests is presented under “Profit Attributable to Non-Controlling Interests” in the consolidated income statement.

The results of subsidiaries acquired during the year are included in the consolidated income statement from the date of acquisition to year-end. Similarly, the results of subsidiaries disposed of during the year are included in the consolidated income statement from the beginning of the year to the date of disposal.

At 31 December 2017 and 2016, there were no companies in which the Group did not hold at least 50% of the voting power that were considered to be subsidiaries. With respect to those entities in which the majority of voting power is not held and yet were classified as subsidiaries and, therefore, were consolidated in these consolidated financial statements, there are agreements affecting the relevant activities of these entities that grant power to the Bank.

Also, at 31 December 2017 and 2016, the Group did not hold any ownership interests in the share capital of entities in which the Bank held more than half of the voting power but which were not considered to be subsidiaries.

Appendix I to these notes to the consolidated financial statements contains certain relevant information on subsidiaries at 31 December 2017.

ii. Interests in joint ventures (jointly controlled entities)

Joint ventures are deemed to be ventures that are not subsidiaries but which are jointly controlled by two or more unrelated entities. This is evidenced by contractual arrangements whereby two or more entities (venturers) have interests in entities (jointly controlled entities) or undertake operations or hold assets so that strategic financial and operating decisions affecting the joint venture require the unanimous consent of the venturers.

In the consolidated financial statements, investments in jointly controlled entities are accounted for using the equity method, i.e. at the Group's share of net assets of the investee, after taking into account the dividends received therefrom and other equity eliminations. The profits and losses resulting from transactions with a jointly controlled entity are eliminated to the extent of the Group's interest in the jointly controlled entity.

Appendix II to these notes to the consolidated financial statements contains certain relevant information on jointly controlled entities at 31 December 2017.

iii. Associates

“Associates” are entities over which the Bank is in a position to exercise significant influence, but not control or joint control, usually because it holds 20% or more of the voting power of the investee.

In the consolidated financial statements, investments in associates are accounted for using the equity method, i.e. at the Group's share of net assets of the investee, after taking into account the dividends received therefrom and other equity eliminations. The profits and losses resulting from transactions with an associate are eliminated to the extent of the Group's interest in the associate.

Appendix II to these notes to the consolidated financial statements contains certain relevant information on associates at 31 December 2017.

iv. Structured entities

When the Group incorporates entities, or holds ownership interests therein, to enable its customers to access certain investments, or for the transfer of risks or other purposes (also called structured entities since the voting or similar power is not a key factor in deciding who controls the entity), the Group determines, using internal criteria and procedures and taking into consideration the applicable legislation, whether control (as defined above) exists and, therefore, whether these entities should be consolidated. Specifically, for those entities to which this policy applies (mainly investment funds and pension funds), the Group analyses the following factors:

- Percentage of ownership held by the Group; 20% is established as the general threshold.

- Identification of the fund manager, and verification as to whether it is a company controlled by the Group since this could affect the Group's ability to direct the relevant activities.

- Existence of agreements between investors that might require decisions to be taken jointly by the investors, rather than by the fund manager.

- Existence of currently exercisable removal rights (possibility of removing the manager from his position) since the existence of such rights might limit the manager's power over the fund, and it may be concluded that the manager is acting as an agent of the investors.

- Analysis of the fund manager's remuneration regime, taking into consideration that a remuneration regime that is proportionate to the service rendered does not, generally, create exposure of such importance as to indicate that the manager is acting as the principal. Conversely, if the remuneration regime is not proportionate to the service rendered, this might give rise to an exposure that would lead the Group to a different conclusion.

These structured entities also include the securitisation special purpose vehicles ("SPV"), which are consolidated in the case of the SPVs over which, being exposed to variable yield, it is considered that the Group continues to exercise control.

The exposure associated with unconsolidated structured entities are not material with respect to the Group's consolidated financial statements.

Appendix I contains, amongst other information, structured entities (Securitisation Funds) which are consolidated in the consolidated financial statements at 31 December 2017.

v. Business combinations

A business combination is the bringing together of two or more separate entities or economic units into one single entity or group of entities.

Business combinations whereby the Group obtains control over an entity or business are recognised for accounting purposes as follows:

- The Group measures the cost of the business combination, defined as the fair value of the assets transferred, the liabilities incurred and the equity instruments issued, if any, by the acquirer. The cost of the business combination does not include any costs related to the combination, such as fees paid to auditors involved in the transaction, legal advisers, investment banks and other consultants. If, prior to the business combination, the Group already held an equity interest in the acquiree, this equity interest is measured at its fair value and the difference between this fair value and its carrying amount at the date of the business combination is recognised in profit or loss. This equity interest measured at fair value forms part of the cost of the business combination.

- The assets, liabilities and contingent liabilities of the acquired entity or business, including any intangible assets not recognised at the acquisition date, are recognised at the date of the business combination at fair value in the consolidated balance sheet.

- Non-controlling interests are recognised at the fair value of the net assets acquired, taking into consideration the percentage of the acquired business or entity held by third parties.

- Any positive difference between, on the one hand, the aggregate cost of the business combination and, on the other, the value at which the net assets acquired are recognised in accordance with the regulations in force, adjusted by the proportionate share of non-controlling interests in these net assets, is recognised as goodwill (see Note 2-k). Any negative difference is recognised under negative goodwill recognised in the consolidated income statement.

Also, any acquisitions or disposals of non-controlling interests carried out after the date on which control of the entity is obtained are accounted for as equity transactions, and, accordingly, the difference between the price paid and the carrying amount of the percentage acquired of the non-controlling interests is recognised directly with a charge or a credit to consolidated equity.

Goodwill is only recognised once, when control of a business is obtained.

International Financial Reporting Standards (IFRS) do not establish specific criteria or guidance regarding accounting treatment for business combinations between jointly-controlled entities. Rather, IAS 8 requires entities to define a policy regarding such treatment, which must be applied consistently for the years in question. Accordingly, the Group has defined a policy whereby these business combinations are recognised using the carrying amount in the transferor. The combinations are therefore not adjusted to their fair value and, consequently, no goodwill arises or is recognised.

vi. Changes in the levels of ownership interests in subsidiaries

Acquisitions and disposals not giving rise to a change in control are accounted for as equity transactions, and no gain or loss is recognised in the consolidated income statement and the initially recognised goodwill is not remeasured. The difference between the consideration transferred or received and the decrease or increase in non-controlling interests, respectively, is recognised in reserves.

Similarly, when control over a subsidiary is lost, the assets, liabilities and non-controlling interests and any other items recognised in valuation adjustments of that company are derecognised from the consolidated balance sheet, and the fair value of the consideration received and of any remaining equity interest is recognised. The difference between these amounts is recognised in consolidated profit or loss.

vii. Acquisitions and disposals

Note 3 to these consolidated financial statements provides information on the most significant acquisitions and disposals of investments in 2017 and 2016.

f) *Capital and capital adequacy management*

Management of the Bank's and the Group's capital should be understood within the framework of the management performed by the Santander Group, of which they form part (see Note 1-a). The Santander Group's capital management is performed at regulatory and economic levels.

The aim is to secure the Santander Group's solvency and guarantee its economic capital adequacy and its compliance with regulatory requirements, as well as an efficient use of capital.

To this end, the regulatory and economic capital figures and their associated metrics -return on risk-weighted assets (RORWA), return on risk-adjusted capital (RORAC) and value creation of each business unit- are generated, analysed and reported to the relevant governing bodies on a regular basis.

Within the framework of the internal capital adequacy assessment process (Pillar 2 of the Basel Capital Accord), the Santander Group uses an economic capital measurement model with the objective of ensuring that there is sufficient capital available to support all the risks of its activity in various economic scenarios, with the solvency levels agreed upon by the Santander Group; at the same time the Group assesses, also in the various scenarios, whether it meets the regulatory capital ratio requirements.

In order to adequately manage the Santander Group's capital, it is essential to estimate and analyse future needs, in anticipation of the various phases of the business cycle. Projections of regulatory and economic capital are made based on the budgetary information (balance sheet, income statement, etc.) and the macroeconomic scenarios defined by the Santander Group's economic research service. These estimates are used by the Group as a reference when planning the management actions (issues, securitisations, etc.) required to achieve its capital targets.

In addition, certain stress scenarios are simulated in order to assess the availability of capital in adverse situations. These scenarios are based on sharp fluctuations in macroeconomic variables (GDP, interest rates, housing prices, etc.) that mirror historical crises that could happen again or plausible but unlikely stress situations.

Following is a brief description of the regulatory capital framework to which the Group is subject.

In December 2010, the Basel Committee on Banking Supervision published a new global regulatory framework for international capital standards (Basel III) which strengthened the requirements of the previous frameworks, known as Basel I and Basel II, and other requirements additional to Basel II (Basel 2.5), by enhancing the quality, consistency and transparency of the capital base and improving risk coverage. On 26 June 2013, the Basel III legal framework was included in European law through Directive 2013/36 (CRD IV), repealing Directives 2006/48 and 2006/49, and through Regulation 575/2013 on prudential requirements for credit institutions and investment firms (CRR).

Directive 2013/36 (CRD IV) was transposed into Spanish legislation through Law 10/2014, on the regulation, supervision and capital adequacy of credit institutions, and its subsequent implementing regulations contained in Royal Decree-Law 84/2015. Regulation 575/2013 is directly applicable in EU Member States as from 1 January 2014 and repeals all lower-ranking rules providing for additional capital requirements.

The CRR establishes a phase-in that will permit a progressive adaptation to the new requirements in the European Union. These phase-in arrangements were incorporated into Spanish regulations through the Bank of Spain Circular 2/2014. They affect both the new deductions and the issues and items of own funds which ceased to be eligible as such under this new regulation. In March 2016, the European Central Bank (ECB) issued Regulation (EU) 2016/445, modifying certain calendars applicable to the Group. The capital buffers provided for in CRD IV are also subject to phase-in; they are applicable for the first time in 2016 and must be fully implemented by 2019.

The Basel regulatory framework is based on three pillars. Pillar 1 sets out the minimum capital requirements to be met, and provides for the possibility of using internal ratings and models in the calculation of risk weighted exposures (the Advanced Internal Ratings-Based (AIRB) approach). The aim is to render regulatory requirements more sensitive to the risks actually borne by entities in carrying on their business activities. Pillar 2 establishes a supervisory review system to improve internal risk management and internal capital adequacy assessment based on the risk profile. Lastly, Pillar 3 defines the elements relating to disclosures and market discipline.

At 31 December 2017, the Santander Consumer Finance Group’s Common Equity Tier 1 capital and its CET1 plus Additional Tier 1 capital amounted to EUR 8.588 million in both cases (December 31, 2016: EUR 7,785 million), while its total capital amounted to EUR 10,108 million at that date (December 31, 2016: EUR 8,215 million).

Common Equity Tier 1 capital and CET1 plus Additional Tier 1 capital include basically share capital, share premium, the Group's reserves net of deductions (intangible assets), non-controlling interests and the portion of consolidated profit for 2017 to be taken to reserves once the distribution of profit is approved (see Note 4).

Santander Consumer Finance Group’s total capital includes basically Tier 1 capital and certain loan loss provisions specified in Articles 61 and 62 of Regulation No 575/2013.

At 31 December 2017 and 2016, the Group met the minimum capital requirements established by current legislation.

ii. Plan for the roll-out of advanced approaches and authorisation from the supervisory authorities

In line with the Santander Group's policies, following Santander Group policies, continues with its proposal to adopt, progressively, over the next few years, the advanced internal ratings-based (AIRB) approach under Basel II for substantially all its banks, until the percentage of exposure of the loan portfolio covered by this approach exceeds 90%. The commitment assumed before the supervisor still implies the adaptation of advanced models within the key markets where Santander Group operates.

Accordingly, the Group continued in 2017 with the project for the progressive implementation of the technology platforms and methodological improvements required for the roll-out of the AIRB approaches for regulatory capital calculation purposes at the various Group units.

The Group has obtained authorisation from the supervisory authorities to use the AIRB approach for the calculation of regulatory capital requirements for credit risk for the Parent and the main subsidiaries in Spain as well as for certain portfolios in Germany, the Nordic countries (Norway, Sweden and Finland), and France.

With respect to operational risk, the Group currently uses the standardised approach for calculating regulatory capital as foreseen in the Capital Requirements Regulation (CRR).

g) *Deposit Guarantee Fund and Single Resolution Fund*

The Bank and other consolidated entities participate in the Deposit Guarantee Fund, National Resolution Fund or equivalent scheme in their respective countries.

Deposit Guarantee Fund

The Spanish Deposit Guarantee Fund (*Fondo de Garantía de Depósitos*, "FGD") was established by Royal Decree-Law 16/2011, of 14 October, which was amended pursuant to the wording given in final provision ten of Law 11/2015, of 18 June, on the recovery and resolution of credit institutions and investment services companies (in force as from 20 June 2015). This Law transposes Directive 2014/49/EU, of 16 April 2014, on deposit guarantee schemes into Spanish legislation. The annual contribution to be made to the fund by Spanish institutions is determined by the FGD Management Committee. Contributions are based on the amount of covered deposits, adjusted for the entity's risk profile, which takes into account the phase in the economic cycle and the impact of pro-cyclical contributions, pursuant to article 6.3 of Royal Decree-Law 16/2011.

The purpose of the FGD is to guarantee deposits at credit institutions, up to the limit foreseen in the aforementioned Royal Decree-Law. To fulfil its objectives, the FGD is funded by the above-referenced annual contributions, the extraordinary contributions the fund requires from its members and the resources secured in securities markets and through loans or other financing operations.

Taking into account the foregoing and to strengthen the FGD, Royal Decree-Law 6/2013, of 22 March, on the protection of holders of certain savings and investment products and other financial measures established an extraordinary contribution equal to 3 per mille of the institutions’ deposits at 31 December 2012. This extraordinary contribution was payable in two tranches:

i. Two-fifths to be paid within 20 business days from 31 December, 2013.

ii. Three-fifths to be paid within a maximum of seven years in accordance with the payment schedule set by the FGD Management Committee.

The notes to the Bank’s individual financial statements for 2017 include additional information on the contributions of this type made by the Bank in 2017 and 2016.

Single Resolution Fund

In March 2014, a political agreement was reached between the European Parliament and the Council on establishing the second pillar of the Banking Union, the Single Resolution Mechanism (“SRM”). The main objective of the SRM is to ensure that potential future bank failures in the banking union are managed efficiently, with minimal costs to taxpayers and the real economy. The scope of the SRM mirrors that of the SSM. This means that a central authority -the Single Resolution Board (“SRB”) is ultimately in charge of the decision to initiate the resolution of a bank, while operationally the decision will be implemented in cooperation with national resolution authorities. The SRB started its work as an independent EU agency on 1 January 2015.

While the rules governing the banking union aim to ensure that any resolution is first financed by a bank’s shareholders and, if necessary, also partly by a bank’s creditors, there is now another funding source available that can step in if the contributions of shareholders and creditors are insufficient, namely the Single Resolution Fund (“SRF”), which is administered by the SRB. The legislation establishes that contributions to the SRF will be paid in by the banks over the course of eight years.

In this regard, the SRF, which was introduced by Regulation (EU) No 806/2014 of the European Parliament and of the Council, became operational on 1 January 2016. The competence for the calculation of the contributions that must be made by credit institutions and investment firms to the SRF lies with the SRB. As from 2016, these contributions base on: (a) a flat contribution (or basic annual contribution), that is pro-rata with respect to the total liabilities, excluding own funds and guaranteed deposits, of all of the institutions authorised in the territories of the participating Member States; and (b) a risk-adjusted contribution, that shall be based on the criteria laid down in Article 103(7) of Directive 2014/59/EU, taking into account the principle of proportionality, without creating distortions between banking sector structures of the Member States. The amount of these contributions fall an annual basis as from 2016.

At 31 December 2017, the amount accrued for contributions to both funds stood at EUR 53,895 thousand (EUR 44,697 thousand at 31 December 2016), recognised under "Other operating expenses" on the accompanying income statement (see Note 38).

h) Environmental impact

In view of the business activities carried on by the Group entities, they do not have any environmental liability, expenses, assets, provisions or contingencies that might be material with respect to the Group's consolidated equity, financial position or results. Therefore, no specific disclosures relating to environmental issues are included in these notes to the consolidated financial statements.

i) Events after the reporting period

From 31 December 2017 to the date on which these consolidated financial statements were authorised for issue no additional events took place that might affect them.

j) Customer Protection Service Annual Report

As required by Article 17 of Ministry of Economy Order ECO/734/2004, of 11 March, on Customer Protection Departments and Services and Customer Ombudsmen of Financial Institutions, following is a summary of the Annual Reports submitted by the heads of the Customer Care Services of each of the Spanish consolidated entities subject to this requirement to the respective Board of Directors:

Santander Consumer Finance, S.A.

i. Statistical summary of claims and complaints handled

In 2017, a total of 3,256 claims were received (991 in 2016). Of these, 149 were lodged through Customer Service and 88 through the Bank of Spain (41 and 24 respectivily in 2016). All claims received were processed.

As of 31 December 2017, 96% of the claims and complaints submitted were resolved (2016: 91%). The detail by type of the claims and complaints filed in 2017 and 2016 is as follows:

	Number of Claims	
	2017	2016
Assets	604	433
Payment methods	2,635	522
Insurance	4	8
Other	25	28

The Bank's Directors state that the matters not yet resolved at 2017 year-end will not have a significant effect on these consolidated financial statements.

ii. Summary of resolutions

The detail of the responses to customers in 2017 and 2016 is as follows:

	Percentage	
	2017	2016
In favour of claimant	56%	65%
In favour of the Bank	44%	35%

The average handling period for claims was 43 calendar days in 2017 (2016: 21 days).

iii. Recommendations or suggestions based on experience to improve customer service

The Claims and Customer Care Service Department sends the company's senior executives updated information on the volume of records entry and holds meetings in order to ensure effective compliance with internal and regulatory regulations. Likewise, based on the analysis of the claims and the opinions issued, conclusions are obtained on the originatives common causes to certain types of claims to promote the improvement of processes and communications, so that the corresponding processes are corrected. It does not seem necessary to make recommendations or suggestions for all the claims included in this report, since they do not show a breach of the rules of action on transparency and on customer protection of financial services established by the Bank of Spain.

Santander Consumer, E.F.C., S.A.

i. Claims received by the Customer Care Services

366 Claims were received by the Customer Care Services of this Group company in 2017 (2016: 210). Of these, 285 were lodged through Customer Service, 20 through the Customer Ombudsman and 10 through the Bank of Spain. Out of all claims received, 7 were processed.

92% Of the claims and complaints were resolved and concluded during the same year (2016: 83%). The detail, by type, of the claims and complaints filed is as follows:

	Number of Claims	
	2017	2016
Payment methods	19	13
Assets	329	191
Insurance	3	6
Other	15	-

The detail of the responses to customers in 2017 and 2016 is as follows:

	Percentage	
	2017	2016
In favour of claimant	63%	59%
In favour of the Bank	37%	41%

The average handling period for claims was 19 days in both years 2017 and 2016.

ii. Recommendations or suggestions based on experience to improve customer service

The Claims and Customer Care Service Department sends the company's senior executives updated information on the volume of records entry and holds meetings in order to ensure effective compliance with internal and regulatory regulations. Likewise, based on the analysis of the claims and the opinions issued, conclusions are obtained on the originatives common causes to certain types of claims to promote the improvement of processes and communications, so that the corresponding processes are corrected. With respect to all the claims included in this report, it does not seem necessary to make any recommendations or suggestions since no breach of the Bank of Spain's rules of conduct relating to transparency and the protection of financial services customers has been observed.

Financiera El Corte Inglés, E.F.C., S.A.

i. Claims received by the Customer Care Services and claims made through the Bank of Spain
65 Claims were received by the Customer Care Services of this company in 2017 (69 in 2016). 69 Claims were answered, 4 of which were received at the end of 2016.

Of the total claims, 63 were admitted for processing and 6 were not admitted due to non-compliance with the requirements foreseen in Ministry of the Economy Order ECO / 734/2004, of 11 March, on Departments and Customer Service Services and Defender of the Client of the Financial Entities, being the reasons of his non-admission in 3 of them the existence of a judicial procedure on the same matter object of the claim; the reason for one of the claims was about data protection and, in the case of the other two, Financiera El Corte Inglés was not the competent entity to resolve the claim, representing 8.70%.

The claims that have ended with a report in favor of the Company have been 58, representing 84.06% of the total of the answered claims and 5 have been resolved in favor of the customer, representing 7.25%, having adopted the measures necessary to rectify the situation that is the subject of controversy and informing customers in writing of the decisions taken in all cases.

Likewise, in the Department of Market Conduct and Claims of the Bank of Spain, 3 complaints have been filed by customers, with the first two being favorable to the entity. The last one is awaiting the issuance of an opinion by the supervising entity as of the date of this report.

ii. Recommendations or suggestions, based on prior experience, in order to better secure the objectives informing these actions

The Customer Care Services, throughout the year 2017, has continued the actions initiated in 2016 on measures and controls carried out in order to ensure compliance with current regulations and good practice criteria to contribute to a better and more satisfactory customer service, of which we can highlight:

- Updating of procedures and communication to the Operational Departments of the shopping centers on issues related to information and documentation to be provided to customers in accordance with the provisions of Order EHA / 2899/2011, on transparency and protection of the banking services customers, developed by the circular of the Bank of Spain 5/2012, on transparency of banking services and responsibility in granting loans.
- Referral of internal communications to the Operative Departments on the regulations of identification and admission of cards and on regulation of financing publicity.
- Incorporation of the digital signature in the Personal Payment Formula contracts in the Point of Sale Terminal, automating the contracting and management of the documentation.
- Incorporation of new Motives options in the application of File Management SAC to better identify the issues raised by customers.
- Automated controls are maintained to ensure that a claim not previously resolved by the relevant operating department is always addressed by the head of Customer Financial Service.
- Monthly analysis of data on the number of files, on the solution term and on the management of complaints and claims made by the Operational Departments in order to identify the reasons that lead to the opening of the claim file and address solutions.
- Reviews and actions on those reasons that have greater participation in the complaints received to correct possible weaknesses or deficiencies and detect problems in advance.
- Quarterly activity report by the head of the Customer Service of Financiera El Corte Inglés to the Management Committee of El Corte Inglés informing on the number of cases opened and indicating the origin, reasons/type, solution and decisions issued, as well as the resolution time frame and the amounts involved.

In all cases, customers are duly informed that if they are not satisfied with the response received from the head of Customer Service, they may appeal to the Bank of Spain’s Market Conduct and Claims Department.

Transolver, E.F.C., S.A.

i. Complaints received

1 Claim was received during 2017 (2 during 2016).

All matters were resolved and closed during the same year, being resolved in the company’s favour. (50% in 2016). The average resolution time for claims was 35 calendar days in 2017 (16 in 2016).

i. Claims received by the Customer Complaints and Claims Services, claims made through the Bank of Spain and other

1,070 Claims were received by this company's Customer Complaints and Claims Services in 2017, (2016: 792) 2 of which were not admitted for consideration (2016:0) and 247 of the claims considered were resolved in the customer's favour (2016: 367).

Of the 1,070 claims received in 2017, (2016: 792) 2 were made through the Bank of Spain (2016:7), 1 through the Municipal Consumer Office (OMIC) (2016: 22), 15 through other customer care services (2016: 5), 4 through lawyers on behalf of customers (2016: 10), 1,026 were received directly from customers (2016: 694) and none by other means (2016: 54).

The main reasons for and issues raised in the claims were, inter alia, the early termination and management of the end of contracts, lack of information to the client in the process of commercialization and request of information, among others.

The company paid/forgave approximately EUR 15 thousand (2016: EUR 22 thousand), approximately, to its customers for claims resolved in their favour in 2017. The average resolution period was eight calendar days.

ii. Experience-based recommendations or suggestions

Claims considered as such by this service based on the requirements established in the Regulations display a steady trend. Comments and suggestions have been made to the operational services regarding the possible defects in processes that have given rise to these claims; these comments and suggestions were submitted at the company's quarterly quality committee meetings, in the compliance committees and in the monthly meetings of action plans for the treatment of repetitive complaints and claims or of the economic or reputational impact.

In addition, in 2017 the number of claims and complaints increased with respect to 2016 due to the launch and improvement of the customer website and e-mail service and the encouragement of customers to use them. Currently, 35.40% of customers are registered on the website.

Despite the increase in claims and complaints, the number of claims received from the Bank of Spain has decreased and the number received through public administration consumer information offices remained nearly constant.

2. Accounting policies

The accounting policies applied in preparing the consolidated financial statements were as follows:

a) Foreign currency transactions

i. Presentation currency

The Bank's functional and presentation currency is the euro. Also, the presentation currency of the Group is the euro.

ii. Translation of foreign currency balances

Foreign currency balances are translated to euros in two consecutive stages:

- Translation of foreign currency to the presentation currency (currency of the main economic environment in which the entity operates); and

- Translation to euros of the balances held in the functional currencies of entities whose functional currency is not the euro.

iii. Translation of foreign currency to the presentation currency

Foreign currency transactions performed by consolidated entities (or entities accounted for using the equity method) not located in EMU countries are initially recognised in their respective currencies. Monetary items in foreign currency are subsequently translated to their functional currencies using the closing rate.

Furthermore:

- Non-monetary items measured at historical cost are translated to the presentation currency at the exchange rate at the date of acquisition.

- Non-monetary items measured at fair value are translated at the exchange rate at the date when the fair value was determined.

- Income and expenses are translated at the average exchange rates for the year for all the transactions performed during the year. When applying this criterion, the Group considers whether there have been significant changes in the exchange rates in the year which, in view of their materiality with respect to the consolidated financial statements taken as a whole, would make it necessary to use the exchange rates at the transaction date rather than the aforementioned average exchange rates.

- The balances arising from non-hedging forward foreign currency/foreign currency and foreign currency/euro purchase and sale transactions are translated at the closing rates prevailing in the forward foreign currency market for the related maturity.

iv. Translation of functional currencies to euros

The balances in the financial statements of consolidated entities (or entities accounted for using the equity method) whose functional currency is not the euro are translated to euros as follows:

- Assets and liabilities, at the closing rates.

- Income and expenses, at the average exchange rates for the year.

- Equity items, at the historical exchange rates.

v. Recognition of exchange differences

The exchange differences arising on the translation of foreign currency balances to the presentation currency are generally recognised at their net amount under Exchange differences in the consolidated income statement, except for exchange differences arising on financial instruments at fair value through profit or loss, which are recognised in the consolidated income statement without distinguishing them from other changes in fair value, and for exchange differences arising on non-monetary items measured at fair value through equity, which are recognised under Other comprehensive income – Items that may be reclassified to profit or loss - Exchange differences.

The exchange differences arising on the translation to euros of the financial statements denominated in functional currencies other than the euro are recognised in Other comprehensive income – Items that may be reclassified to profit or loss- Exchange differences in the consolidated balance sheet, whereas those arising on the translation to euros of the financial statements of entities accounted for using the equity method are recognised in equity under Other comprehensive income - Items that may be reclassified to profit or loss and Items not reclassified to profit ot loss - Other recognised income and expense of investments in subsidaries, joint ventures and associates, until the related item is derecognised, at which time they are recognised in profit or loss, unless it is part of items not reclassified to profit or loss.

Exchange differences arising on actuarial gains or losses when converting to euros the financial statements denominated in the functional currencies of entities whose functional currency is different from the euro are recognised under equity – Other comprehensive income – Items not reclassified to profit or loss - Actuarial gains or (-) losses on defined benefit pension plans.

vi. Entities located in hyperinflationary economies

At 31 December 2017 and 2016 none of the functional currencies of the consolidated entities and associates located abroad related to hyperinflationary economies as defined by International Financial Reporting Standards as adopted by the European Union. Accordingly, at the end of the last three reporting periods it was not necessary to adjust the financial statements of any of the consolidated entities or associates to correct for the effect of inflation.

vii. Exposure to foreign currency risk

The equivalent euro value of the total assets and liabilities in foreign currency held by the Group at 31 December 2017 amounted to EUR 14,534 million and EUR 9,845 million, respectively (2016 year-end: EUR 14,574 million and EUR 9,063 million, respectively) (see Note 44). Approximately 99.25% (93.2% in 2016) of these assets and 100% (97.1% in 2016) of these liabilities at 31 December 2017 relate to Polish zloty, Swiss franc, Norwegian kroner and Swedish kronor. Virtually all the remainder relates to other currencies traded in the Spanish market. The effect on the consolidated income statement and consolidated equity of variations of 1% in the various foreign currencies in which the Group holds significant balances, taking into account the exchange rate hedges arranged by the Group in this connection, would be no material.

b) *Definitions and classification of financial instruments*

i. Definitions

A “financial instrument” is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

An “equity instrument” is a contract that evidences a residual interest in the assets of the issuing entity after deducting all of its liabilities.

A “financial derivative” is a financial instrument whose value changes in response to the change in an observable market variable (such as an interest rate, foreign exchange rate, financial instrument price, market index or credit rating), whose initial investment is very small compared with the investment that would have to be made in other financial instruments with a similar response to changes in market factors, and which is generally settled at a future date.

“Hybrid financial instruments” are contracts that simultaneously include a non-derivative host contract together with a derivative, known as an embedded derivative, that is not separately transferable and has the effect that some of the cash flows of the hybrid contract vary in a way similar to a stand-alone derivative.

The preference shares contingently convertible into ordinary shares eligible as Additional Tier 1 capital (“CCPSs”) -perpetual preference shares, which may be repurchased by the issuer in certain circumstances, the interest on which is discretionary, and would convert into a variable number of newly issued ordinary shares if the capital ratio of the Bank or its consolidated group falls below a given percentage (trigger event), as those two terms are defined in the related issue prospectuses- are recognised for accounting purposes by the Group as compound instruments. The liability component reflects the issuer's obligation to deliver a variable number of shares and the equity component reflects the issuer's discretion in relation to the payment of the related coupons. In order to effect the initial allocation, the Group estimates the fair value of the liability as the amount that would have to be delivered if the trigger event were to occur immediately and, accordingly, the equity component, calculated as the residual amount, is zero. In view of the aforementioned discretionary nature of the payment of the coupons, they are deducted directly from equity.

The following transactions are not treated for accounting purposes as financial instruments:

- Investments in associates and jointly controlled entities (see Note 13).

- Rights and obligations under employee benefit plans (see Note 21).

ii. Classification of financial assets for measurement purposes

Financial assets are initially classified into the various categories used for management and measurement purposes, unless they have to be presented as “Non-current assets held for sale” or they relate to “Cash, cash balances at Central Banks and other deposits on demand”, “Hedging derivatives” and “Investments”, which are reported separately.

The Group's financial assets are included for measurement purposes in one of the following categories:

- Financial assets held for trading (at fair value through profit or loss): this category includes financial assets acquired for the purpose of generating a profit in the near term from fluctuations in their prices and financial derivatives that are not designated as hedging instruments.

- Financial assets designated at fair value through profit or loss: This category includes hybrid financial assets not held for trading that are measured entirely at fair value and financial assets not held for trading that are included in this category in order to provide more relevant information, either because this eliminates or significantly reduces recognition or measurement inconsistencies (accounting mismatches) that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases, or because a group of financial assets or financial assets and liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided on that basis to the Group's key management personnel. Financial assets may only be included in this category on the date they are acquired or originated.

- Financial assets available-for-sale: This category includes debt instruments not classified as Held-to-maturity investments, Loans and receivables or Financial assets at fair value through profit or loss, and equity instruments issued by entities other than subsidiaries, associates and joint ventures, provided that such instruments have not been classified as Financial assets held for trading or as Financial assets designated at fair value through profit or loss.

- Loans and receivables: this category includes financing granted to third parties, based on the nature thereof, irrespective of the type of borrower and the form of financing, including finance lease transactions in which the consolidated entities act as the lessors.

  The consolidated entities generally intend to hold the loans and credits classified under “Loans and receivables” granted by them until their final maturity and, therefore, they are presented in the consolidated balance sheet at their amortised cost (which includes any write-downs required to reflect the estimated impairment losses on their recovery).

- Investments held-to-maturity: This category includes debt instruments with fixed maturity and with fixed or determinable payments, for which the Group has both the intention and proven ability to hold to maturity.

iii. Classification of financial assets for presentation purposes

Financial assets are classified by nature into the following items in the consolidated balance sheet:

- Cash, cash balances at Central Banks and other deposits on demand: cash balances and balances receivable on demand relating to deposits with central banks and credit institutions.

- Derivatives: includes, where appropriate, the fair value in favour of the Group of derivatives which do not form part of hedge accounting, including embedded derivatives separated from hybrid financial instruments.

- Equity instruments: financial instruments issued by other entities, such as shares and non-voting equity units, which have the nature of equity instruments for the issuer, other than investments in associates or jointly controlled entities.

- Debt instruments: bonds and other securities that represent a debt for their issuer, that generate an interest return, and that are in the form of certificates or book entries.

- Loans and advances: includes the debit balances of all credit and loans granted by the Group, other than those represented by marketable securities, as well as finance lease receivables and other debit balances of a financial nature in favour of the Group, such as, if any, debit balances in bank accounts held at other entities, time deposits, reverse repurchase agreements, cheques drawn on credit institutions, balances receivable from clearing houses and settlement agencies for transactions on the stock exchange and organised markets, bonds given in cash, accrued dividends receivable by the Group, fees and commissions receivable for financial guarantees and debit balances arising from transactions not originating in banking operations and services, such as the collection of rentals and similar items. They are classified, depending on the institutional sector to which they belong, under:

  - Central Banks: Credit of any nature, including deposits and money market operations received from the Bank of Spain or other central banks.

  - Credit institutions: Credit of any nature, including deposits and money market operations, in the name of credit institutions.

  - Customers: Includes the remaining credit, including money market operations through central counterparties.

- Changes in the fair value of hedged items in portfolio hedges of interest rate risk: this item is the balancing entry for the amounts credited to the consolidated income statement in respect of the measurement of the portfolios of financial instruments which are effectively hedged against interest rate risk through fair value hedging derivatives.

- Hedging derivatives: includes the fair value in favour of the Group of derivatives, including embedded derivatives separated from hybrid financial instruments, designated as hedging instruments in hedge accounting.

iv. Classification of financial liabilities for measurement purposes

In the consolidated balance sheet, financial liabilities are classified into the various categories used for management and measurement purposes, unless they have to be presented as “Liabilities Associated with Non-Current Assets Held for Sale” or they relate to “Hedging Derivatives or Changes in the fair value of hedged items in portfolio hedges of interest rate risk (liability side)”, which are reported separately.

Financial liabilities are classified for measurement purposes into one of the following categories:

- Financial liabilities held for trading (at fair value through profit or loss): This category includes financial liabilities incurred for the purpose of generating a profit in the near term from fluctuations in their prices, financial derivatives not designated as hedging instruments, and financial liabilities arising from the outright sale of financial assets acquired under reverse repurchase agreements ("reverse repos") or borrowed (short positions).

- Financial liabilities designated at fair value through profit or loss: Financial liabilities are included in this category when they provide more relevant information, either because this eliminates or significantly reduces recognition or measurement inconsistencies (accounting mismatches) that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases, or because a group of financial liabilities or financial assets and liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided on that basis to the Group's key management personnel. Liabilities may only be included in this category on the date when they are incurred or originated.

- Financial liabilities at amortised cost: financial liabilities, irrespective of their instrumentation and maturity, which are not considered to be financial liabilities at fair value through profit or loss (financial liabilities held for trading) and arise from the ordinary borrowing activities carried on by financial institutions.

v. Classification of financial liabilities for presentation purposes

Financial liabilities are classified by nature into the following items in the consolidated balance sheet:

- Derivatives: Includes the fair value, with a negative balance for the Group, of derivatives, including embedded derivatives separated from the host contract, which do not form part of hedge accounting.

- Deposits: includes all repayable balances received in cash by the Group entities, other than those instrumented as marketable securities and those having the substance of subordinated liabilities. This item also includes, if any, cash bonds and cash consignments received the amount of which may be invested without restriction. Deposits are classified on the basis of the creditor's institutional sector into:

    - Central banks: deposits of any nature received from the Bank of Spain or other central banks.

    - Credit institutions: deposits of any nature, including credit received and money market operations in the name of credit institutions.

    - Customer: includes the remaining deposits, including money market operations through central counterparties.

- Marketable debt securities: Includes the amount of bonds and other debt represented by marketable securities, other than those having the substance of subordinated liabilities (amount of the loans received, which for credit priority purposes are after common creditors, and includes the amount of the financial instruments issued by the Group which, having the legal nature of capital, do not meet the requirements to qualify as equity, such as certain preferred shares issued). This item includes the component that has the consideration of financial liability of the securities issued that are compound financial instruments.

- Other financial liabilities: Includes the amount of payment obligations having the nature of financial liabilities not included in other items.

- Changes in the fair value of hedged items in portfolio hedges of interest rate risk: This item is the balancing entry for the amounts charged to the consolidated income statement in respect of the measurement of the portfolios of financial instruments which are effectively hedged against interest rate risk through fair value hedging derivatives.

- Hedging derivatives: Includes the fair value of the Group's liability in respect of derivatives, including embedded derivatives separated from hybrid financial instruments, designated as hedging instruments in hedge accounting.

c) ***Measurement and recognition of financial assets and liabilities***

Financial assets and liabilities are initially recognised at fair value which, in the absence of evidence to the contrary, is deemed to be the transaction price. In the case of financial instruments not measured at fair value through profit or loss, fair value is adjusted, for financial liabilities, by the transaction costs that are directly attributable to the issue or arrangement of the financial liability; and, for financial assets, by the amount of the fees and commissions and transaction costs that are directly attributable to the acquisition or arrangement of the financial asset. Financial assets and liabilities are subsequently measured at each year-end as follows:

i. Measurement of financial assets

Financial assets are measured at fair value at the balance sheet date, without deducting any transaction costs that may be incurred on their disposal, except for loans and receivables, equity instruments whose fair value cannot be determined in a sufficiently objective manner and financial derivatives, if any, that have those equity instruments as their underlying and are settled by delivery of those instruments.

The fair value of a financial instrument on a given date is taken to be the price that would be received to sell an asset or paid to transfer a liability on an arm's length basis in an orderly transaction that is not forced between knowledgeable market participants. The most objective and common reference for the fair value of a financial instrument is the price that would be paid for it on an active, transparent and deep market ("quoted price" or "market price").

If there is no market price for a given financial instrument, its fair value is estimated on the basis of the price established in recent transactions involving similar instruments and, in the absence thereof, of valuation techniques commonly used by the financial community, taking into account the specific features of the instrument to be measured and, particularly, the various types of risk associated with it.

Derivatives are recognised in the consolidated balance sheet at fair value from the trade date. If the fair value is positive, they are recognised as an asset and if the fair value is negative, they are recognised as a liability. The fair value on the trade date is deemed, in the absence of evidence to the contrary, to be the transaction price. The changes in the fair value of derivatives from the trade date are recognised under "Gains or losses on financial assets and liabilities not measured at fair value through profit or loss (net)" or under "Gains or losses from hedge accounting (net) in the consolidated income statement. Specifically, the fair value of financial derivatives, if any, traded in organised markets included in the portfolios of financial assets or liabilities held for trading is deemed to be their daily quoted price and if, for exceptional reasons, the quoted price cannot be determined on a given date, these financial derivatives are measured using methods similar to those used to measure OTC derivatives.

The fair value of OTC derivatives is taken to be the sum of the future cash flows arising from the instrument, discounted to present value at the date of measurement ("present value" or "theoretical close") using valuation techniques commonly used by the financial markets: "net present value" (NPV), option pricing models and other methods.

"Loans and Receivables" are measured at amortised cost using the effective interest method. Amortised cost is understood to be the acquisition cost of a financial asset or liability plus or minus, as appropriate, the principal and interest repayments and the cumulative amortisation (taken to the consolidated income statement) of the difference between the initial cost and the maturity amount. In the case of financial assets, amortised cost also includes any reductions for impairment or uncollectibility. In addition, in the case of loans and receivables hedged in fair value hedges, the changes in the fair value of these assets related to the risk or risks being hedged are recognised as a valuation adjustment to these assets.

The effective interest rate is the discount rate that exactly matches the carrying amount of a financial instrument to all its estimated cash flows of all kinds over its remaining life. For fixed rate financial instruments, the effective interest rate coincides with the contractual interest rate established on the acquisition date adjusted, where applicable, by the fees and transaction costs that, because of their nature, form part of their financial return. In the case of floating rate financial instruments, the effective interest rate coincides with the rate of return prevailing in all connections until the next benchmark interest reset date.

Unquoted equity instruments which cannot be reliably measured in a sufficiently objective manner and financial derivatives that have those instruments as their underlying and are settled by delivery of those instruments are measured at acquisition cost adjusted, where appropriate, by any related impairment loss.

The amounts at which the financial assets are recognised represent, in all material respects, the Group's maximum exposure to credit risk at each reporting date. Also, the Group has received collateral and other credit enhancements to mitigate its exposure to credit risk, which consist mainly of mortgage guarantees, assets leased out under finance lease and full-service lease agreements, assets acquired under repurchase agreementsand and securities loans in temporary asset acquisition operations.

ii. Measurement of financial liabilities

Financial liabilities are measured at amortised cost, as defined above, except for those included under "Financial Liabilities Held for Trading" and "Hedging Derivatives" in the consolidated balance sheet, which are measured at fair value at each balance sheet date. Changes in the fair value of derivatives classified as financial liabilities held for trading are recognised using the same method as that explained above for derivatives recognised as financial assets held for trading. The carrying amount of financial liabilities measured at fair value and hedged in fair value hedges is adjusted by the amount of the changes in their fair value associated with the hedged risk.

Hedging derivatives are measured in accordance with the criteria explained in the following sections of this Note.

iii. Valuation techniques

The following table shows a summary of the fair values, at 31 December 2017 and 2016, of the financial instruments (assets and liabilities) that, as indicated above, are measured at fair value in these consolidated financial statements, classified on the basis of the various measurement methods used by the Group to determine their fair value:

	Thousand Euros					
	31/12/17			31/12/16		
	Published Price Quotations in Active Markets	Internal Models (*)	Total	Published Price Quotations in Active Markets	Internal Models (*)	Total
Financial assets held for trading	474	33,590	34,064	2,875	53,160	56,035
Available-for-sale financial assets (**)	2,555,462	62,309	2,617,771	3,107,396	63,533	3,170,929
Hedging derivatives (assets)	1,142	132,257	133,399	10,829	111,663	122,492
Financial liabilities held for trading	7,527	21,324	28,851	2,899	50,378	53,277
Hedging derivatives (liabilities)	72	167,728	167,800	9,176	238,865	248,041

(*) Substantially all of the main variables (inputs) used by the models are obtained from observable market data (Level 2, pursuant to IFRS 7, Financial Instruments: Disclosures).

The financial instruments at fair value, determined on the basis of published price quotations in active markets (Level 1), include government debt securities, private-sector debt securities and derivatives traded in organised markets, securitised assets and shares.

In cases where the fair value of a financial instrument cannot be obtained from its market price quotations, the Group makes its best estimate of fair value using its own internal models. In most cases, these internal models use data based on observable market parameters as significant inputs (Level 2) and, in very specific cases, they use significant inputs not observable in market data (Level 3). In order to make these estimates, various techniques are employed, including the extrapolation of observable market data. The best evidence of the fair value of a financial instrument on initial recognition is the transaction price, unless the fair value of the instrument can be obtained from other market transactions performed with the same or similar instruments or can be measured by using a valuation technique in which the variables used include only observable market data, mainly interest rates.

Most of the instruments recognised at fair value in the consolidated balance sheet, calculated using internal models, are interest rate swaps (IRS) and cross currency swaps, which are measured using the present value method. This valuation method is also used to calculate, for information purposes (see Note 44), the fair value of financial instruments measured at amortised cost in the consolidated balance sheet. Expected future cash flows are discounted using the yield curves of the related currencies. In general, the yield curves are observable market data and, therefore, this valuation method does not include the use of assumptions that could have a significant effect on the calculation of the fair value of these financial instruments.

The Group did not make any material transfers of financial instruments between one measurement method and another in 2017 or 2016. Also, there were no changes in the valuation techniques used to measure financial instruments.

General measurement bases-

The Santander Group has developed a formal process for the systematic valuation and management of financial instruments, which has been implemented worldwide across all units, including the Santander Consumer Finance Group's units. The governance scheme for this process distributes responsibilities between two independent divisions: Treasury (development, marketing and daily management of financial products and market data) and Risk (on a periodic basis, validation of pricing models and market data, computation of risk metrics, new transaction approval policies, management of market risk and implementation of fair value adjustment policies).

The approval of new products follows a sequence of steps (request, development, validation, integration in corporate systems and quality assurance) before the product is brought into production. This process ensures that pricing systems have been properly reviewed and are stable before they are used.

The following subsections set forth the most important products and families of derivatives, and the related valuation techniques and inputs, by asset class:

Fixed-income securities-

The fixed income asset class includes basic instruments such as interest rate swaps and cross currency swaps, which are valued using forward estimation of flows and calculating net present value by discounting those flows taking into account basis swap and cross currency spreads, depending on the payment frequency and currency of each leg of the derivative.

These pricing models are fed with observable market data such as deposit interest rates, futures rates, cross currency swap and constant maturity swap rates and basis swap spreads. These data allow us to calculate different yield curves depending on the payment frequency and discounting curves for each currency.

Foreign exchange-

The most important products in this asset class are forward and futures contracts, which include plain vanilla and OTC (over-the-counter) derivatives on exchange rates.

The inputs of foreign exchange models include the yield curve for each currency, the spot foreign exchange rate, the implied volatilities and the correlation among assets of this class. Volatilities are obtained from European call and put options which are quoted in markets as at-the-money, risk reversal or butterfly options. Illiquid currency pairs are usually handled by using the data of the liquid pairs from which the illiquid currency can be derived. For more exotic products, unobservable model parameters may be estimated by fitting to reference prices provided by other non-quoted market sources.

<u>Valuation adjustment for counterparty risk or default risk</u>

The credit valuation adjustment (CVA) is a valuation adjustment to OTC derivatives as a result of the risk associated with the credit exposure assumed to each counterparty.

The CVA is calculated taking into account potential exposure to each counterparty in each future period. The CVA for a specific counterparty is equal to the sum of the CVA for all periods. The following inputs are used to calculate the CVA:

- Expected exposure: including for each transaction the mark-to-market (MtM) value plus an add-on for the potential future exposure for each period. Mitigating factors such as collateral and netting agreements are taken into account, as well as a temporary impairment factor for derivatives with interim payments.

- LGD: percentage of final loss assumed in a counterparty credit event/default.

- Probability of default: for cases where there is no market information (the CDS quoted spread curve, etc.), probabilities based on ratings, preferably internal ones, are used.

- Discount factor curve.

The debit valuation adjustment (DVA) is a valuation adjustment similar to the CVA but, in this case, it arises as a result of the Group's own risk assumed by its counterparties in OTC derivatives.

In addition, the financial fair value adjustment (FFVA) of the Group is calculated by applying future market funding margins to the expected future financing exposure of any non-guaranteed component of the OTC derivative portfolio. This includes the non-guaranteed component of the guaranteed derivatives, in addition to derivatives that are not fully guaranteed. The expected future financing exposure is calculated using a simulation methodology, when is available. The FFVA impact is not significant for the consolidated financial statements at 31 December 2017.

Fair value of financial instruments measured using internal models-

The fair value of financial instruments obtained from the aforementioned internal models takes into account, inter alia, the contract terms and observable market data, which include interest rates, credit risk, exchange rates and prepayments.

The valuation models described above do not entail a significant degree of subjectivity, given that the methodologies may be adjusted and recalibrated, where needed, through the internal calculation of fair value and the subsequent comparison with the corresponding actively-traded price. However, certain valuation adjustments may be necessary when quoted market prices are not available for comparison purposes.

Risk sources include uncertain model parameters, illiquid underlying issuers, poor quality market data or missing risk factors (at times, the best option available is to use limited models with controllable risk). In these situations, the Group calculates and applies valuation adjustments in accordance with common industry practice. The main sources of model risk are as follows:

Currency markets are exposed to model risk resulting from forward skew modelling and the impact of stochastic interest rate and correlation modelling for multi-asset instruments. Risk can also arise in respect of market data, due to specific illiquid currency pairs.

Set forth below are the financial instruments at fair value whose measurement was based on internal models (Level 2) at 31 December 2017 and 2016:

	Thousand Euros		
	Fair Values Calculated Using Internal Models at 31/12/17 (Level 2)	Valuation Techniques	Main assumptions
ASSETS:			
Financial assets held for trading	**33,590**		
Trading derivatives	33,590		
Swaps	*31,965*	Present Value Method	Interest rate curves, Market prices Fx, Basis.
Other	*1,625*	Present Value Method	Interes rate curves,Volatility surface.
Available-for-sale financial assets	**62,309**		
Debt and equity instruments	*62,309*	Present Value Method	Interest rate curves, HPI, Market prices Fx, Basis.
Hedging derivatives	**132,257**		
Swaps	*111,503*	Present Value Method	Interest rate curves, Market prices Fx, Basis.
Other	*20,754*	Present Value Method	Interest rate curves, Volatility surface, Market prices Fx
LIABILITIES:			
Financial liabilities held for trading	**21,324**		
Trading derivatives	21,324		
Swaps	*21,007*	Present Value Method	Interest rate curves, Market prices Fx, Basis.
Other	*317*	Present Value Method	Interest rate curves, Volatility surface, Market prices Fx
Hedging derivatives	**167,728**		
Swaps	*167,115*	Present Value Method	Interest rate curves, Market prices Fx, Basis.
Other	*613*	Present Value Method	Interest rate curves, Volatility surface, Market prices Fx

	Thousand Euros		
	Fair Values Calculated Using Internal Models at 31/12/16 (Level 2)	Valuation Techniques	Main assumptions
ASSETS:			
Financial assets held for trading	**53,160**		
Trading derivatives	53,160		
Swaps	*53,128*	Present Value Method	Interest rate curves, Market prices Fx, Basis, Liquidity.
Other	*32*	Present Value Method	Interes rate curves,Volatility surface Market prices Fx.
Available-for-sale financial assets	**63,533**		
Debt and equity instruments	*63,533*	Present Value Method	Interest rate curves, HPI, Market prices Fx
Hedging derivatives	**111,663**		
Swaps	*101,179*	Present Value Method	Interest rate curves, Market prices Fx, Basis, Liquidity
Other	*10,484*	Present Value Method	Interest rate curves, Volatility surface, Market prices Fx
LIABILITIES:			
Financial liabilities held for trading	**50,378**		
Trading derivatives	50,378		
Swaps	*48,999*	Present Value Method	Interest rate curves, Market prices Fx, Basis, Liquidity
Other	*1,379*	Present Value Method	Interest rate curves, Volatility surface, Market prices Fx
Hedging derivatives	**238,865**		
Swaps	*224,509*	Present Value Method	Interest rate curves, Market prices Fx, Basis, Liquidity
Other	*14,356*	Present Value Method	Interest rate curves, Volatility surface, Market prices Fx

iv. Recognition of fair value changes

As a general rule, the accrual of interest on financial assets and liabilities measured at amortised cost and on debt instruments classified as available-for-sale financial assets is recognised under “Interest Income” or “Interest Expense”, as appropriate, in the consolidated income statement.

The dividends accrued on equity instruments classified as available-for-sale financial assets are recognised under “Dividend Income” in the consolidated income statement. Changes in the fair value of trading derivatives are recognised at their net amount under “Gains or losses on financial assets and liabilities held for trading (Net).Foreign currency exchange differences are recognised as explained in Note 2-a and hedges as described in the section below. Impairment losses are recognised as explained in Note 2-f below.

Adjustments due to changes in fair value arising from:

- “Available-for-Sale Financial Assets” are recognised temporarily under “Other comprehensive income – Items that may be reclassified to profit or loss”, unless they relate to exchange differences, in which case they are recognised under “Other comprehensive income – Items that may be reclassified to profit or loss. Exchange differences” in the consolidated balance sheet (exchange differences arising on monetary financial assets are recognised under “Exchange Differences (Net)” in the consolidated income statement).

- Items charged or credited to “Other comprehensive income – Items that may be reclassified to profit or loss” and “Other comprehensive income – Items that may be reclassified to profit or loss. Exchange differences” in the consolidated balance sheet remain in the Group’s consolidated equity until the asset giving rise to them is derecognised or becomes impaired, as appropriate, at which time they are recognised in the consolidated income statement.

- Unrealised gains on Financial assets available-for-sale classified as Non-current assets held for sale because they form part of a disposal group or a discontinued operation are recognised in Other comprehensive income under Items that may be reclassified to profit or loss – Non-current assets held for sale.

v. Hedging transactions

The consolidated entities use financial derivatives to manage the risks of the Group entities’ own positions and assets and liabilities (“hedging derivatives”) or for the purpose of obtaining gains from changes in the prices of these derivatives.

Financial derivatives that do not qualify for hedge accounting are treated for accounting purposes as trading derivatives.

A derivative qualifies for hedge accounting if all the following conditions are met:

1. The derivative hedges one of the following three types of exposure (and therefore can be classified in one of the following categories):

    - Changes in the fair value of assets and liabilities due to fluctuations, among others, in the interest rate and/or exchange rate to which the position or balance to be hedged is subject (“fair value hedge”);

    - Changes in the estimated cash flows arising from the hedged financial assets and liabilities, commitments and highly probable forecast transactions (“cash flow hedge”);

    - The net investment in a foreign operation (“hedge of a net investment in a foreign operation”).

2. It is effective in offsetting exposure inherent in the hedged item or position throughout the expected term of the hedge, which means that:

    - At the date of arrangement the hedge is expected, under normal conditions, to be highly effective (“prospective effectiveness”).

    - There is sufficient evidence that the hedge was actually effective during the whole life of the hedged item or position (“retrospective effectiveness”). To this end, the Group checks that the results of the hedge were within a range of 80% to 125% of the results of the hedged item.

3. There must be adequate documentation of the hedging transaction that evidences the specific designation of the financial derivative to hedge certain balances or transactions and how this hedge was expected to be achieved and measured, provided that this is consistent with the Group’s management of risks.

The changes in value of financial instruments qualifying for hedge accounting are recognised as follows:

- In fair value hedges, the gains or losses arising on both the hedging instruments and the hedged items attributable to the type of risk being hedged are recognised directly in the consolidated income statement.

- In fair value hedges of interest rate risk on a portfolio of financial instruments, the gains or losses that arise on measuring the hedging instruments are recognised directly in the consolidated income statement, whereas the gains or losses due to changes in the fair value of the hedged amount (attributable to the hedged risk) are recognised in the consolidated income statement with a balancing entry under “Changes in the Fair Value of Hedged Items in Portfolio Hedges of Interest Rate Risk” on the asset or liability side of the consolidated balance sheet, as appropriate.

- In cash flow hedges, the effective portion of the change in fair value of the hedging instrument is recognised temporarily under “Other comprehensive income – Items that may be reclassified to profit or loss - Cash Flow Hedges” in the consolidated balance sheet until the forecast transactions occur, when it is recognised in the consolidated income statement, unless, if the forecast transactions result in the recognition of non-financial assets or liabilities, it is included in the cost of the non-financial asset or liability. The ineffective portion, if any, of the change in value of hedging derivatives is recognised under “Gains/Losses on Financial Assets and Liabilities (Net)” in the consolidated income statement.

- In hedges of a net investment in a foreign operation, the gains or losses attributable to the portion of the hedging instruments qualifying as an effective hedge are recognised temporarily in Other comprehensive income under Items that may be reclassified to profit or loss - Hedges of net investments in foreign operations until the gains or losses on the hedged item are recognised in profit or loss.

- The ineffective portion of the gains or losses on the hedging instruments of cash flow hedges and hedges of a net investment in a foreign operation is recognised directly under Gains/losses on financial assets and liabilities (net) in the consolidated income statement, in Gains or losses from hedge accounting, net

If a derivative designated as a hedge no longer meets the requirements described above due to expiration, ineffectiveness or for any other reason, the derivative is classified for accounting purposes as a trading derivative.

When fair value hedge accounting is discontinued, the adjustments previously recognised as an adjustment to the carrying amount of the hedged asset or liability are amortised to profit or loss at the effective interest rate recalculated at the date of hedge discontinuation. The adjustments must be fully amortised at maturity.

When cash flow hedge accounting is discontinued, any cumulative gain or loss on the hedging instrument recognised in equity under other comprehensive income - Items that may be reclassified to profit or loss (from the period when the hedge was effective) remains in this equity item until the forecast transaction occurs, at which time it is recognised in profit or loss, unless the transaction is no longer expected to occur, in which case the cumulative gain or loss is recognised immediately in profit or loss.

vi. Derivatives embedded in hybrid financial instruments

Derivatives embedded in other financial instruments or in other host contracts are accounted for separately as derivatives if their risks and characteristics are not closely related to those of the host contracts, provided that the host contracts are not classified as financial assets/liabilities designated at fair value through profit or loss or as Financial assets/liabilities held for trading.

d) Transfers of financial assets and derecognition of financial assets and liabilities

The accounting treatment of transfers of financial assets depends on the extent to which the risks and rewards associated with the transferred assets are transferred to third parties:

- If the Group transfers substantially all the risks and rewards to third parties -unconditional sale of financial assets, sale of financial assets under an agreement to repurchase them at their fair value at the date of repurchase, sale of financial assets with a purchased call option or written put option that is deeply out of the money, securitisation of assets in which the transferor does not retain a subordinated debt or grant any credit enhancement to the new holders, and other similar cases-, the transferred financial asset is derecognised and any rights and obligations created or retained in the transfer are recognised simultaneously.

- If the Group retains substantially all the risks and rewards associated with the transferred financial asset - sale of financial assets under an agreement to repurchase them at a fixed price or at the sale price plus interest, a securities lending agreement in which the borrower undertakes to return the same or similar assets, securitisation of assets in which the transferor retains a subordinated debt or grants a credit enhancement to the new holders that entails assuming substantially all the credit risk of the transferred assets, and other similar cases-, the transferred financial asset is not derecognised and continues to be measured by the same criteria as those used before the transfer. However, the following items are recognised:

    - An associated financial liability, for an amount equal to the consideration received; this liability is, in general, subsequently measured at amortised cost unless it meets the requirements for classification under Financial liabilities designated at fair value through profit or loss.

    - The income from the transferred financial asset not derecognised and any expense incurred on the new financial liability.

- If the Group neither transfers nor retains substantially all the risks and rewards associated with the transferred financial asset -sale of financial assets with a purchased call option or written put option that is not deeply in or out of the money, securitisation of assets in which the transferor retains a subordinated debt or other type of credit enhancement for a portion of the transferred asset, and other similar cases- the following distinction is made:

    - If the transferor does not retain control of the transferred financial asset, the asset is derecognised and any rights and obligations created or retained in the transfer are recognised.

    - If the transferor retains control of the transferred financial asset, it continues to recognise it for an amount equal to its exposure to changes in value of the asset and recognises a financial liability associated with the transferred financial asset. The net carrying amount of the transferred asset and the associated liability is the amortised cost of the rights and obligations retained, if the transferred asset is measured at amortised cost, or the fair value of the rights and obligations retained, if the transferred asset is measured at fair value.

Accordingly, financial assets are only derecognised when the rights to the cash flows they generate have expired or when substantially all the inherent risks and rewards have been transferred to third parties. Similarly, financial liabilities are only derecognised when the obligations they generate have been extinguished or when they are acquired with the intention either to cancel them or to resell them.

The Group habitually performs financial asset securitisation transactions in which it retains substantially all the risks and rewards of ownership of the assets. The detail, by consolidated entity, of the securitised assets retained on the consolidated balance sheets as at 31 December 2017 and 2016 is included in Note 10 to the accompanying consolidated financial statements.

e) Offsetting of financial instruments

Financial asset and liability balances are offset, i.e. reported in the consolidated balance sheet at their net amount, only if the entities of the Group currently have a legally enforceable right to set off the recognised amounts and intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

No material financial assets and liabilities were offset in the consolidated balance sheets as at 31 December 2017 and 2016.

f) Impairment of financial assets

i. Definition

A financial asset is considered to be impaired -and therefore its carrying amount is adjusted to reflect the effect of impairment- when there is objective evidence that events have occurred which:

- In the case of debt instruments (loans and debt securities), give rise to an adverse impact on the future cash flows that were estimated at the transaction date.

- In the case of equity instruments, mean that their carrying amount may not be fully recovered.

As a general rule, the carrying amount of impaired financial instruments is adjusted with a charge to the consolidated income statement for the period in which the impairment becomes evident, and the reversal, if any, of previously recognised impairment losses is recognised in the consolidated income statement for the period in which the impairment is reversed or reduced.

Transactions classified as non-performing due to arrears are reclassified as standard if, as a result of the collection of a portion or the sum of the unpaid instalments, the reasons for classifying such transactions as non-performing cease to exist, i.e. they no longer have any amount more than 90 days past due, unless other subjective reasons remain for classifying them as non-performing. The refinancing of non-performing loans does not result in their reclassification to standard unless: the period of one year has elapsed since the refinancing date, the holder has paid the accrued principal and interest accounts, and the customer has no other operation with overdue amounts of more than 90 days. (Note 47).

The following constitute effective guarantees:

a) Mortgage guarantees on housing as long as they are first duly constituted and registered in favor of the entity; the properties include:

   i. Buildings and building elements, distinguishing among:
      - Houses;
      - Offices commercial and multi-purpose premises;
      - Rest of buildings such as non-multi-purpose premises and hotels.

ii. Urban and developable ordered land.

iii. Rest of properties that classified in: buildings and building elements under construction, such as property development in progress and halted development, and the rest of land types, such as rustic lands.

b) Collateral guarantees on financial instruments in the form of cash deposits and debt securities issued by creditworthy issuers.

c) Other types real guarantees, including properties received in guarantee and second and subsequent mortgages on properties, as long as the entity demonstrates its effectiveness. When assessing the effectiveness of the second and subsequent mortgages on properties the entity will implement particularly restrictive criteria. It will take into account, among others, whether the previous charges are in favour of the entity itself or not and the relationship between the risk guaranteed by them and the property value.

d) Personal guarantees, as well as the incorporation of new owners, covering the entire amount of the transaction and implying direct and joint liability to the entity of persons other entities whose solvency is sufficiently proven to ensure the reimbursement of the operation on the agreed terms.

The balances relating to impaired assets continue to be recognised on the balance sheet, for their full amounts, until the Group considers that the recovery of those amounts is remote.

The Group considers recovery to be remote when there has been a substantial and irreversible deterioration of the borrower's solvency, when commencement of the liquidation phase of insolvency proceedings has been ordered.

When the recovery of a financial asset is considered remote, it is written off, together with the related allowance, without prejudice to any actions that the consolidated entities may initiate to seek collection until their contractual rights are extinguished due to expiry of the statute-of-limitations period, forgiveness or any other cause.

The following sections explain the methods applied by the Group to estimate and recognise impairment losses for each category of financial assets:

ii. Debt instruments carried at amortised cost

When there is objective evidence that a financial asset measured at amortised cost has become impaired, the impairment loss is measured as the positive difference between the asset's carrying amount and the present value of the estimated future cash flows associated with it. The estimate of present value takes into account the type, status and characteristics of the transactions together with the existence of any models and local regulations that must be taken into consideration in estimating present value.

In this regard, for the purpose of determining impairment losses, the Group monitors its debtors as described below:

- Individually, for significant debt instruments and for instruments which, although not material, are not susceptible to being classified in a group of financial assets with similar credit risk characteristics - customers classified by the Group as “individualised”. This category includes wholesale banking enterprises, financial institutions and certain retail banking enterprises.

  At balance sheet date, the group assesses on whether a debt instrument or a Group is impaired. A specific analysis is performed for all debtors monitored individually that have undergone an event such as:

  - Operations with amounts of capital, interests or expenditures agreed contractually, past-due by more than 90 days.

  - Significantly inadequate economic or financial structure, or inability to obtain additional owner financing.

  - Generalised delay in payments or insufficient cash flows to cover debts.

  - The lender, for economic or legal reasons related to the borrower's financial difficulties, grants the borrower concessions or advantages that otherwise would not have been granted.

  - The borrower enters a bankruptcy situation or in any other situation of financial reorganisation.

  In these situations, an assessment is performed on the estimated future cash flows in connection with the relevant asset, discounted the original effective interest rate of the loan granted. The result is compared with the carrying value of the asset. The differences between the carrying value of the operation and the discounted value of the cash flow estimate will be analysed and recognised as a specific provision for impairment loss.

- Collectively, in all other cases -customers classified by the Group as “standardised”-, by grouping together instruments having similar credit risk characteristics indicative of the debtors' ability to pay all principal and interest amounts in accordance with the contractual terms. The credit risk characteristics considered for the purpose of grouping the assets are, inter alia, instrument type, debtor's industry and geographical location, type of guarantee or collateral, age of past-due amounts and any other relevant factor for the estimation of future cash flows. This category includes exposures to individuals, individual traders and retail banking enterprises not classified as individualised customers.

As regards impairment losses resulting from materialisation of the insolvency risk of the obligors (credit risk), a debt instrument is impaired due to insolvency when there is evidence of a deterioration of the obligor's ability to pay, either because it is in arrears or for other reasons.

The collective provisions for impairment are subject to uncertainties in their estimation due, in part, to the difficult identification of losses since they individually appear insignificant within the portfolio. The estimation methods include the use of statistical analyses of historical information. These are supplemented by the application of significant judgments by the management, with the objective of evaluating if the current economic and credit conditions are such that the level of losses incurred is expected to be higher or less than that which results from experience.

When the most recent trends related to portfolio risk factors are not fully reflected in statistical models as a result of changes in economic, regulatory and social conditions, these factors are taken into account by adjusting impairment provisions based on experience of other historical losses. On these estimates the Group performs retrospective and comparative tests with market references to evaluate the reasonableness of the collective calculation.

The Group's internal models determine the impairment losses on debt instruments not measured at fair value through profit or loss and on contingent liabilities taking into account the historical experience of impairment and other circumstances known at the time of assessment. For these purposes, impairment losses on loans are losses incurred at the reporting date, calculated using statistical methods.

The amount of the impairment losses incurred on these debt instruments is equal to the difference between their respective carrying amounts and the present value of their estimated future cash flows. In estimating the future cash flows of debt instruments the following factors are taken into account:

- All the amounts that are expected to be obtained over the remaining life of the instrument; including, where appropriate, those which may result from the collateral provided for the instrument (less the costs for obtaining and subsequently selling the collateral). The impairment loss takes into account the likelihood of collecting accrued past-due interest receivable;

- The various types of risk to which each instrument is subject; and

- The circumstances in which collections will foreseeably be made.

These cash flows are subsequently discounted using the instrument's effective interest rate (if its contractual rate is fixed) or the effective contractual rate at the discount date (if it is variable).

The loss incurred is calculated by multiplying three factors: exposure at default, probability of default and loss given default. These parameters are also used to calculate economic capital and to calculate BIS II regulatory capital under internal models (see Note 1.f).

- Exposure at default (EAD) is the amount of risk exposure at the date of default by the counterparty.

- Probability of default (PD) is the probability of the counterparty failing to meet its principal and/or interest payment obligations. The probability of default is associated with the rating/scoring of each counterparty/transaction.

  For the purpose of calculating the incurred loss, PD is measured using a time horizon of one year; i.e. it quantifies the probability of the counterparty defaulting in the coming year due to an event that had already occurred at the assessment date. The definition of default used includes amounts past due by 90 days or more and cases in which there is no default but there are doubts as to the solvency of the counterparty (subjective non-performing assets).

- Severity: is the loss produced in case of impairment. It mainly depends on the update of the guarantees associated with the operation and the future flows that are expected to be recovered.

The calculation of the incurred loss contemplates, in addition to all the above, the adjustment to the current moment (adjustment to the cycle) of the previous factors (PD and LGD) taking into account the historical experience and other specific information that reflects the current conditions.

In addition, in order to determine the coverage of impairment losses on debt instruments measured at amortised cost, the Group considers the risk that exists in counterparties resident in a given country due to circumstances other than the usual commercial risk (sovereign risk, transfer risk or risks arising from international financial activity).

The debt instruments measured at amortised cost and classified as doubtful are divided, according to the criteria indicated in the following sections:

i. Assets classified as non-performing for reasons other than counterparty arrears:

Debt instruments which are not classifiable as non-performing due to arrears but for which there are reasonable doubts as to their repayment under the contractual terms are provisioned individually, and their allowance is the difference between the amount recognised in assets and the present value of the cash flows expected to be received.

ii. Assets classified as non-performing due to counterparty arrears:

Debt instruments, whoever the obligor and whatever the guarantee or collateral, with amounts more than 90 days past due are provisioned individually, taking into account the age of the past-due amounts, the guarantees or collateral provided and the financial situation of the counterparty and the guarantors.

iii. Debt or equity instruments classified as available for sale

The amount of the impairment losses on these instruments, if any, is the positive difference between their acquisition cost (net of any principal repayment or amortisation in the case of debt instruments) and their fair value, less any impairment loss previously recognised in the consolidated income statement. Impairment losses on debt instruments in this category are estimated in a similar manner to that explained above for debt instruments measured at amortised cost.

When there is objective evidence at the date of measurement of these instruments that the aforementioned differences are due to impairment, they are no longer recognised in consolidated equity under “Other comprehensive income. Items that may be reclassified to profit or loss” and are reclassified, for the cumulative amount at that date, to the consolidated income statement.

If all or part of the impairment losses are subsequently reversed, the reversed amount is recognised, in the case of debt instruments, in the consolidated income statement for the year in which the reversal occurs (or in equity under “Other comprehensive income. Items that may be reclassified to profit or loss” in the case of equity instruments).

iv. Equity instruments carried at cost

The amount of any impairment losses on equity instruments carried at cost is the positive difference between the carrying amount and the present value of the expected future cash flows discounted at the market rate of return for similar securities.

Impairment losses are recognised in the consolidated income statement for the period in which they arise as a direct reduction of the cost of the instrument. These losses can only be reversed subsequently if the related assets are sold.

g) *Repurchase agreements and reverse repurchase agreements*

Any purchases (sales) of financial instruments under a non-optional resale (repurchase) agreement at a fixed price (repos) are recognised, where appropriate, in the consolidated balance sheet as financing granted (received), based on the nature of the debtor (creditor), under “Central Banks”, “Credit Institutions” or “Customers” (“Central Banks”, “Credit Institutions” or “Customer”).

Differences between the purchase and sale prices are recognised as interest over the contract term using the effective interest method.

h) *Non-current assets held for sale and Liabilities associated with non-current assets held for sale*

“Non-Current Assets Held for Sale” includes the carrying amount of any individual items, disposal groups or items forming part of a business unit earmarked for disposal (“discontinued operations”) whose sale in their present condition is highly likely to be completed within one year from the reporting date. Therefore, the carrying amount of these items -which can be of a financial nature or otherwise- will foreseeably be recovered through the proceeds from their disposal rather than through their continuing use. Specifically, property or other non-current assets received by the consolidated entities as total or partial settlement of their debtors’ payment obligations to them are deemed to be “Non-Current Assets Held for Sale”, unless the consolidated entities have decided to make continuing use of these assets.

Similarly, “Liabilities Associated with Non-Current Assets Held for Sale” includes the balances payable relating to the assets held for sale or disposal groups and to discontinued operations.

Non-current assets held for sale -both individual items and disposal groups, if any- are generally measured at the lower of fair value less costs to sell and their carrying amount at the date of classification in this category. Non-current assets held for sale are not depreciated as long as they remain in this category. However, any financial instruments, assets arising from employee benefits, deferred tax assets and reinsurance assets classified as “Non-Current Assets Held for Sale” continue to be measured using the methods described in this Note, with no changes being made thereto as a result of the classification of these items as non-current assets held for sale. The Group measures foreclosed property assets located in Spain by taking into consideration the appraisal value on the date of foreclosure and the length of time each asset has been recognised in the consolidated balance sheet.

The Group has in place a corporate policy that ensures the professional competence and the independence and objectivity of the external appraisal agencies, in accordance with the regulations, which require appraisal agencies to meet neutrality and credibility requirements, so that the use of their estimates does not reduce the reliability of its valuations. This policy establishes that all the appraisal companies and agencies with which the Group works in Spain should be registered in the Official Register of the Bank of Spain and that the appraisals performed by them should follow the methodology established in Ministry of Economy Order ECO/805/2003, of 27 March. The main appraisal companies and agencies with which the Group worked in Spain in 2017 are as follows: Ibertasa S.A., Compañía Hispania de Tasaciones y Valoraciones, S.A., Cohispania) S.A., Eurovaloraciones S.A., Krata S.A., Tasvalor S.A., Tecnitasa S.A., Thirsa Sociedad de Valoración y Tasación S.A., Tinsa Tasaciones Inmobiliarias S.A., UVE S.A. In 2016 the main appraisal companies and agencies were Ibertasa, S.A. y Gesvalt Sociedad de Tasación, S.A.

Also, the aforementioned policy stipulates that the various subsidiaries abroad must work with appraisal companies that have recent experience in the local area and with the type of asset under appraisal and that meet the independence requirements established in the corporate policy. They should verify, inter alia, that the appraisal company is not a party related to the Group and that its billings to the Group in the last twelve months do not exceed 15% of the appraisal company's total billings.

Impairment losses on an asset or disposal group resulting from the write-down of its carrying amount to its fair value (less costs to sell) and gains or losses on the sale thereof are recognised under “Gains (Losses) on Non-Current Assets Held for Sale Not Classified as Discontinued Operations” in the consolidated income statement. Any gains on a non-current asset held for sale resulting from increases in fair value (less costs to sell) subsequent to impairment increase its carrying amount and are recognised with a credit to the consolidated income statement up to an amount equal to the impairment losses previously recognised.

Assets and liabilities relating to discontinued operations are presented and measured in accordance with the criteria indicated for disposal groups. Revenue and expenses arising from these assets and liabilities are presented net of the related tax effect under “Profit or loss after tax from discontinued operations” in the consolidated income statement.

i) Tangible assets

“Tangible Assets” in the consolidated balance sheet includes any buildings, land, furniture, vehicles, computer hardware and other fixtures owned by the consolidated entities or acquired under finance leases, for their own use. Tangible assets are classified by use as follows:

i. Property, plant and equipment for own use

Property, plant and equipment for own use -including any tangible assets received by the consolidated entities in full or partial satisfaction of financial assets representing receivables from third parties which are intended to be held for continuing own use and tangible assets acquired under finance leases- are presented at acquisition cost, less the related accumulated depreciation and any estimated impairment losses (carrying amount higher than recoverable amount).

Depreciation is calculated, using the straight-line method, on the basis of the acquisition cost of the assets less their residual value. The land on which the buildings and other structures stand has an indefinite life and, therefore, is not depreciated. The period depreciation charge is recognised under “Depreciation and Amortisation Charge” in the consolidated income statement and is calculated using the following depreciation rates (based on the average years of estimated useful life of the various assets):

	Annual Rate
Buildings for own use	1.5%-2%
Furniture	10%
Computer hardware	25%
Other	12%

The consolidated entities assess at the reporting date whether there is any indication that an asset may be impaired (i.e. its carrying amount exceeds its recoverable amount). If this is the case, the carrying amount of the asset is reduced to its recoverable amount with a charge to the consolidated income statement and future depreciation charges are adjusted in proportion to the revised carrying amount and to the new remaining useful life (if the useful life has to be re-estimated).

Similarly, if there is an indication of a recovery in the value of a previously impaired tangible asset, the consolidated entities recognise the reversal of the impairment loss recognised in prior periods with a credit to the consolidated income statement and adjust the future depreciation charges accordingly. In no circumstances may the reversal of an impairment loss on an asset raise its carrying amount above that which it would have if no impairment losses had been recognised in prior years.

The estimated useful lives of the items of property, plant and equipment for own use are reviewed at least at the end of each reporting period with a view to detecting possible significant changes therein. If changes are detected, the depreciation charges relating to the new useful lives of the assets are adjusted by correcting the charge to be recognised in the consolidated income statement in future years.

Upkeep and maintenance expenses are charged to the consolidated income statement for the year in which they are incurred.

ii. Investment property

"Tangible Assets - Investment Property" reflects the net values of any land, buildings and other structures held either to earn rentals or for capital appreciation.

The criteria used to recognise the acquisition cost of investment property, to calculate its depreciation and its estimated useful life and to recognise any impairment losses thereon are consistent with those described in relation to property, plant and equipment for own use.

iii. Assets leased out under an operating lease

"Tangible Assets - Property, Plant and Equipment - Leased out under an Operating Lease" in the consolidated balance sheets includes the amount of the assets, other than land and buildings, leased out under an operating lease.

The criteria used to recognise the acquisition cost of assets leased out under operating leases, to calculate their depreciation and their respective estimated useful lives and to recognise the impairment losses thereon are consistent with those described in relation to property, plant and equipment for own use.

j) Leases

i. Finance leases

Finance leases are leases that transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee.

When the consolidated entities act as the lessors of an asset, the sum of the present value of the lease payments receivable from the lessee and the guaranteed residual value –which is generally the exercise price of the lessee's purchase option at the end of the lease term– is recognised as lending to third parties and is therefore included under "Loans and Receivables" in the consolidated balance sheet.

When, if ever, the consolidated entities act as the lessees, they present the cost of the leased assets in the consolidated balance sheet, based on the nature of the leased asset, and, simultaneously, recognise a liability for the same amount (which is the lower of the fair value of the leased asset and the sum of the present value of the lease payments payable to the lessor plus, where applicable, the exercise price of the purchase option). The depreciation policy for these assets, if any, is consistent with that for property, plant and equipment for own use.

In both cases, any finance income and finance charges arising under finance lease agreements are credited and debited, respectively, to “Interest Income” and “Interest Expense” in the consolidated income statement - depending on whether the consolidated entities act as lessors or lessees- so as to produce a constant rate of return over the lease term.

ii. Operating leases

In operating leases, ownership of the leased asset and substantially all the risks and rewards incidental thereto remain with the lessor.

When the consolidated entities act as the lessors, they present the acquisition cost of the leased assets under “Tangible Assets” (see Note 14) in the consolidated balance sheet. The depreciation policy for these assets is consistent with that for similar items of property, plant and equipment for own use (see Note 2-i), and income from operating leases is recognised on a straight-line basis under “Other Operating Income” in the consolidated income statement (see Note 37).

When the consolidated entities act as the lessees, the lease expenses, including any incentives granted by the lessor, are charged on a straight-line basis to “Administrative Expenses - Other Administrative Expenses” in the consolidated income statement.

k) Intangible assets

“Intangible Assets” are identifiable non-monetary assets (separable from other assets) without physical substance which arise as a result of a legal transaction or which are developed internally by the consolidated entities and goodwill other than that arising on acquisition of entities accounted for using the equity method. Only intangible assets whose cost can be estimated reliably and from which the consolidated entities consider it probable that future economic benefits will be generated are recognised.

Intangible assets other than goodwill are recognised initially at acquisition or production cost and are subsequently measured at cost less any accumulated amortisation and/or any accumulated impairment losses.

i. Goodwill

Any excess of the cost of the investments in the consolidated entities and entities accounted for using the equity method over the corresponding underlying carrying amounts acquired, adjusted at the date of first-time consolidation, is allocated as follows:

- If it is attributable to specific assets and liabilities of the companies acquired, by increasing the value of the assets (or reducing the value of the liabilities) whose fair values were higher (lower) than the carrying amounts at which they had been recognised in the acquired entities' balance sheets.

- If it is attributable to specific intangible assets, by recognising it explicitly in the consolidated balance sheet provided that the fair value of these assets within twelve months following the date of acquisition can be measured reliably.

- The remaining amount is recognised as goodwill, which is allocated to one or more cash-generating units (a cash-generating unit is the smallest identifiable group of assets that, as a result of continuing operation, generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets). The cash-generating units represent the Group’s geographical and/or business segments.

Goodwill is only recognised when it has been acquired for consideration and represents, therefore, a payment made by the acquirer in anticipation of future economic benefits from assets of the acquired entity or business that are not capable of being individually identified and separately recognised.

At the end of each annual reporting period or whenever there is any indication of impairment goodwill is reviewed for impairment (i.e. a reduction in its recoverable amount to below its carrying amount) and, if there is any impairment, the goodwill is written down with a charge to Impairment on non financial assets (net) - Intangible assets in the consolidated income statement.

An impairment loss recognised for the goodwill is not reversed in a subsequent period.

ii. Other intangible assets

Intangible assets can have an indefinite useful life –when, based on an analysis of all the relevant factors, it is concluded that there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the consolidated entities– or a finite useful life, in all other cases.

Intangible assets with indefinite useful lives are not amortised, but rather at the end of each reporting period the consolidated entities review the remaining useful lives of the assets in order to determine whether they continue to be indefinite and, if this is not the case, to take the appropriate steps.

Intangible assets with finite useful lives are amortised over those useful lives using methods similar to those used to depreciate tangible assets. The intangible asset amortisation charge is recognised under “Depreciation and Amortisation Charge” in the consolidated income statement.

In both cases the consolidated entities recognise any impairment loss on the carrying amount of these assets with a charge to Impairment losses on other assets (net) in the consolidated income statement. The criteria used to recognise the impairment losses on these assets and, where applicable, the reversal of impairment losses recognised in prior years are similar to those used for tangible assets (See Note 2.i).

Group internally developed computer software

Internally developed computer software is recognised as an intangible asset if, among other requisites (basically the Group’s ability to use or sell it), it can be identified and its ability to generate future economic benefits can be demonstrated.

Any expenditure on research activities is recognised as an expense in the year in which it is incurred and cannot be subsequently capitalised.

l) Other assets and Other liabilities

“Other Assets” in the consolidated balance sheets includes the amount of any assets not recorded in other items, the breakdown being as follows:

- Inventories: this item includes the amount of assets, other than financial instruments, that are held for sale in the ordinary course of business, are in the process of production, construction or development for such sale, or are to be consumed in the production process or in the rendering of services. “Inventories” includes the assets that have been acquired for the purpose of leasing them to third parties and for which the related operating lease agreements had not been formalised at the date of the consolidated balance sheets.

Inventories are measured at the lower of cost and net realisable value, which is the amount expected to be obtained from lease or sale thereof in the ordinary course of business, less the estimated costs of completion and the estimated costs required for operation.

The amount of any write-down of inventories -such as that due to damage, obsolescence or reduction of selling price- to net realisable value and all other losses of inventories are recognised as an expense in the year in which the write-down or loss occurs. Subsequent reversals are recognised in the consolidated income statement for the year in which they occur.

The carrying amount of inventories is derecognised and recognised as an expense in the period in which the revenue from their sale is recognised.

- Other: this item includes, as the case may be, the balance of all prepayments and accrued income (excluding accrued interest), the net amount of the difference between pension plan obligations and the value of the plan assets with a balance in the Group's favour, when this net amount is to be reported in the consolidated balance sheet, and the amount of any other assets not included in other items.

"Other Liabilities" in the consolidated balance sheets includes the balance of all accrued expenses and deferred income, excluding accrued interest, and the amount of any other liabilities not included in other consolidated balance sheet line items.

m) Provisions and contingent assets and liabilities

Provisions are present obligations at the reporting date arising from past events which could give rise to a loss for the consolidated entities, which is considered to be likely to occur and certain as to its nature but uncertain as to its amount and/or timing, and the consolidated entities expect that an outflow of resources embodying economic benefits will be required to settle such obligations.

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the consolidated entities. They include present obligations of the consolidated entities when, although possible, it is not considered probable that an outflow of resources embodying economic benefits will be required to settle them and their amount cannot be measured with sufficient reliability. The Group will disclose a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are possible assets that arise from past events and whose existence is conditional on, and will be confirmed only by, the occurrence or non-occurrence of events beyond the control of the Group. Any contingent assets that arise are not recognised in the consolidated balance sheet or in the consolidated income statement, but rather are disclosed in the notes, provided that it is probable that these assets will give rise to an increase in resources embodying economic benefits.

The Group's consolidated financial statements include all the material provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. In accordance with current standards, contingent liabilities are not recognised in the consolidated financial statements, but rather are disclosed in the notes thereto.

Provisions, which are quantified on the basis of the best information available on the consequences of the event giving rise to them and are reviewed and adjusted at the end of each year, are used to cater for the specific obligations for which they were originally recognised. Provisions are fully or partially reversed when such obligations cease to exist or are reduced.

Provisions are classified according to the obligations covered as follows:

- Provisions for pensions and similar obligations: includes the amount of the provisions made to cover defined-benefit post-employment benefits, commitments to pre-retirees and similar obligations (see Note 21).

- Other long-term employee compensation: includes other obligations assumed with employees taking early retirement (see Notes 2.r and 21)

- Provisions for taxes and other legal contingencies: includes the amount of the provisions made to cover tax and legal contingencies and litigation (see Note 21).

- Provisions for contingent liabilities and commitments: includes the amount of the provisions made to cover contingent liabilities -defined as those transactions in which the Group guarantees the obligations of a third party, arising as a result of financial guarantees granted or contracts of another kind- and contingent commitments -defined as irrevocable commitments that may give rise to the recognition of financial assets (see Note 21).

- Other provisions: includes the amount of other provisions made by the Group (see Note 21).

The provisions considered necessary pursuant to the foregoing criteria are recognised or released, as appropriate, with a charge or credit, respectively, to "Provisions (Net)" in the consolidated income statement. The criteria applied to account for the provisions for pensions and similar obligations are described in Notes 2-q and 2-r.

n) Court proceedings and/or claims in process

At the end of 2017 and 2016 certain court proceedings and claims were in process against the consolidated entities arising from the ordinary course of their operations. The Group's legal advisers and the Bank's Directors consider that any economic loss that might ultimately result from these court proceedings and claims has been adequately provided for (see Note 21) and, therefore, will not have a material effect on these consolidated financial statements.

o) Recognition of income and expenses

The most significant criteria used by the Group to recognise its income and expenses are summarised as follows:

i. Interest income, interest expenses and similar items

Interest income, interest expenses and similar items are generally recognised on an accrual basis using the effective interest method. Dividends received from companies other than subsidiaries, associates or jointly controlled entities are recognised as income when the right to receive them arises.

ii. Commissions, fees and similar items

Fee and commission income and expenses are recognised in the consolidated income statement using criteria that vary according to their nature. The main criteria are as follows:

- Fee and commission income and expenses relating to financial assets and financial liabilities measured at fair value through profit or loss are recognised when paid.

- Those which meet the conditions to form part of the initial acquisition cost of the financial instruments (other than those measured at fair value through profit or loss) are recognised in the income statement using the effective interest method or at the time the instruments are sold, based on their nature.

- Those arising from transactions or services that are performed over a period of time are recognised over the life of these transactions or services.

- Those relating to services provided in a single act are recognised when the single act is carried out.

iii. Non-finance income and expenses

These are recognised for accounting purposes on an accrual basis.

iv. Deferred collections and payments

These are recognised for accounting purposes at the amount resulting from discounting the expected cash flows at market rates.

v. Loan arrangement fees

Loan arrangement fees, mainly loan origination and application fees, are credited to the consolidated income statement, on a time-proportion basis, over the term of the loan. The related direct costs incurred in the loan arrangement can be deducted from this amount.

p) Financial guarantees

"Financial guarantees" are defined as contracts whereby an entity undertakes to make specific payments on behalf of a third party if the latter fails to do so, irrespective of the various legal forms they may have, such as guarantees, insurance policies or credit derivatives.

The Group initially recognises financial guarantees provided on the liability side of the consolidated balance sheet at fair value, which is generally the present value of the fees, commissions and interest receivable from these contracts over the term thereof, and simultaneously the Group recognises, as a balancing entry on the asset side of the consolidated balance sheet, the amount of the fees, commissions and similar interest received at the inception of the transactions and an account receivable for the present value of the fees, commissions and interest outstanding.

Financial guarantees, regardless of the guarantor, instrumentation or other circumstances, are reviewed periodically so as to determine the credit risk to which they are exposed and, if appropriate, to consider whether a provision is required. The credit risk is determined by application of criteria similar to those established for quantifying impairment losses on debt instruments carried at amortised cost (described in Note 2-f above).

The provisions made for these transactions are recognised under “Provisions - Provisions for commitments and guarantees given” on the liability side of the consolidated balance sheet (see Note 21). These provisions are recognised and reversed with a charge or credit, respectively, to “Provisions or reversal of provisions” in the consolidated income statement.

If a provision is required for these financial guarantees, the unearned commissions recognised under “Financial Liabilities at Amortised Cost - Other Financial Liabilities” in the consolidated balance sheet are reclassified to the appropriate provision.

q) *Post-employment benefits*

Under the collective agreements currently in force, the financial institutions included in the Group and certain other Spanish and foreign consolidated entities have undertaken to supplement the public social security system benefits accruing to certain employees, and to their beneficiary right holders, for retirement, permanent disability or death, and other welfare benefits.

The Group’s post-employment obligations to its employees are deemed to be “defined contribution plans” when the Group makes pre-determined contributions to a separate entity and will have no legal or effective obligation to make further contributions if the separate entity cannot pay the employee benefits relating to the service rendered in the current and prior periods. Post-employment obligations that do not meet the aforementioned conditions are classified as “defined benefit plans” (see Note 21).

Defined contribution plans

The Group recognises the defined contributions accrued in the year under “Administrative Expenses - Staff Costs” in the consolidated income statement. At year-end any amount not yet contributed to the external plans funding the obligations is recognised at its present value under “Provisions - Provision for pensions and other employement defined benefit obligations” on the liability side of the consolidated balance sheet (see Note 21).

Defined benefit plans

The Group recognises under “Provisions - Provisions for other long term employee benefits” on the liability side of the consolidated balance sheet (or under “Other Assets” on the asset side, as appropriate) the present value of its defined benefit post-employment obligations, net of the fair value of the plan assets (see Note 21).

“Plan assets” are defined as those that will be used directly to settle the obligations and that meet the following conditions:

- They are not owned by the consolidated entities, but by a legally separate third party that is not a party related to the Group.

- They are only available to pay or fund post-employment benefits and they cannot be returned to the consolidated entities unless the assets remaining in the plan are sufficient to meet all the benefit obligations of the plan or of the entity to current and former employees, or they are returned to reimburse employee benefits already paid by the Group.

If the Group can look to an insurer to pay part or all of the expenditure required to settle a defined benefit obligation, and it is practically certain that said insurer will reimburse some or all of the expenditure required to settle that obligation, but the insurance policy does not qualify as a plan asset, the Group recognises its right to reimbursement -which, in all other respects, is treated as a plan asset- under "Insurance Contracts Linked to Pensions" on the asset side of the consolidated balance sheet.

Post-employment benefits are recognised as follows:

- Service cost is recognised in the consolidated income statement and includes the following items:

  - Current service cost, i.e. the increase in the present value of the obligations resulting from employee service in the current period, is recognised under "Administrative Expenses - Staff Costs" (see Notes 21 and 39).

  - Any past service cost, which arises from changes to existing post-employment benefits or from the introduction of new benefits and includes the cost of curtailments, is recognised under "Provisions or reversal of provisions" (see Note 21).

  - Any gain or loss arising from plan settlements is recognised under "Provisions or reversal of provisions" (see Note 21).

  - Net interest on the net defined benefit liability (asset), i.e. the change in the year in the net defined benefit liability (asset) as a result of the passage of time, is recognised under "Interest Expense" ("Interest Income" if it constitutes income) in the consolidated income statement (see Notes 21 and 31).

The remeasurement of the net defined benefit liability (asset) recognised in equity under "Other comprehensive income. Items not reclassified to profit or loss. Actuarial gains or (-) losses on defined benefit pension plans" in the consolidated balance sheet includes:

  - Actuarial gains and losses generated in the year, arising from the effects of differences between the previous actuarial assumptions and what has actually occurred and from the effects of changes in actuarial assumptions.

  - The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset).

  - Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

  None of the above amounts recognised as valuation adjustments are reclassified to the consolidated income statement following their recognition as such.

r) *Other long-term benefits and other obligations*

Other long-term employee benefits, defined as obligations to pre-retirees -taken to be those employees who have ceased to render services at the consolidated entities but who, without being legally retired, continue to have economic rights vis-à-vis the entities until they acquire the legal status of retiree- and long-service bonuses assumed by the consolidated entities are treated for accounting purposes, where applicable, as established above for defined benefit post-employment plans, except that actuarial gains and losses which are recognised under Provisions or reversal of provisions in the consolidated income statement (see Note 21).

Certain Spanish Group entities' obligations for death or disability of current employees until they reach retirement age are covered by an internal fund with renewable temporary annual coverage and, therefore, no contributions are made to plans.

s) Termination benefits

Termination benefits are recognised when there is a detailed formal plan identifying the basic changes to be made, provided that implementation of the plan has begun, its main features have been publicly announced or objective facts concerning its implementation have been disclosed.

t) Income tax

The expense for Spanish income tax and other similar taxes applicable to the foreign consolidated entities is recognised in the consolidated income statement, except when it results from a transaction recognised directly in equity, in which case the tax effect is also recognised in equity.

The current income tax expense is calculated as the sum of the current tax resulting from application of the appropriate tax rate to the taxable profit for the year (net of any deductions allowable for tax purposes), and of the changes in deferred tax assets and liabilities recognised in the consolidated income statement.

Deferred tax assets and liabilities include temporary differences measured at the amount expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their related tax bases, and any tax loss and tax credit carryforwards that have been recognised. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled.

"Tax Assets" includes the amount of all tax assets, which are broken down into "current" -amounts of tax to be recovered within the next twelve months- and "deferred" -amounts of tax to be recovered in future years, including those arising from tax loss and tax credit carryforwards.

"Tax Liabilities" includes the amount of all tax liabilities (except provisions for taxes), which are broken down into "current" -the amount payable in respect of the income tax on the taxable profit for the year and other taxes in the next twelve months- and "deferred" -the amount of income tax payable in future years.

Deferred tax liabilities are recognised in respect of taxable temporary differences associated with investments in subsidiaries, associates or joint ventures, except when the Group is able to control the timing of the reversal of the temporary difference and, in addition, it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are only recognised for temporary differences to the extent that it is considered probable that the consolidated entities will have sufficient future taxable profits against which the deferred tax assets can be utilised, and the deferred tax assets do not arise from the initial recognition (except in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor accounting profit. Other deferred tax assets (tax loss and tax credit carryforwards) are only recognised if it is considered probable that the consolidated entities will have sufficient future taxable profits against which they can be utilised.

Income and expenses recognised directly in equity are accounted for as temporary differences.

The deferred tax assets and liabilities are reassessed at the reporting date in order to ascertain whether any adjustments need to be made on the basis of the findings of the analyses performed.

u) Residual maturity periods and average interest rates

The analysis of the maturities of the balances of certain items in the consolidated balance sheets as at 31 December 2017 and 2016 and of the average annual interest rates in 2017 and 2016 is provided in Note 44.

v) Consolidated statement of recognised income and expense

This statement presents the income and expenses generated by the Group as a result of its business activity in the year, and a distinction is made between the income and expenses recognised in the consolidated income statement for the year and the other income and expenses recognised directly in consolidated equity.

The statement presents the various items separately by nature, grouping them into those items which, in accordance with the applicable accounting standards, will not be reclassified subsequently to profit or loss, and those items which will be reclassified subsequently to profit or loss since the requirements established by the corresponding accounting standards are met.

Accordingly, this statement presents:

a. Consolidated profit for the year.

b. The net amount of the income and expenses recognised temporarily in consolidated equity under "Valuation Adjustments".

c. The net amount of the income and expenses recognised definitively in consolidated equity.

d. The income tax incurred in respect of the items indicated in b) and c) above, except for the valuation adjustments arising from investments in associates or jointly controlled entities accounted for using the equity method, which are presented net.

e. Total consolidated recognised income and expense, calculated as the sum of a) to d) above, presenting separately the amount attributable to the Parent and the amount relating to non-controlling interests.

The amount of the income and expenses relating to entities accounted for using the equity method recognised directly in equity is presented in this statement, irrespective of the nature of the related items, under "Valuation Adjustments - Entities Accounted for Using the Equity Method" in the consolidated balance sheet.

w) Consolidated statement of changes in total equity

This statement presents all the changes in consolidated equity, including those arising from changes in accounting policies and from the correction of errors, if any. Accordingly, this statement presents a reconciliation of the carrying amount at the beginning and end of the year of all the consolidated equity items, and the changes are grouped together on the basis of their nature into the following items:

a. Adjustments due to changes in accounting policies and to errors: include the changes in consolidated equity arising as a result of the retrospective restatement of the balances in the consolidated financial statements due to changes in accounting policies or to the correction of errors, if any.

b. Income and expense recognised in the year: includes, in aggregate form, the total of the aforementioned items recognised in the consolidated statement of recognised income and expense.

c. Other changes in equity: includes the remaining changes, if any, recognised in consolidated equity, including, inter alia, increases and decreases in the Bank's capital, distribution of profit, transactions involving own equity instruments, equity-instrument-based payments, transfers between equity items and any other increases or decreases in consolidated equity.

x) Consolidated statements of cash flows

The following terms are used in the consolidated statements of cash flows with the meanings specified:

- Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.

- Operating activities: the principal revenue-producing activities of credit institutions and other activities that are not investing or financing activities.

- Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.

- Financing activities: activities that result in changes in the size and composition of the consolidated equity and liabilities that are not operating activities.

For the purposes of preparing the consolidated statement of cash flows, “cash and cash equivalents” were considered to be short-term, highly liquid investments that are subject to an insignificant risk of changes in value. Accordingly, the Group considers the following financial assets to be cash and cash equivalents:

- Net cash balances and net balances with central banks, which are recognised under “Cash and Balances with Central Banks and other deposits on demand” in the consolidated balance sheet at 31 December 2017 and 2016 , details by type and currency as follows:

	Thousand Euros	
	2017	2016
Type:		
Cash	132,275	138,385
Current accounts	2,088,308	2,112,261
Reciprocal accounts	1,103,534	1,283,330
Other accounts at credit institutions and central banks	1,241,040	1,303,925
	4,565,157	**4,837,901**
Currency:		
Euro	4,406,499	4,577,549
Foreign currency	158,658	260,352
	4,565,157	**4,837,901**

y) ***Own equity instruments***

Own equity instruments are those meeting both of the following conditions:

- The instruments do not include any contractual obligation for the issuer: (i) to deliver cash or another financial asset to a third party; or (ii) to exchange financial assets or financial liabilities with a third party under conditions that are potentially unfavourable to the issuer.

- The instruments will or may be settled in the issuer's own equity instruments and are: (i) a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or (ii) a derivative that will be settled by the issuer through the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Transactions involving own equity instruments, including their issuance and cancellation, are charged directly to equity.

Changes in the value of instruments classified as own equity instruments are not recognised in the consolidated financial statements. Consideration received or paid in exchange for such instruments, including the coupons on preference shares contingently convertible into ordinary shares

3. Santander Consumer Finance Group

a) Santander Consumer Finance, S.A.

The Bank is the parent of the Santander Consumer Finance Group (see Note 1). For information purposes, following are the condensed balance sheets, income statements, statements of changes in equity and statements of cash flows of the Bank for 2017 and 2016:

SANTANDER CONSUMER FINANCE, S.A.

CONDENSED BALANCE SHEETS AS AT 31 DECEMBER 2017 AND 2016
(Thousand Euros)

ASSETS	2017	2016	LIABILITIES AND EQUITY	2017	2016
Cash, cash balances at central banks and other deposits on demand	77,673	16,326	**LIABILITIES**		
Financial assets held for trading	1,625	30			
Financial assets designated at fair value through profit or loss	-	-	Financial liabilities held for trading	317	1,747
Financial assets available for sale	1,763,126	1,202,855	Financial liabilities at amortised cost	25,566,534	25,884,208
Loans and receivables	21,987,201	22,096,090	Hedging derivatives	71,276	43,733
Investments held to maturity	-	-	Provisions	48,449	51,833
Hedging derivatives	101,156	69,953	Tax liabilities	239,278	176,113
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	-	-	Other liabilities	38,157	38,098
Investments	11,910,467	11,996,631			
Tangible assets	206	263	**TOTAL LIABILITIES**	**25,964,011**	**26,195,732**
Intangible assets	6,857	8,889			
Tax assets	120,424	120,081			
Other assets	29,435	2,665	Shareholders equity	10,038,953	9,327,530
Non current assets held for sale	2,423	5,196	Other comprehensive income	(2,371)	(4,283)
TOTAL ASSETS	**36,000,593**	**35,518,979**	**TOTAL EQUITY**	**10,036,582**	**9,323,247**
			TOTAL LIABILITIES AND EQUITY	**36,000,593**	**35,518,979**
MEMORANDUM ITEMS:					
CONTINGENT LIABILITIES	1,609,348	1,536,494			
CONTINGENT COMMITMENTS	3,900,695	4,588,651			

SANTANDER CONSUMER FINANCE, S.A.

CONDENSED INCOME STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

(Thousand Euros)

	Income/(Expenses)	
	2017	2016
Interest Income	263,529	291,562
Interest Expense	(143,373)	(126,387)
Net interest income	**120,156**	**165,175**
Dividend Income	582,119	703,457
Commission income	28,977	29,741
Commission expense	(49,110)	(46,949)
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net	4,466	(12,634)
Gains or losses on financial assets and liabilities held for trading, net	474	(474)
Gains or losses on financial assets and liabilities measured at fair value through profit or loss, net	-	-
Gains or losses from hedge accounting, net	25	(13)
Exchange differences, net	(3,632)	(2,891)
Other operating income	372	130
Other operating expenses	(9,896)	(7,077)
Income from assets under insurance and reinsurance contracts	-	-
Expenses from liabilities under insurance and reinsurance contracts	-	-
Total income	**673,951**	**828,465**
Administrative expenses	(68,120)	(53,733)
Depreciation and amortisation cost	(2,157)	(1,811)
Provisions or reversal of provisions	(1,194)	4,470
Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss, net	(49,646)	12,968
Profit from operations	**552,834**	**790,359**
Impairment of investments in subsidiaries, joint ventures and associates, net	(41,009)	-
Impairment on non-financial assets, net	(6,806)	-
Negative goodwill recognised in results	-	-
Gains or losses on non-current assets held for sale classified as discontinued operations	1,706	(6,889)
Profit or loss before tax from continuing operations	**506,725**	**783,470**
Tax expense or income from continuing operations	(43,848)	(156,972)
Profit for the period from continuing operations	462,877	626,498
PROFIT FOR THE YEAR	**462,877**	**626,498**

SANTANDER CONSUMER FINANCE, S.A.

CONDENSED STATEMENTS OF CHANGES IN EQUITY

A) CONDENSED STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

(Thousand Euros)

	2017	2016
PROFIT FOR THE YEAR	**462,877**	**626,498**
OTHER RECOGNISED INCOME AND EXPENSE	**1,912**	**(2,680)**
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**591**	**(255)**
ACTUARIAL GAINS AND LOSSES ON DEFINED BENEFIT PENSION PLANS	*843*	*(364)*
NON-CURRENT ASSETS HELD FOR SALE	-	-
INCOME TAX RELATING TO ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	*(252)*	*109*
ITEMS THAT WILL BE RECLASSIFIED TO PROFIT OR LOSS	**1,322**	**(2,425)**
EXCHANGE DIFFERENCES	-	-
HEDGES OF NET INVESTMENTS IN FOREIGN OPERATIONS	-	-
CASH FLOW HEDGES	*(1,070)*	*(4,056)*
AVAILABLE-FOR-SALE FINANCIAL ASSETS	*2,936*	*592*
NON-CURRENT ASSETS HELD FOR SALE	-	-
OTHER RECOGNISED INCOME AND EXPENSE OF INVESTMENT IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES	-	-
INCOME TAX	(545)	1,039
TOTAL RECOGNISED INCOME AND EXPENSE	**464,789**	**623,818**

SANTANDER CONSUMER FINANCE, S.A.

CONDENSED STATEMENTS OF CHANGES IN EQUITY

B) CONDENSED STATEMENTS OF CHANGES IN TOTAL EQUITY

FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

(Thousand Euros)

2017	Share Capital	Share Premium	Other instruments (not capital)	Other Equity Instruments	Accumulated retained earnings	Result of the period	Dividends	Other comprehensive income	TOTAL
Ending balance at 31 December 2016	**5,638,639**	**1,139,990**	**-**	**-**	**2,463,712**	**626,498**	**(541,309)**	**(4,283)**	**9,323,247**
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	**5,638,639**	**1,139,990**	**-**	**-**	**2,463,712**	**626,498**	**(541,309)**	**(4,283)**	**9,323,247**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**462,877**	**-**	**1,912**	**464,789**
Other changes in equity	**-**	**-**	**850,000**	**-**	**(115,922)**	**(626,498)**	**140,966**	**-**	**248,546**
Issurance of ordinary shares	-	-	-	-	-	-	-	-	-
Issurance of preferent shares	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	850,000	-	-	-	-	-	**850,000**
Dividends	-	-	-	-	(201,111)		(400,343)	-	**(601,454)**
Transfers between equity items	-	-	-	-	85,189	(626,498)	541,309	-	-
Ending balance at 31 December 2017	**5,638,639**	**1,139,990**	**850,000**	**-**	**2,347,790**	**462,877**	**(400,343)**	**(2,371)**	**10,036,582**

2016	Share Capital	Share Premium	Other instruments (not capital)	Other Equity Instruments	Accumulated retained earnings	Result of the period	Dividends	Other comprehensive income	TOTAL
Ending balance at 31 December 2015	**5,638,639**	**1,139,990**	**-**	**-**	**2,329,770**	**413,995**	**(280,053)**	**(1,603)**	**9,240,738**
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	**5,638,639**	**1,139,990**	**-**	**-**	**2,329,770**	**413,995**	**(280,053)**	**(1,603)**	**9,240,738**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**626,498**	**-**	**(2,680)**	**623,818**
Other changes in equity	**-**	**-**	**-**	**-**	**133,942**	**(413,995)**	**(261,256)**	**-**	**(541,309)**
Issurance of ordinary shares	-	-	-	-	-	-	-	-	-
Issurance of preferent shares	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	133,942	-	(541,309)	-	(407,367)
Transfers between equity items	-	-	-	-	-	(413,995)	280,053	-	(133,942)
Ending balance at 31 December 2016	**5,638,639**	**1,139,990**	**-**	**-**	**2,463,712**	**626,498**	**(541,309)**	**(4,283)**	**9,323,247**

SANTANDER CONSUMER FINANCE, S.A.

CONDENSED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

(Thousand Euros)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES	**192,113**	**445,891**
Profit for the year	**462,877**	**626,498**
Adjustments made to obtain the cash flows from operating activities	9,525	46,921
Net (increase)/decrease in operating assets	(589,877)	(1,985,379)
Net increase/(decrease) in operating liabilities	309,588	1,757,851
Income tax recovered/paid	-	-
CASH FLOWS FROM INVESTING ACTIVITIES	**134,023**	**(1,362,272)**
(Payments)	**132,380**	(1,352,576)
Proceeds	**1,643**	(9,696)
CASH FLOWS FROM FINANCING ACTIVITIES	**(292,763)**	**(85,995)**
(Payments)	**(1,142,763)**	(85,995)
Proceeds	**850,000**	-
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**-**	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**33,373**	**(1,002,376)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**73,130**	**1,075,506**
CASH AND CASH EQUIVALENTS AT END OF YEAR	**106,503**	**73,130**
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash	-	-
Cash equivalents at central banks	77,673	16,326
Other financial assets	28,830	56,804
Less: Bank overdrafts refundable on demand	-	-
Total cash and cash equivalents at end of year	**106,503**	**73,130**

b) Acquisitions and disposals

The most significant acquisitions and disposals of equity investments in Group entities in 2017 and 2016 and other relevant corporate transactions which modified the Group's scope of consolidation in these years were as follows:

b.1) 2017

The Group, based on the evolution of the results of the Bank of Beijing Consumer Finance Company (China), has decided to fully impair its ownership, due to has been recorded an impairment of EUR 60,000 thousand in the "Impairment or reversal of impairment subsidiaries, joint ventures and associates" heading in the consolidated income statement for the year 2017.

Payever GmbH

On October 5, 2017, the Bank agreed to acquire 2,027 shares of Payever GmbH, which represent 7.5% of the share capital of the company. The acquisition price was EUR 1,000 thousand, which was fully paid on November 23, 2017. Likewise, on the same date the Bank partially subscribed a capital increase of the company Payever GmbH of 751 shares for EUR 333 thousand, which represent 2.5% of the share capital of the company.

Santander Consumer Finance Global Services, S.L.

On November 21, 2017, the Bank itself and the entity Andaluza de Inversiones, S.A., a subsidiary of the Santander Group, established, as shareholders, the entity Santander Consumer Finance Global Services, S.L. The initial subscription was 3,000 shares with a par value of one euro each, of which the Bank subscribed a total of 2,999 shares for 2,999 euros. Subsequently, on December 18, 2017, the Universal Shareholders' Meeting of Santander Consumer Finance Global Services, S.L. agreed to a capital increase of EUR 5,000 thousand that was disbursed on December 20, 2017 by its shareholders and that was subscribed in proportion to its participation, of which the Bank disbursing the amount of EUR 4,998 thousand.

No other significant changes have occurred in the Group's consolidation perimeter.

b.2) 2016

Santander Benelux S.A./N.V.

Once the corresponding administrative authorisations were secured, on 29 April 2016 the Bank acquired 99.99% of the capital of Santander Benelux, S.A./N.V. from Banco Santander, S.A., for approximately EUR 1,170 million. Santander Benelux owns 50% of the share capital of PSA Finance Belux, S.A./N.V. At 31 December 2016, Santander Benelux contributed a lending portfolio of approximately EUR 2,367 million to the Group, of which around EUR 1,065 million corresponded to PSA Finance Benelux, S.A./N.V.

As a result of the acquisition of this 99.99% capital, as from the acquisition date, Santander Benelux, S.A./N.V. and its subsidiaries have been fully consolidated as Group subsidiaries. At the date on which the Santander Consumer Finance Group assumed control of the entity, the balance of assets acquired and liabilities assumed, measured in accordance with applicable accounting standards, amounted to approximately EUR 1,467 million. Consequently, In view of the consideration given by the Group, disclosed above, and the corresponding non-controlling interests, the transaction did not give rise to any goodwill or gain from a bargain purchase. In accordance with prevailing accounting standards and with the BankGroup's policy, this acquisition has been measured at the original carrying amount at the transferor.

Transolver, E.F.C., S.A.

On 22 December 2016, the Bank acquired 1% of the capital of Transolver, E.F.C., S.A., for a total amount of EUR 382 thousand. As a result of the acquisition of the aforementioned 1% interest, which brought the total ownership interest to 51%, as from the acquisition date, Transolver, E.F.C., S.A. has been fully consolidated as a Group subsidiary. At the date on which the Santander Consumer Finance Group assumed control of the entity, the balance of the latter's assets and liabilities, measured in accordance with applicable accounting standards, amounted to approximately EUR 394 million. Consequently, in view of the consideration given by the Group, disclosed above, and the corresponding non-controlling interests, the transaction did not give rise to any goodwill or bargain-purchase gain.

Santander Consumer Finance, Z.R.T.

Once the corresponding administrative authorisations were secured, on 6 October 2016, the Group sold 100% of the share capital of Santander Consumer Finance, Z.R.T., incurring a consolidated loss of EUR 9.7 million (see Note 42).

Agreements with Banque PSA Finance

In the framework of the agreements signed in 2014 between the Bank, Peugeot, S.A. and Banque PSA Finance, the PSA Peugeot Citroën Group vehicle financing unit, the following transactions and events took place during the first half of 2016:

On 2 January 2016, Santander Consumer Bank, S.p.A. (Italy) acquired 50% of the capital of Banca PSA Italia, S.p.A., for approximately EUR 81 million.

As a result of the acquisition of the aforementioned 50% interest and by virtue of the above-referenced agreements, Banca PSA Italia, S.p.A. was fully consolidated as a Group subsidiary. The total amount of assets acquired and liabilities assumed, measured in accordance with applicable accounting standards, was approximately EUR 1,709 million and EUR 1,536 million, respectively. Consequently, in view of the consideration given by the Group, disclosed above, and the corresponding non-controlling interests, the transaction did not give rise to any goodwill or gain from a bargain purchase.

- On 1 February 2016, Santander Consumer Finance Benelux, B.V. (Netherlands) acquired a 50% interest in PSA Financial Services Netherland, B.V., for approximately EUR 23 million.

  As a result of the acquisition of the aforementioned 50% interest and by virtue of the above-referenced agreements, PSA Financial Services Netherland, B.V. has been fully consolidated as a Group subsidiary. The total amount of assets acquired and liabilities assumed, measured in accordance with applicable accounting standards, is approximately EUR 500 million and EUR 450 million, respectively. Consequently, in view of the consideration given by the Group, disclosed above, and the corresponding non-controlling interests, the transaction did not give rise to any goodwill or gain from a bargain purchase.

- On 2 May 2016, Santander Benelux, S.A./N.V. acquired 50% of PSA Finance Belux, S.A./N.V., for approximately EUR 41 million.

  As a result of the acquisition of the aforementioned 50% interest and by virtue of the above-referenced agreements, PSA Finance Belux, S.A./N.V. has been fully consolidated as a Group subsidiary. The total amount of assets acquired and liabilities assumed, measured in accordance with applicable accounting standards, is approximately EUR 930 million and EUR 842 million, respectively. Consequently, in view of the consideration given by the Group, disclosed above, and the corresponding non-controlling interests, the transaction did not give rise to any goodwill or gain from a bargain purchase.

- On 1 July 2016, Santander Consumer Holding GmbH (Germany) acquired 50% of PSA Bank Deutschland GmbH, for approximately EUR 198 million.

  As a result of the acquisition of the aforementioned 50% interest and by virtue of the agreements indicated in Note 2 below, PSA Bank Deutschland GmbH has been fully consolidated as a Group subsidiary. At the date on which the Group assumed control of the entity, the balance of assets acquired and liabilities assumed, measured in accordance with applicable accounting standards, amounted to approximately EUR 3,168 million and EUR 2,731 million, respectively. Consequently, in view of the consideration given by the Group, disclosed above, and the corresponding non-controlling interests, the transaction did not give rise to any goodwill or gain from a bargain purchase.

- On 2 October 2016, Santander Consumer Bank, s.a. (Poland) acquired a 50% interest in PSA Finance Polska, Sp. z o.o., for approximately EUR 14 million.

  As a result of the acquisition of the aforementioned 50% interest and by virtue of the agreements indicated in Note 2 below, PSA Finance Polska Sp. z o.o. has been fully consolidated as a Group subsidiary. At the date on which the Group assumed control of the entity, the balance of assets acquired and liabilities assumed, measured in accordance with applicable accounting standards, amounted to approximately EUR 222 million and EUR 194 million, respectively. Consequently, in view of the consideration given by the Group, disclosed above, and the corresponding non-controlling interests, the transaction did not give rise to any goodwill or gain from a bargain purchase.

In accordance with IFRS-EU 3 Business Combinations, although the business combinations indicated above did not give rise to any goodwill or gain from a bargain purchase, the definitive measurement of the assets acquired and liabilities assumed on the business combinations is being subject to the corresponding review, as the maximum one-year measurement period established in the standard has not yet elapsed. In the event new and relevant information is obtained about facts and circumstances that existed at the date of acquisition by the Group that, if known, would have affected the initial measurement of the assets and liabilities, the provisional amounts at which these assets and liabilities are recognised in these consolidated financial statements would be adjusted. During 2017, the aforementioned period ended without any significant variation of the provisional amounts for which the aforementioned assets and liabilities acquired in the combination were initially recorded in the consolidated financial estatements for the year 2016.

At 31 December 2016, the businesses acquired by the Santander Consumer Finance Group pursuant to the agreements signed with the PSA Finance Group contributed a total of EUR 83 million to the Group's income statement. If these business combinations had taken place on 1 January 2016, the profit or loss contributed to the Santander Consumer Finance Group during the six-month period ended 30 June 2016 would have been approximately EUR 109 million.

Capital increases

In 2017 and 2016, in addition to the transactions described above, certain investees carried out capital increases that were fully subscribed and paid. The most significant of these were as follows:

	Millions Euros (*)	
	2017	2016
Santander Consumer Bank S.p.A (Italia)	-	80.0
Banca PSA Italia S.p.A. (***)	53.0	15.0
PSA Insurance Europe Ltd (Malta) (***)	7.6	5.0
PSA Bank Deutschland GmbH (***)	41.6	0.5
PSA Financial Services Nederland B.V. (**)	6.0	-
PSA Life Insurance Europe Ltd (Malta) (***)	4.5	-
	114.7	**100.5**

(*) Includes only the disbursements made by the Group in these capital increases.

(**) The amounts reflected of these entities are related to the subscription of 50% in the share capital of them.

Notifications of acquisitions of investments

The notifications of acquisitions of ownership interests which, as the case may be, must be disclosed in the notes to the consolidated financial statements in accordance with Article 155 of the Spanish Limited Liability Companies Law and Article 125 of Legislative Royal Decree 4/2015, of 23 October, was approved the Spanish Consolidated Securities Market Law, are included, as appropriate, in Appendix III.

4. Distribution of the Bank's profit and Earnings per share

a) *Distribution of the Bank's profit*

The distribution of the Bank's net profit for 2017 that the Board of Directors will propose for approval by the shareholders at the Annual General Meeting and the proposal approved by the Bank's Shareholders at the Annual General Meeting held on 21 March 2017 is as follows:

	Thousand Euros	
	2017	2016
Distributable profit:		
Balance per the income statement	462,877	626,498
Appropriation:		
Interim dividends	400,343	541,309
To legal reserve	46,288	62,650
To voluntary reserves	16,246	22,539
Total	**462,877**	**626,498**

The Board Meeting held on 19 December 2017, the Bank's Directors resolved to distribute an interim dividend out of 2017 profit of EUR 400,343 thousand. This dividend was paid on 29 November 2017 and was recognised in equity under "Shareholders' Equity - Less- Dividends" in the consolidated balance sheet as at 31 December 2017.

The provisional accounting statement required under article 277 of the Consolidated Text of the Spanish Corporate Enterprises Act, prepared by the Bank's Directors and reflecting the existence of sufficient funds to cover the distribution of an interim dividend, is as follows:

	Thousands Euros
	30/09/17
Estimated profit before tax	507,616
Less:	
Estimated income tax	(55,833)
Appropriation to legal reserve	(45,178)
Distributable profit	**406,605**
Interim dividend to be distributed	**400,343**
Gross dividend per share (euros) (*)	**0.21**

(*) Estimate made based on the number of Bank shares existing at the date of approval of the interim dividend.

Likewise, at the Annual General Meeting of the Bank held on 14 December 2017 resolved to distribute a dividend amounting EUR 201,111 thousand charged to voluntary reserves. This dividend was paid on 21 December 2017.

At the Board Meeting held on 15 December 2016, the Bank's Directors resolved to distribute an interim dividend out of 2016 profit of EUR 541,309 thousand. This dividend was paid on 31 January 2017 and was recognised in equity under “Shareholders' Equity - Less- Dividends” in the consolidated balance sheet as at 31 December 2017.

The provisional accounting statement prepared by the Bank’s Directors in accordance with Article 277 of the Consolidated Spanish Limited Liability Companies Law evidencing the existence of sufficient resources for the distribution of the interim dividend is as follows:

	Thousand Euros
	30/11/16
Estimated profit before tax	659,065
Less:	
Estimated income tax	(28,825)
Appropriation to legal reserve	(63,024)
Distributable profit	**567,216**
Interim dividend to be distributed	**541,309**
Gross dividend per share (euros) (*)	**0.29**

(*) Estimate made based on the number of Bank shares existing at the date of approval of the interim dividend.

b) Basic earnings per share

Basic earnings per share are calculated by dividing the net profit for the year attributable to the Parent adjusted by the after-tax amount of the remuneration of contingently convertible preference shares recognised in equity (see Note 23) by the weighted average number of the Bank's shares outstanding during the year, excluding the average number of treasury shares, if any, held in the year.

Accordingly:

	Thousand Euros	
	2017	2016
Consolidated profit for the year attributable to the Parent (Thousand Euros)	1,079,387	1,055,253
Remuneration of contingently convertible preference shares (CCP) (thousand of euros) (Note 23)	-	-
Dilutive effect of changes in profit for the year arising from potential conversion of ordinary shares	-	-
Of which		
Profit or Loss from discontinued operations (non controlling interest net) (thousand of euros)	-	-
Profit or Loss from continuing operations (net of non-controlling interests and CCP) (thousand of euros)	*1,079,387*	*1,055,253*
Weighted average number of shares outstanding	1,879,546,172	1,879,546,172
Adjusted number of shares	1,879,546,172	1,879,546,172
Basic and diluted earnings per share (euros)	0.5743	0.5614
Of which:		
From continuing operations (euros)	*0.5743*	*0.5614*

5. Remuneration and other benefits of the Bank's directors and senior managers

a) Bylaw-stipulated emoluments and other fees

In 2017 the members of the Bank's Board of Directors received remuneration amounting to EUR 538 thousand in the form of bylaw-stipulated emoluments and attendance fees (2016: EUR 321 thousand), which related in full to four external Directors of the Bank at 31 December 2017, the detail being as follows:

	Thousand Euros	
	2017	2016
Mr Antonio Escámez Torres	264	270
Mr Jean Pierre Landau	96	-
Mr Juan Rodríguez Inciarte	67	-
Mr Luis Alberto Salazar-Simpson Bos	111	51

In 2017 the Bank’s Directors received approximately EUR 11,826 thousand from Banco Santander, S.A. (2016: approximately EUR 12,446 thousand), basically in respect of fixed and variable remuneration earned by certain Directors for discharging executive duties at Banco Santander, S.A. and in their capacity as members of the Boards of Directors of other Santander Group entities. The variable remuneration of certain Directors is subject to a three-year deferral period for payment thereof, as appropriate, in cash and/or in shares of Banco Santander, S.A., provided that certain conditions are met.

Remuneration in kind paid by Banco Santander, S.A. to the Bank's Directors amounted to approximately EUR 156 thousand in 2017 (2016: approximately EUR 164 thousand).

b) Post-employment and other long-term benefits

The Santander Group's supplementary pension obligations to its current and retired employees include the obligations to current and former Directors of the Bank who discharge (or have discharged) executive functions at the Santander Group. The total defined benefits accruing to these directors, together with other insurance policies, amounted to EUR 5.548 thousand at 31 December 2017 (31 December 2016: EUR 19,769 thousand). This amount is covered basically by provisions recorded at Santander Group entities that do not belong to the Santander Consumer Finance Group.

The contributions made for the Bank's Directors to pension plans amounted to EUR 1,383 thousand in 2017, to defined contribution plans externalised at the Santander Group subsidiary Santander Seguros y Reaseguros, Compañía Aseguradora, S.A. (2016: EUR 1,352 thousand). These contributions were made by other Santander Group entities that do not belong to the Group.

The pension payments made to former members of the Bank's Board of Directors amounted to EUR 20,418 thousand in 2017 (2016: EUR 977 thousand) and were made mainly by other Santander Group entities that do not belong to the Group, which mainly correspond to payments received by Bank Directors who have become retired.

c) Share option plans for Directors and other remuneration

The policy on variable remuneration for the Bank's executive Directors and certain members of senior management of the Bank and of other Group companies foresees remuneration linked to Santander shares. In accordance with prevailing regulations and with the Bank's by-laws, this remuneration system requires that specific resolutions be adopted at the Annual General Meeting.

Where necessary or advisable in light of legal, regulatory or similar reasons, in specific cases the delivery mechanisms described below can be adapted, without altering the maximum number of shares linked to the plan or the essential delivery conditions. This includes potentially replacing the delivery of shares with the delivery of an equivalent cash amount.

The plans that include share-based payments are as follows: (i) deferred conditional delivery share plan; (ii) deferred conditional variable remuneration plan, (iii) performance share plan and (iv) Deferred variable compensation plan linked to multiannual objectives. The characteristics of the plans are set forth below:

(i) Deferred conditional delivery share plan

In 2013, the Board of Directors of Banco Santander, at the proposal of the Appointments and Remuneration Committee, approved the fourth cycle of the deferred conditional delivery share plan to instrument payment of the share-based bonus of the Group executives or employees whose variable remuneration or annual bonus for 2013 exceeded, in general, EUR 0.3 million (gross), with a view to deferring a portion of the aforementioned variable remuneration or bonus over a period of three years in which it would be paid in Santander shares. Since this cycle entailed the delivery of Banco Santander shares, the shareholders at the Annual General Meeting of Banco Santander S.A. of 22 March 2013 approved the application of the fourth cycle of the deferred conditional delivery share plan. This cycle is not applicable to the executive Directors and other members of senior management or other executives who are beneficiaries of the deferred conditional variable remuneration plan described below.

The share-based bonus is being deferred over three years and will be paid, where appropriate, in three instalments starting after the first year (2015). The amount in shares is calculated based on the tranches of the following scale established by the Board of Directors of Banco Santander S.A on the basis of the gross variable cash-based remuneration or annual bonus for the year:

Benchmark Bonus (Thousand Euros)	Percentage (Deferred)
300 or less	0%
More than 300 to 600 (inclusive)	20%
More than 600	30%

In addition to the requirement that the beneficiary remains in the Group's employ, with the exceptions included in the plan regulations, the accrual of the share-based deferred remuneration is conditional upon none of the following circumstances existing during the period prior to each of the deliveries: (i) poor financial performance of the Group; (ii) breach by the beneficiary of internal regulations, including, in particular, those relating to risks; (iii) material restatement of the Group's financial statements, except when it is required pursuant to a change in accounting standards; or (iv) significant changes in the Group's economic capital or risk profile.

(ii) Deferred conditional variable remuneration plan

In 2014 and 2015, the Board of Directors of Banco Santander, at the proposal of the Appointments and Remuneration Committee in 2014 and the Remuneration Committee in 2015, approved the fourth and fifth cycles of the deferred conditional variable remuneration plan to instrument payment of the bonus for 2014 and 2015, respectively, of the executive Directors and certain executives (including senior management) and employees who assume risks, who perform control functions or receive an overall remuneration which puts them on the same remuneration level as senior executives and employees who assume risks (all of whom are referred to as the "Identified Staff", in accordance with to Article 92(2) of Directive 2013/36/EU of the European Parliament and of the Council, of 26 June 2013, and the related implementing legislation in 2014; and in 2015, pursuant to Article 32.1 of Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions, and the related implementing legislation).

Taking into account new regulatory developments and international remuneration practices, in 2017 and 2016, the Group approved the sixth and seventh cycles of the variable remuneration plan for identified staff, with the exception of executive directors and of certain executives (including senior management) in the Group's top tier of responsibility, for which the first and the second cycles of deferred conditional variable remuneration were approved, as described in point (v) below. The Guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013, published by the European Banking Authority (EBA) on 21 December 2015, were also taken into account.

Since the aforementioned cycles entail the delivery of Santander shares, the shareholders at the Annual General Meetings of Banco Santander of 28 March 2014, 27 March 2015 and 18 March 2016 and 7 April 2017 approved, respectively, the application of the fourth, fifth, sixth and seventh cycles of the deferred conditional variable remuneration plan.

The purpose of these cycles is to defer a portion of the bonus of the beneficiaries thereof over a period of three years for the fourth, sixth and seventh cycles, and over three or five years for the fifth cycle, for it to be paid, where appropriate, in cash and in Santander shares; the other portion of the variable remuneration is also to be paid in cash and Santander shares, upon commencement of the cycles, in accordance with the rules set forth below.

For the sixth cycle, 60% of the variable bonus will be paid immediately (early 2017) and the remaining 40% will be deferred over a three-year period. The seventh, fifth and fourth cycles will be paid in accordance with the following percentages and deferral periods:

	2017 (seventh cycle)		
	Immediate payment percentage (*)	Deferred percentage (*)	Deferral period
Executive directors and members of the Identified Staff with total variable remuneration (*) ≥ EUR 2.7 million	40%	60%	5 years
Executive directors and members of the Identified Staff with total variable remuneration (**) ≥ EUR 1.7 million (< EUR 2.7 million)	50%	50%	5 years
Other beneficiaries	60%	40%	3 years

(*) In certain contries the deferred percentage or the deferred period could be diferent to comply with local rules or the authority requierements.

(**) Total variable remuneration in case of standard fulfilment (100% target).

	2015 (fifth cycle)		
	Immediate Payment Percentage (*)	Deferred Percentage (*)	Deferred Period
Executive Directors and members of the Identified Staff with total variable remuneration ≥ EUR 2.6 million	40%	60%	5 years
Division managers, country heads of countries that represent at least 1% of the Group's economic capital, other executives of the Group with a similar profile and members of the Identified Staff with total variable remuneration ≥ EUR 1.7 million (< EUR 2.6 million)	50%	50%	5 years
Other beneficiaries	60%	40%	3 years

(*) Generally applicable percentages. In some countries deferred percentages may be higher for certain categories of executives, thereby giving rise to lower immediate payment percentages.

	2014 (fourth cycle) (*)	
	Immediate payment percentage (**)	Deferred percentage (**)
Executive directors and members of the Identified Staff with total variable remuneration ≥ EUR 2.6 million	40%	60%
Division managers, country heads, other executives of the Group with a similar profile and members of the Identified Staff with total variable remuneration ≥ EUR 1.8 million (< EUR 2.6 million)	50%	50%
Other beneficiaries	60%	40%

(*) Deferreal period for all the categories is 3 years.

(**) Generally applicable percentages. In some countries deferred percentages may be higher for certain categories of executives, thereby giving rise to lower immediate payment percentages.

For the fourth, sixth and seventh cycle, the payment of the deferred percentage of the bonus applicable in each case will be deferred over a period of three years and will be paid in three instalments, within 30 days following the anniversaries of the initial date (the date on which the immediate payment percentage is paid) in 2016, 2017 and 2018 for the fourth cycle, in 2018, 2019 and 2020 for the sixth cycle, and in 2019, 2020 and 2021 for the seventh cycle 50% being paid in cash and 50% in shares, provided that the conditions described below are met.

For the fourth, fifth and sixth cycle, the accrual of deferred compensation is conditioned, in addition to the requirement that the beneficiary remains in the Group's employ, with the exceptions included in the plan regulations, the accrual of the deferred remuneration is conditional upon none of the following circumstances existing -in the opinion of the Board of Directors following a proposal of the remuneration committee-, during the period prior to each of the deliveries, pursuant to the provisions set forth in each case in the plan regulations: (i) poor financial *performance* of the Group; (ii) breach by the beneficiary of internal regulations, including, in particular, those relating to risks; (iii) material restatement of the Group's financial statements, except when it is required pursuant to a change in accounting standards; or (iv) significant changes in the Group's economic capital or risk profile.

In the case of the seventh cycle, the accrual of deferred compensation is conditioned, in addition to the permanence of the beneficiary in the Group, with the exceptions contained in the plan's regulations, to no assumptions in which there is a poor performance of the entity as a whole or of a specific division or area of the entity or of the exposures generated by the personnel, and at least the following factors must be considered: (i) significant failures in risk management committed by the entity , or by a business unit or risk control unit; (ii) the increase suffered by the entity or by a business unit of its capital needs, not foreseen at the time of generation of the exposures; (iii) regulatory sanctions or judicial sentences for events that could be attributable to the unit or the personnel responsible for those. Also, the breach of internal codes of conduct of the entity; and (iv) irregular behaviors, whether individual or collective, considering in particular the negative effects derived from the marketing of inappropriate products and the responsibilities of the persons or bodies that made those decisions.

On each delivery of fourth, fifith and sixth the beneficiaries will be paid an amount in cash equal to the dividends paid on the deferred amount in shares and the interest on the amount accrued in cash. If the Santander Dividendo Elección scrip dividend scheme is applied, they will be paid the price offered by the Bank for the bonus share rights corresponding to those shares. In the case of the seventh cycle and, on the occasion of each payment of the deferred amount in cash, it will be possible to pay de Beneficiary the amount derived from the adjustment of the deferred amount with the inflation rate up to the date of payment of each corresponding cash amount.

The maximum number of shares to be delivered is calculated taking into account the amount resulting from applying the applicable taxes and the volume-weighted average share prices for the 15 trading sessions prior to the date on which the Board of Directors approves the bonus for the Bank's executive directors for 2014 and 2015 for the fourth and fifth cycle, respectively. In the case of the sixth and seventh cycle, it is determined according to the same procedure in the fifteen sessions prior to the previous Friday (excluded) on the date on which the board decides the bonus for the Bank's executive directors for 2016 and 2017, respectivily.

(iii) Performance share plan

In 2014 and 2015 the Board of Directors of Banco Santander approved the first and second cycles, respectively, of the performance share plan through which to instrument a portion of the variable remuneration of the executive directors and other members of the Identified Staff, consisting of a long-term incentive (ILP) in shares based on Banco Santander's performance over a multiannual period. In addition, the second cycle also applies to other Group employees not included in the Identified Staff, in respect of whom it is deemed appropriate that the potential delivery of Santander shares be included in their remuneration package in order to better align the employee's interests with those of the Group.

Since the aforementioned plans entail the delivery of Banco Santander shares, the Annual General Meetings of 28 March 2014 and 27 March 2015 approved the application of the first and second cycles of the plan, respectively.

The maximum amounts of the plan and, consequently, the maximum number of shares to which a beneficiary may be entitled under this plan were set at 15% and 20% of the beneficiaries' benchmark bonus for 2014 and 2015, respectively.

The Board of Directors of Banco Santander, following a proposal of the Remuneration Committee, set the amount of the ILP for each beneficiary for 2014 and 2015.

For the second cycle, the following coefficients were applicable to 20% of the benchmark bonus, taking into account (i) the Group's earnings per share (EPS) and (ii) the Santander Group's return on tangible equity (ROTE) for 2015 with respect to those budgeted for the year.

Both items had the same weighting when setting the ILP and each of them were measured based on the following scales of target achievement:

- Scale applicable to the Santander Group's EPS in 2015 with respect to the EPS budgeted for the year:

EPS in 2015 (% of Budgeted 2015 EPS)	2015 EPS Coefficient
≥ 90% > 75% but < 90% ≤ 75%	1 0.75 - 1 (*) 0

(*) Straight-line increase of the 2015 EPS coefficient based on the specific percentage that the 2015 EPS represents of the budgeted EPS within this line of the scale.

- Scale applicable to Santander Group's 2015 RoTE with respect to the RoTE budgeted for the year:

RoTE in 2015 (% of budgeted 2015 RoTE)	2015 RoTE coefficient
≥ 90% > 75% but < 90% ≤ 75%	1 0.75 – 1 (*) 0

(*) Straight-line increase of the 2015 RoTE coefficient based on the specific percentage that the 2015 RoTE represents of the budgeted RoTE within this line of the scale.

Based on the Group's performance at the end of 2015, the coefficient to be applied was 91.50%.

For the first cycle, the following percentages were applicable to 15% of the benchmark bonus based on the relative performance of the Bank's Total Shareholder Return (TSR) in 2014 as compared with that of a benchmark group:

Santander's Place in the TSR Ranking	Percentage of Maximum Shares to Be Delivered
1st to 8th 9th to 12th 13th and below	100% 50% 0%

Since Banco Santander’s TSR was in fourth place, the applicable percentage was 100%.

Also, for the second cycle, the agreed-upon amount of the ILP for each beneficiary will be deferred over a period of three years and will be paid, where appropriate, at the beginning of 2019 (foreseeably, in the first quarter) subject to achievement of the multiannual targets and compliance with the other terms and conditions of the plan. Thus, prior to the payment date, the Board of Directors of Banco Santander, following a proposal of the Remuneration Committee, will calculate the amount, if any, to be received by each beneficiary based on the agreed-upon amount of the ILP. The multiannual targets, the related metrics and scales of achievement are as follows:

- Relative performance of the Group's EPS growth for 2015-2017 with respect to a benchmark group of 17 credit institutions:

Position of Santander's EPS Growth 2015-2017	EPS Coefficient
1st to 5th	1
6th	0.875
7th	0.75
8th	0.625
9th	0.50
10th and below	0

- Santander Group's 2017 ROTE:

ROTE in 2017 (%)	ROTE Coefficient
≥ 12%	1
> 11% but < 12%	0.75 - 1 (*)
≤ 11%	0

(*) Straight-line increase of the ROTE coefficient based on the specific percentage, within this line of the scale, of the Santander Group's ROTE in 2017.

Employee satisfaction, measured by the inclusion or non-inclusion of the corresponding Santander Group company among the “Top 3” best banks to work for in 2017.

- Scale of achievement at country level:

Position Among the Best Banks to Work for in 2017	Employee Coefficient
1st to 3rd	1
4th or below	0

Scale of achievement at Santander Group level:

No. of Main Markets in which Santander is Ranked in the Top Three of the Best Banks to Work for in 2017	Employee Coefficient
6 or more 5 or less	1 0

Customer satisfaction, measured by the inclusion or non-inclusion of the corresponding Santander Group company among the top three best banks in the customer satisfaction index in 2017.

- Scale of achievement at country level:

Position Among the Best Banks as per the Customer Satisfaction Index in 2017	Customer Coefficient
1st to 3rd 4th or below	1 0

- Scale of achievement at Santander Group level:

No. of Main Markets in which Santander is Ranked in the Top Three of the Best Banks in the Customer Satisfaction Index in 2017	Customer Coefficient
10 Between 6 and 9 5 or less	1 0.2 - 0.8 (*) 0

(*) Straight-line increase of customer coefficient, whereby, within this line of the scale, the coefficient is increased by 0.2 for each additional Main Market in which Santander ranks in the top three in the customer satisfaction index.

Customer loyalty, taking into account that the targets at Santander Group level are 17 million loyal individual customers and 1.1 million loyal SME and business customers at 31 December 2017.

- Scales of achievement at country level:

Loyal Individual Customers (% of the Budget for the Related Market)	Individual Coefficient
≥ 100%	1
> 90% but < 100%	0.5 - 1 (*)
≤ 90%	0

Loyal SME and Business Customers (% of the Budget for the Related Market)	Business Coefficient
≥ 100%	1
> 90% but < 100%	0.5 - 1 (*)
≤ 90%	0

(*) Straight-line increase of the individual coefficient and business coefficient based on the specific percentage, within these lines of each scale, that the number of loyal customers of each type represents of the budgeted number at 31 December 2017.

- Scales of achievement at Santander Group level:

Loyal Individual Customers (Millions)	Individual Coefficient
≥ 17	1
> 15 but < 17	0.5 - 1 (*)
≤ 15	0

Loyal SME and Business Customers (Millions)	Business Coefficient
≥ 1.1	1
> 1 but < 1.1	0.5 - 1 (*)
≤ 1	0

(*) Straight-line increase of the individual coefficient and business coefficient based on the number of loyal customers of each type at 31 December 2017.

Based on the foregoing metrics and achievement scales and the data relating to the end of 2017, the amount accrued of the ILP for each beneficiary (the "Accrued Amount of the ILP") will be calculated by weighting the above coefficients by 0.25, 0.25, 0.2, 0.15, 0.075 and 0.075, respectively.

For the first cycle, the agreed-upon amount of the ILP for each beneficiary will be deferred over a period of three years and will be paid, where appropriate, in three instalments in June 2016, 2017 and 2018 based on achievement of the multiannual TSR targets. Thus, for each ILP payment date, the Board of Directors of Banco Santander, following a proposal of the Remuneration Committee, will calculate the amount, if any, to be received by each beneficiary by applying to the third of the agreed-upon amount of the ILP for that year the percentage resulting from the following table:

Santander's Place in the TSR Ranking	Percentage of Maximum Shares to be Delivered
1st to 4th	100.0%
5th	87.5%
6th	75.0%
7th	62.5%
8th	50.0%
9th and below	0%

For the accrual for 2016, the benchmark TSR will be that accumulated between 1 January 2014 and 31 December 2015, for the accrual for 2017, the benchmark TSR will be that accumulated between 1 January 2014 and 31 December 2016 and for the accrual for 2018, the benchmark TSR will be that accumulated between 1 January 2014 and 31 December 2017. Given that during 2017 and 2016 no position was reached in the TSR ranking that would determine the accrual of the first one-third, it has been extinguished.

In addition to the requirement that the beneficiary remains in the Santander Group's employ, with the exceptions included in the plan regulations, the delivery of shares to be made on each ILP payment date based on achievement of the related multiannual target is conditional upon none of the following circumstances existing -in the opinion of the Board of Directors following a proposal of the Remuneration Committee- during the period prior to each of the deliveries as a result of the actions taken in 2014 and 2015, respectively: (i) poor financial performance of the Santander Group; (ii) breach by the beneficiary of internal regulations, including, in particular, those relating to risks; (iii) material restatement of the Santander Group's financial statements, except when it is required pursuant to a change in accounting standards; or (iv) significant changes in the Santander Group's economic capital or risk profile.

(iv) Deferred variable remuneration plan linked to multi-year objectives

In 2016 and 2017, the Board of Directors of Banco Santander, at the proposal of the remuneration committee, approved the first and secondcycle of the deferred variable remuneration plan linked to multi-year objectives that implements the variable remuneration corresponding to 2016 and 2017 for executive directors and certain executives (Including top management) of the Group's first lines of responsibility (formerly Promontorio and Faro, before,Top Network managers). The cycles plan was approved by the general meeting on March 18, 2016 and April 7, 2017 with the aim of simplifying the remuneration structure, improving the ex ante risk adjustment and increasing the impact of the long-term objectives on the Group's first guidelines. The plan also takes into account the recommendations issued in the Guidelines on sound remuneration policies under Articles 74 (3) and 75 (2) of Directive 2013/36 / EU and disclosures under Article 450 of Regulation (EU) No. 575/2013, Published by the European Banking Authority on 21 December 2015.

This plan comprises the bonus (deferred conditional variable remuneration plan referred to in point (iii) above and the long-term incentive disclosed in point (iv) above. Under the plan, a portion of the variable remuneration is deferred over a period of three to five years, to be paid in cash and in shares, with one part of the amount linked to the Group's performance over a multi-year period and the other part paid in cash and in shares at the start of the period. All the foregoing is in accordance with the rules set out below.

The variable remuneration of the beneficiaries will be paid according to the following percentages, depending on when the payment occurs and the group to which the beneficiary belongs:

	2016 and 2017 (first and second cycle)		
	Immediate payment percentage (*)	Deferred percentage (*)	Deferral period (*)
Executive directors and members of the Identified Staff with total variable remuneration ≥ EUR 2.7 million (**)(***)	40%	60%	5 years
Division managers, country heads of countries that represent at least 1% of the Group's economic capital, other executives of the Group with a similar profile and members of the Identified Staff with total variable remuneration ≥ EUR 1.7 million (< EUR 2.7 million) (**)(***)	50%	50%	5 years
Other beneficiaries	60%	40%	3 years

(*) In some countries the percentage and the period of deferral may be higher to comply with local regulations or with the requirements of the competent authority in each case.
(**) Variable reference remuneration for the standard compliance (100% of the objectives).
(***) In the first cycle (2016), the quantitative amount that determines by itself being in one category or another refers to the total variable remuneration effectively approved at year end and do not refers to target or reference remuneration.

Each beneficiary receives, in 2017 and 2018 (frist and second cycle, respectively), according to the group to which it belongs, the percentage of immediate payment that corresponds, by half in cash and in shares. The payment of the percentage of deferral of the variable remuneration that corresponds in each case according to the group to which the beneficiary belongs will be deferred for a period of three or five years and will be paid by thirds or fifths, as the case may be, within thirty Days following the anniversaries of the initial date in the years 2018, 2019 and 2020 and, if applicable, 2021 and 2022 for the first cycle and in the years 2019, 2020 and 2021, and, if applicable 2022 and 2023, for the second cycle, provided that the conditions set out below are met.

In 2016, the accrual of the deferred compensation is conditioned, in addition to the permanence of the beneficiary in the Group, with the exceptions contained in the plan's regulations, in the opinion of the board, at the proposal of the remuneration committee, none of The following circumstances during the period prior to each of the deliveries in the terms set forth in each case in the plan's regulations: (i) poor performance of the Group; (Ii) breach by the beneficiary of the internal regulations, including in particular that relating to risks; (Iii) material restatement of the Group's financial statements, except when appropriate under a change in accounting regulations; Or (iv) significant changes in the Group's economic capital or risk profile.

In 2017, the accrual of deferred remuneration is conditioned, in addition to the beneficiary permanence in the Group, with the exceptions contained in the plan's regulations, to the non-occurrence of instances of poor financial performance from the entity as a whole or of a specific division or area thereof or of the exposures generated by the personnel, at least the following factors must be considered: (i) significant failures in risk management committed by the entity, or by a business unit or risk control unit; (ii) the increase suffered by the entity or by a business unit of its capital needs, not foreseen at the time of generation of the exposures; (iii) regulatory sanctions or court rulings for events that could be attributable to the unit or the personnel responsible for those. Also, the breach of internal codes of conduct of the entity; and (iv) irregular behaviors, whether individual or collective, considering in particular negative effects derived from the marketing of inappropriate products and responsibilities of persons or bodies that made those decisions.

In addition, the accrual of the deferral corresponding to the third annuity of deferral for the Group that differs in three years and the third, fourth and fifth for which it differs in five years, is conditional on the fulfillment of certain objectives related to the period 2016-2018 and the metrics and compliance scales associated with these multi-year objectives:

For 2016 (first cycle, period 2016-2018), the metrics and the method for determining the deferred amount subject to long term objectives are as follows:

(a) Compliance with Banco Santander's consolidated earnings per share (EPS) growth target in 2018 vs. 2015 as per the following table:

EPS growth 2018 (% vs 2015)	EPS ratio
≥ 25%	1
≥ 0% but < 25%	0 – 1 (*)
< 0%	0

(*) Straight-line increase in the EPS ratio based on the specific percentage that EPS growth in 2018 represents with respect to 2015 EPS within this bracket of the scale.

(b) Relative performance of the Bank's total shareholder return (TSR) in 2016-2018 compared to the weighted TSRs of a peer group comprising 35 credit institutions, applying the appropriate TSR ratio according to the Bank's TSR rank within the peer group.

Ranking of Santander TSR	TSR ratio
Above 66th percentile	1
Between 33rd and 66th percentiles	0-1(*)
Below 33rd percentile	0

(*) Proportional increase in the TSR ratio based on the number of positions moved up in the ranking

The peer group comprises the following entities: BBVA, CaixaBank, Bankia, Popular, Sabadell, BCP, BPI, HSBC, RBS, Barclays, Lloyds, BNP Paribas, Crédit Agricole, Deutsche Bank, Société Générale, Nordea, Intesa San Paolo, Unicredit, Itaú, Bradesco, Banco do Brasil, Banorte, Banco de Chile, M&T Bank Corp, Keycorp, Fifth Third Bancorp, BB&T Corp., Citizens, Crédit Acceptance Corp., Ally Financial Inc., PKO, PEKAO, Millenium, ING Polonia and mBank.

(c) Compliance with the fully-loaded common equity tier 1 (CET1) capital ratio target set for 2018 (over 11% for the consolidated Santander Group at 31 December 2018). If this target is achieved, a ratio ("CET1 ratio") of 1 will be assigned to this metric; if it is not achieved, the CET1 ratio will be 0. To verify compliance with this target, possible increases in CET1 derived from capital increases will not be taken into account (except those set out under the Santander Scrip Dividend programme). Furthermore, the CET1 ratio at 31 December 2018 could be adjusted to strip out the impact of any regulatory changes affecting its calculation until that date.

(d) Compliance with the growth target for the Santander Group's underlying return on risk-weighted assets or RoRWA for 2018, measured against 2015. The corresponding ratio ("RoRWA ratio") will be obtained as follows:

RoRWA growth 2018 (% vs 2015)	RoRWA ratio
≥ 20%	1
≥ 10% but < 20%	0.5 – 1 (*)
< 10%	0

(*) Straight-line increase in the RoRWA ratio based on the specific percentage that RoRWA growth in 2018 represents with respect to 2015 RoRWA within this bracket of the scale.

To determine the annual amount of the deferred portion linked to objectives corresponding to each beneficiary in 2020 and, where applicable, in 2021 and 2022, the following formula will be applied to each of these payments (“Final Annuity”), notwithstanding any adjustments deriving from the malus clauses:

Final annuity = Amt. x (0.25 x A + 0.25 x B + 0.25 x C + 0.25 x D)

Where:

- Imp = one-fifth or one-third, as per the beneficiary profile, of the deferred amount of incentive A
- A = the EPS ratio according to the scale in section (a) above, based on EPS growth in 2018 vs. 2015
- B = the TSR ratio according to the scale in section (b) above, based on the relative performance of the Bank's TSR within its peer group in 2016-2018
- C = the CET1 ratio resulting from compliance with the CET1 goal in section (c) above
- D = the RoRWA ratio according to the scale in section (d) above, based on the level of RoRWA growth in 2018 vs. 2015.

In the case of 2017 (second cycle, 2017-2019 period), the metrics and the mode of determining the deferred part subject to long-term objectives term are the following:

(a) Compliance with the consolidated earnings per share growth (“EPS”) of Santander Bank in 2019 in comparison with 2016. The coefficient corresponding to this objective (EPS coefficient) will be obtained in accordance with the following table:

EPS growth in 2019 (% over 2016)	EPS coefficient
≥ 25%	1
≥ 0% but < 25%	0 – 1 (*)
< 0%	0

(*) Lineal increase of the EPS Coefficient according to the specific EPS growth in 2019 with respect to 2016 within this scale line.

(b) Relative behavior of the total shareholder return (“TSR”) of the Bank in the period 2017-2019 in relation with the TSR of a reference group comprised by 17 credit entities (the Reference Group), assigning a TSR Coefficient that corresponds depending on the TSR position of the Bank within the Reference Group.

Santander’s TSR positon	TSR Coefficient
Greater than percentile 66	1
Percentiles between 33 and 66	0-1(*)
Smaller than percentile 33	0

(*) Proportional increase of the TSR Coefficient in accordance with the number of positions moved forward in the ranking within this scale line.

The Reference Group is comprised by the following entities: Itaú, JP Morgan, Bank of America, HSBC, BNP Paribas, Standard Chartered, Citi, Société Générale, ING, Barclays, Wells Fargo, BBVA, Lloyds, UBS, Intesa San Paolo, Deutsche Bank and Unicredit.

(c) Compliance with the level 1 ordinary capital ratio target (common equity tier 1 or “CET1”) fully loaded set for year 2019. The coefficient related to this target (CET1 Coefficient) will be obtained from the following table:

CET1 en 2019	CET1 Coeficient
≥ 11.30%	1
≥ 11% pero < 11.30%	0.5 – 1 (*)
< 11%	0

For the verification of compliance with this target, it will not be taken into account the possible increases of CET1 derived from increases of capital 2[1] (except from those implemented by the Santander Dividendo Elección program). Furthermore, CET1 coefficient as of December 31, 2019 shall be adjusted in order to eliminate impact that a regulatory change may have with respect its calculation as of yet.

In order to determine the annual deferred amount subject to the targets that, where appropriate, corresponds to each executive director for years 2021, 2022 and 2023 (each of these payments, a “final annuity”), notwithstanding the adjustments that may result from malus clauses, the next formula will apply:

Final Annuity = Amount. x (1/3 x A + 1/3 x B + 1/3 x C)

Where:

“Amount” is the incentive amount equivalent to an annuity (this term is defined in section 4 below).

“A” is the EPS Coefficient resulting from the scale in section (a) above according to the EPS growth in 2019 with respect to 2016.

“B” represents the TSR Coefficient that results from the scale in section (b) above in accordance with the Bank’s TSR behaviour in the period 2017-2019 in comparison with the Reference Group.

“C” represents the Coefficient CET 1 that results from the compliance with the CET1 target for 2019 described in section (c) above.

In addition, the amounts paid under this plan are subject to recovery or *clawback* clauses in the event of the circumstances providing in the current legislation. The application of clawback will be supplemented by that of malus, so that it will take place when it is considered insufficient to collect the effects that the event must have on the assigned variable remuneration. The application of clawback will be decided by the Board of Directors on the proposal of the remuneration committee and can not be proposed, in the case of the first cycle (2016), once the last payment in cash or shares corresponding to the plan is made in 2022, or in the case, in 2020. In the second cycle, the application of clawback cannot be proposed once the term has expired for the withholding of the last payment in shares that corresponds to the plan, in 2024 or, as the case may be, in 2022.

[1] The neutral effect of the Capital Increase destined to finance the acquisition of Banco Popular Español, S.A. announced in June 2017 and carried out in July 2017 will be taken into account.

The maximum number of shares deliverable is calculated based on the average weighted daily volume of the average weighted listing prices for the 15 trading sessions prior to preceding Friday (excluded) at the date on which the Board approves the bonus for the Bank's executive Directors.

ii. Fair value

The fair value of the performance-based share plans was calculated as follows:

a) Deferred variable remuneration plan linked to multi-year objectives, 2016 and 2017:

The fair value of the plan was determined, at the award date, on the basis of an independent expert valuation report. Based on the plan design for 2016 and the achievement levels for similar plans at peers, the expert concluded that the reasonable range for the estimated initial achievement ratio would be around 60%-80%. Accordingly, the fair value was deemed to be 70% of the maximum plan amount.

b) 2015 performance-based share plan:

The fair value of the plan was determined, at the award date, on the basis of an independent expert valuation report. Based on the plan design for 2015 and the achievement levels for similar plans at peers, the expert concluded that the reasonable range for the estimated initial achievement ratio would be around 60%-80%. Accordingly, the fair value was deemed to be 70% of the maximum plan amount. Consequently, as the maximum level was determined to be 91.50%, the fair value is set at 64.05% of the maximum amount.

c) 2014 performance-based share plan:

- It is assumed that no beneficiaries will leave the Group during each plan period.

- The fair value of Banco Santander's TSR position was determined, at the award date, on the basis of an independent expert report. The expert valuation used a Monte Carlo valuation model, creating 10,000 simulations to determine the TSR of each Group company, taking into account the variables listed below. The results (each representing the delivery of a number of shares) are ordered in a high-to-low ranking, calculating the weighted average and discounting the amount using the risk-free rate of return.

	PI14
Expected volatility (*)	51.35%
Annual dividend yield based on recent years	6.06%
Risk-free rate of return (treasury bond yield (zero coupon) over the plan period)	4.073%

(*) Determined using historic volatility for the corresponding period (three years)

The result of applying the simulation model was a value of 55.39% for the I-14 plan. As this value is referenced to a market condition, it cannot be adjusted after the award date.

d) *Loans and deposits*

At 31 December 2017 and 2016, the Group was not exposed to direct risks in connection with loans, credits and guarantees provided to Bank Directors (see Note 46). At the end of 2017 and 2016, the Bank's Directors did not hold any customer deposits with the Group.

All the transactions with the Group were performed on an arm's-length basis or the related remuneration in kind was recognised.

e) *Senior managers*

For the purposes of the preparation of these consolidated financial statements, senior managers are considered to be those persons that have formed part of the Executive Committee or the Management Committee of the Bank.

The remuneration received by the Bank's non-director senior managers (2017: 11 persons; 2016: 10 persons amounted to EUR 6,482 thousand in 2017 (2016: EUR 5,500 thousand) and was paid in full by other Santander Group entities that do not belong to the Group.

The remuneration in kind paid to the Bank's non-director senior managers totalled approximately EUR 108 thousand in 2017 (2016: EUR 84 thousand), which were paid by other Santander Group entities that do not belong to the Group.

In 2017 contributions amounting to EUR 268 thousand (2016: EUR 712 thousand) were made to defined contribution pension plans for the Bank's non-director senior managers. These contributions were made by other Santander Group entities that do not belong to the Group. In 2017 and 2016 no payments were made in this connection.

The principles governing the share options granted to the Bank's senior managers, excluding Directors, are the same as those explained in Note 5-c. The Bank's direct risk exposure to senior managers who are not Bank Directors amounted to EUR 2 thousand at 31 December 2017 (31 December 2016: EUR 2 thousand). It should also be noted that these senior managers held deposits at the Bank totalling EUR 380 thousand at 31 December 2017 (31 December 2016: EUR 277 thousand) (see Note 46).

All the transactions with the Group were performed on an arm's-length basis or the related remuneration in kind was recognised.

f) *Termination benefits*

The executive Directors and senior executives at Santander Group entities have indefinite-term employment contracts. Executive Directors or senior executives whose contracts are terminated voluntarily or due to breach of duties are not entitled to receive any economic compensation. If the contract is terminated for any other reason, they will be entitled only to the corresponding legally-stipulated termination benefit.

Certain non-director members of the Bank's senior management have contracts which entitle them, in certain circumstances, to an extraordinary contribution to their welfare benefit scheme in the event of termination for reasons other than voluntary redundancy, retirement, disability or serious breach of duties. These benefits are recognised as a provision for pensions and similar obligations and as a staff cost only when the employment relationship between Banco Santander and its executives is terminated before the normal retirement date.

g) Information on investments held by the directors in other companies and conflicts of interest

None of the members of the Board of Directors or persons related to them perform, as independent professionals or as employees, activities that involve effective competition, be it present or potential, with the activities of the Group, or that, in any other way, place the directors in an ongoing conflict with the interests of the Group.

Without prejudice to the foregoing, following is a detail of the declarations by the Bank's Directors at 31 December 2017 with respect to their investments and the investments of persons related to them in the share capital of companies whose object is banking, financing or lending; and of the management or governing functions, if any, that the directors discharge thereat:

Director	Corporate Name	Line of Business	Ownership Interest (%)	Functions
Mr Antonio Escámez Torres	Open Bank, S.A.	Financial institution	-	Chairman
	Attijariwafa Bank, S.A. (Morocco)	Financial institution	Less than 0.001%	Deputy Chairman
Mr Juan Rodríguez Inciarte	Santander UK Group Holding Ltd	Financial institution	-	Director
	Santander UK plc	Financial institution	-	Deputy Chairman
	SAM Investment Holdings Limited	Financial institution	-	Director
Ms Magdalena Salarich Fernández de Valderrama	Banco Santander, S.A.	Financial institution	0.001%	General Director
	Financiera El Corte Inglés E.F.C, S.A.	Financial institution	-	Director
	Santander Consumer Holding GmbH	Financial institution	-	Member of the Supervisory Board
	Santander Consumer Bank AG	Financial institution	-	Member of the Supervisory Board
Mr David Turiel López	Banco Santander Consumer Portugal, S.A.	Financial institution	-	Chairman (no executive)
	Santander Consumer Banque, S.A.	Financial institution	-	Deputy Chairman of the Supervisory Board
	Finance Professional Services S.A.S.	Financial institution	-	Chairman
	Santander Consumer Bank, S.A. (Polonia)	Financial institution	-	Member of the Supervisory Board
	Santander Consumer Bank, S.p.A.	Financial institution	-	Director
Mr Bruno Montalvo Wilmot	Santander Consumer Bank, S.A. (Poland)	Financial institution	-	Member of the Supervisory Board
	Santander Consumer Bank A.S. (Norway)	Financial institution	-	Deputy Chairman of the Board
	Santander Consumer UK plc	Financial institution	-	Chairman
	PSA Finance UK Limited	Financial institution	-	Director
	PSA Finance Polska sp.z.o.o	Financial institution	-	Member of the Supervisory Board
Ms Inés Serrano González	Santander Consumer Holding GmbH	Financial institution	-	Member of the Supervisory Board
	Compagnie Generalé De Credit Aux Particuliers- CREDIPAR	Financial institution	-	Director
	Santander Consumer Banque S.A.	Financial institution	-	Chairman of the Supervisory Board
	Financiera El Corte Inglés, E.F.C, S.A.	Financial institution	-	Director
	PSA Banque France, S.A.	Financial institution	-	Director
	Santander Consumer Bank AG	Financial institution	-	Member of the Supervisory Board
Mr Javier Francisco Gamarra Antón	Santander Consumer E.F.C.	Financial institution	-	Chairman
	Santander Consumer Bank S.A.	Financial institution	-	Member of the Supervisory Board
Mr Jose Luis De Mora Gallardo (*)	Banco Santander, S.A.	Financial institution	Less than 0.001%	General Director
	Bank Zachodni WBK S.A.	Financial institution	-	Director
D. Jean Pierre Landau	Santander Consumer Banque, S.A.	Financial institution	-	Member of the Supervisory Board

With regard to situations of conflict of interest, as stipulated in Article 18 of the Rules and Regulations of the Board, the Directors must notify the Board of any direct or indirect conflict of interest that they might have with the Bank. If the conflict arises from a transaction, the director shall not be allowed to conduct it unless the Board, following a report from the Appointments Committee, approves such transaction.

The Director involved shall not participate in the deliberations and decisions on the transaction to which the conflict refers, and the body responsible for resolving conflicts of interest is the Board of Directors itself.

In 2017 and 2016 the Bank's Directors did not report to the Board of Directors or to the General Meeting any direct or indirect conflict of interest that they or persons related to them might have.

6. Loans and advances to credit institutions

The detail, by type and currency, of "Loans and Advances to Credit Institutions" in the accompanying consolidated balance sheets as at 31 December 2017 and 2016 is as follows:

	Thousand Euros	
	2017	2016
Type:		
Time deposits	46,999	34,552
Reverse repurchase agreements	169,940	444,290
Other accounts	66,186	101,539
	283,125	580,381
Currency:		
Euro	187,194	490,115
Foreign currency	95,931	90,226
	283,125	580,232

Note 44 contains a detail of the terms to maturity and estimated fair value of these assets at 31 December 2017 and 2016 and of the related average interest rates in the years then ended.

A significant portion of the loans and advances to credit institutions relates to balances with associates and Santander Group entities (see Note 46).

7. Debt instruments

The detail, by classification, type and currency, of Debt Instruments in the accompanying consolidated balance sheets as at 31 December 2017 and 2016 is as follows:

	Thousand Euros	
	2017	2016
Classification:		
Loans and receivables	-	103,299
Available-for-sale financial assets	2,605,723	3,158,563
	2,605,723	**3,261,862**
Type:		
Spanish government debt securities	1,002,461	1,252,504
Foreign government debt securities	989,952	1,084,454
Issued by financial institutions	603,878	919,310
Other fixed-income securities	9,432	5,594
	2,605,723	**3,261,862**
Currency:		
Euro	2,020,177	2,239,510
Foreign currency	585,546	1,022,352
	2,605,723	**3,261,862**
Less - Impairment losses	-	-
	2,605,723	**3,261,862**

The balance of “Spanish Government Debt Securities” at 31 December 2017 and 2016 in the foregoing table relates to treasury bills acquired by Santander Consumer Finance, S.A.

The balance as of 31 December 2017 of "Foreign Government Debt Securities” contained in the previous table corresponds, mainly, to Norwegian Treasury Bonds acquired by the subsidiary Santander Consumer Bank AS (Norway) for EUR 190,948 thousand, to Treasury Bonds Italian acquired by the Italian subsidiaries Santander Consumer Bank SpA and Banca PSA Italia S.p.A. for EUR 467,055 thousand, to French Treasury Bills acquired by Santander Consumer Finance, S.A. for EUR 251,311 thousand and to Finnish Treasury Bonds acquired by the subsidiary Santander Consumer Finance Oy (Finland) for EUR 79,638 thousand.

The balance of “Foreign Government Debt Securities” at 31 December 2016 in the foregoing table relates mainly to: Norwegian treasury bonds purchased by the subsidiary Santander Consumer Bank AS (Norway) for approximately EUR 253,896 thousand; Italian treasury bonds purchased by the subsidiary Santander Consumer Bank S.p.A. (Italy) and Banca PSA Italy S.p.A. for approximately EUR 492,395 thousand; German treasury bonds purchased by the German subsidiaries Santander Consumer Bank AG (Germany) for approximately EUR 202,581 thousand; and Finnish treasury bonds purchased by the subsidiary Santander Consumer Finance Oy (Finland) for approximately EUR 134,582 thousand.

The balance of “Issued by Financial Institutions” at 31 December 2017 in the foregoing table includes mainly: bonds issued by the financial institutions Danske Bank A/S, Nordea Kredit Realkredit, Nykredit Realkredit A/S y Realkredit Danmark A/S (Denmark), DNB Boligkreditt AS, Nordea Eiendomskreditt AS, Stadshypotek AB, Swedbank Hypotek AB (Sweden) purchased by the subsidiary Santander Consumer Bank AS (Norway) for EUR 394,598 thousand; bonds issued by the financial institutions Kreditanstalt Fuer Wiederaufbau (Germany) and European Investment Bank EIB purchased by the subsidiary Santander Consumer Bank AG (Germany) for EUR 177,410 thousand and bonds issued by the financial institutions DNB Boligkredutt AS (Norway) y Nordea Kredit Realkredit (Denmark) purchased by the subsidiary Santander Consumer Finance Oy (Finland) for EUR 31,870 thousand.

The balance of “Issued by Financial Institutions” at 31 December 2016 in the foregoing table includes mainly: bonds issued by the financial institutions Danske Bank A/S, Nordea Kredit Realkredit, Nykredit Realkredit A/S y Realkredit Danmark A/S (Denmark), DNB Boligkreditt AS, Nordea Eiendomskreditt AS and Norwegian T-Bill (Norway), Skandinaviska Enskilda, Stadshypotek AB, Swedbank Hypotek AB (Sweden), Kreditanstalt Fuer Wiederaufbau (Germany) and Nordic Investment Bank (Scandinavia), purchased by the subsidiary Santander Consumer Bank AS (Norway) for EUR 871,735 thousand; bonds issued by the financial institutions DNB Boligkredutt AS (Norway) y Nordea Kredit Realkredit (Denmark) purchased by the subsidiary Santander Consumer Finance Oy (Finland) for EUR 47,575 thousand.

At 31 December 2017 and 2016, none of the debt instruments held by the Group was assigned to own or third-party commitments.

Note 44 contains a detail of the terms to maturity of these financial assets at 31 December 2017 and 2016 and of the related average interest rates in the years then ended.

8. Equity instruments

The detail of “Equity Instruments” in the accompanying consolidated balance sheets as at 31 December 2017 and 2016 is as follows:

	Thousand Euros	
	2017	2016
Classification:		
Available-for-sale financial assets	10,307	11,996
	10,307	**11,996**
Type:		
Shares of foreign companies	10,307	11,996
	10,307	**11,996**
Add - Valuation adjustments	1,741	370
Of which:		
Measurement of assets at fair value	*1,741*	*370*
	12,048	**12,366**

The changes in 2017 and 2016 in “Financial Assets Available-for-Sale - Equity Instruments” in the accompanying consolidated balance sheets were as follows:

	Thousand Euros	
	2017	2016
Balance at beginning of year	12,366	30,595
Net additions (disposals)	(1,689)	(18,599)
Valuation adjustments	1,371	370
Exchange rate and other changes	-	-
Balance at end of year	**12,048**	**12,366**

9. Trading derivatives (assets and liabilities)

The detail, by type of inherent risk, of the fair value of the trading derivatives arranged by the Group at 31 December 2017 and 2016 is as follows:

	Thousand Euros			
	2017		2016	
	Asset Balance	Liability Balance	Asset Balance	Liability Balance
Interest rate risk	8,856	11,017	14,741	18,197
Foreign currency risk	25,208	17,834	41,294	35,080
	34,064(*)	**28,851(*)**	**56,035(*)**	**53,277(*)**

(*) Of which EUR 16,627 thousand and EUR 22,174 thousand of asset and liability balances, respectively, relate to amounts held with Santander Group companies at 31 December 2017 (31 December 2016: EUR 30,878 thousand and EUR 26,555 thousand of asset and liability balances, respectively, related to Santander Group companies) (see Note 46).

The foregoing table shows the maximum credit risk exposure of the asset balances.

The Group's transactions using financial instruments held for trading are detailed in Note 29.

10. Loans and receivables

Following is a detail, by loan type and status, borrower sector, geographical area of residence, interest rate formula and currency, of “Loans and Receivables” in the accompanying consolidated balance sheets as at 31 December 2017 and 2016, which reflect the Group’s exposure to credit risk in its core business:

	Thousand Euros	
	2017	2016
Loan type and status:		
Commercial credit	2,720,251	2,483,374
Secured loans	6,219,218	7,414,649
Other term loans	61,297,987	57,281,214
Finance leases	13,109,162	11,461,033
Receivable on demand and other	716,116	977,461
Credit card receivables	2,538,757	2,514,821
Impaired assets	1,934,477	2,006,326
	88,535,968	**84,138,878**
Geographical area:		
Spain and Portugal	15,486,080	13,943,762
Italy	7,948,209	7,077,917
France	10,560,080	9,527,974
Germany and Austria	36,446,368	36,294,250
Scandinavia	14,594,740	13,716,685
Other	3,500,491	3,578,290
	88,535,968	**84,138,878**
Interest rate formula:		
Fixed rate	69,240,909	64,969,184
Floating rate	19,295,059	19,169,694
	88,535,968	**84,138,878**
Currency:		
Euro	76,023,944	71,977,288
Foreign currency	12,512,024	12,161,590
	88,535,968	**84,138,878**
Less - *Impairment losses*	*(1,900,800)*	*(2,155,710)*
	86,635,168	**81,983,168**

Note 44 contains a detail of the terms to maturity and estimated fair value of loans and advances to customers at 31 December 2017 and 2016 and of the related average annual interest rates in the years then ended.

On 22 May 2014, the Bank subscribed 4,152 mortgage participation certificates issued by Banco Santander, S.A. for EUR 424,397 thousand, which were recognised under “Loans and Receivables - Loans and Advances to Customers” in the consolidated balance sheet. These mortgage participation certificates relate to loans maturing at between 3 and 39 years and earn annual interest of between 0.58% and 5.34%.

On 26 April 2012, the Bank subscribed 3,425 mortgage participation certificates issued by Banco Santander, S.A. for EUR 416,625 thousand, which were recognised under “Loans and Receivables - Loans and Advances to Customers” in the consolidated balance sheet. These mortgage participation certificates relate to loans maturing at between 1 and 38 years and earn annual interest of between 0.54 % and 4.67%.

The outstanding balance of these mortgage participation certificates amounted to EUR 557,971 thousand at 31 December 2016 (31 December 2015: EUR 616,609 thousand).

At 31 December 2017 and 2016, there were no loans and advances to customers for material amounts without fixed maturity dates. Loans and advances to customers assigned to own or third-party commitments totalled EUR 650,000 thousand at 31 December 2017 (2016: EUR 650,000 thousand) (see Notes 18 and 19), without taking into consideration for these purposes the consolidated loan portfolio held through various securitisation special-purpose vehicles included in the Group's scope of consolidation (see Appendix I).

Note 47 contains certain information relating to the restructured/refinanced loan book.

Impairment losses. Loans and advances to Customers

The changes in "Impairment Losses. Loans and advances to Customers" in the foregoing table in 2017 and 2016 were as follows:

	Thousand Euros	
	2017	2016
Balance at beginning of year	2,155,710	2,434,564
Net impairment losses charged to consolidated profit for the year (*)	509,339	586,093
Of which:		
Losses charge to profit	*1,025,199*	*992,180*
Impairment recoveries credited to profit	*(515,860)*	*(405,087)*
Exclusions from the scope of consolidation		
Write-off of impairment balances against recorded impairment allowance	(738,982)	(937,280)
Exchange differences and other (**)	(25,267)	71,333
Balance at end of year	**1,900,800**	**2,155,710**
Of which:		
By method of assessment-		
Identified losses	*1,201,316*	*1,373,761*
Rest	*699,484*	*781,949*
By geographical location of risk-		
Spain	*332,427*	*446,742*
Other	*1,568,373*	*1,708,968*
By estimate		
Individual	*562,628*	*528,945*
Collective	*1,338,172*	*1,626,765*

(*) Recognised under "Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss, net" in the accompanying consolidated income statements for 2017 and 2016. Additionally, there have no been impairments released to Debt instruments neither 2017 nor in 2016.
(**) Includes the effect of exchange differences and the adjustments made in the calculation of the fair value of the loans and advances to customers acquired in business combinations performed in 2017 and 2016 due to the credit risk on the related nominal values. They are disclosed in this detail for information purposes only and to facilitate the comparability of the information.

Previously written-off assets recovered, including sales of portfolios of written-off and non-performing assets, amounted to EUR 304,876 thousand in 2017 (2016: EUR 259,090 thousand) and are presented as a deduction from "Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss, net" in the accompanying consolidated income statements for 2017 and 2016. As a result, the amount recognised under "Impairment of loans and receivables" was EUR 204,463 thousand and EUR 328,003 thousand in 2017 and 2016 respectively.

In 2017 the Group sold the following portfolios of written-off loans:

Company	Thousand Euros	
	Nominal Value of the Portfolio Sold	Selling Price (*)
Santander Consumer Bank AG. (Germany)	267,289	52,555
Santander Consumer Bank S.p.A. (Italy)	166,238	32,884
Santander Consumer Finance Benelux B.V. (Netherlands)	18,925	8,025
Santander Consumer Bank AS (Norway)	165,000	71,000
Financiera El Corte Inglés, E.F.C., S.A. (Spain)	113,325	12,579
Banco Santander Consumer Portugal, S.A. (Portugal)	14,867	1,962
Santander Consumer Finance Oy (Findland)	9,350	6,990
Santander Consumer Bank GmbH (Austria)	36,800	6,800
	791,794	**192,795**

(*) The gain on these sales was recognised with a credit to "Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss, net" in the accompanying consolidated income statement for 2017.

In 2016 the Group sold the following portfolios of written-off loans:

Company	Thousand Euros	
	Nominal Value of the Portfolio Sold	Selling Price (*)
Santander Consumer Bank AG. (Germany)	508,455	95,514
Santander Consumer Bank S.p.A. (Italy)	656	78
Santander Consumer Finance Benelux B.V. (Netherlands)	20,498	8,255
Santander Consumer Bank AS (Norway)	31,501	14,384
Santander Consumer Finance Oy (Finland)	7,719	5,943
Santander Consumer Bank GmbH (Austria)	42,934	6,947
	611,763	**131,121**

(*) The gain on these sales was recognised with a credit to "Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss, net" in the consolidated income statement for 2016.

Written-off assets

The changes in 2017 and 2016 in the balance of the financial assets classified as loans and receivables and considered to be written-off assets at 31 December 2017 and 2016 were as follows:

	Thousand Euros	
	2017	2016
Balance at beginning of year	2,356,544	2,369,652
Additions	738,982	937,280
Withdrawals	(821,641)	(950,388)
Changes in the scope of consolidation (net)(*)	-	-
Balance at end of year	**2,273,885**	**2,356,544**

(*) Includes, net of the effect of changes in the Group's scope of consolidation

Home purchase loans granted to households by the main businesses in Spain

The quantitative information on the home purchase loans granted to households by the Group's main businesses in Spain at 31 December 2017 and 2016 is as follows:

	31-12-2017		31-12-2016	
	Thousand Euros		Thousand Euros	
	Gross Amount	Of Which: Non Performing	Gross Amount	Of Which: Non Performing
Loans for home purchases				
- Without mortgage guarantee	-	-	-	-
- With mortgage guarantee	2,012,009	82,963	2,192,092	97,278
	2,012,009	**82,963**	**2,192,092**	**97,278**

The detail, by loan-to-value ratio, of the home purchase mortgage loans granted by the Group to households in Spain at 31 December 2017 and 2016 is as follows:

	2017					
	Loan-to-Value Ratio					
	Millions Euros					
	From 0% to 40%	From 40% to 60%	From 60% to 80%	From 80% to 100%	More than 100%	Total
Gross amount	290	396	528	218	580	**2,012**
Of which: Non-performing	*4*	*9*	*19*	*9*	*42*	***83***

	2016					
	Loan-to-Value Ratio					
	Millions Euros					
	From 0% to 40%	From 40% to 60%	From 60% to 80%	From 80% to 100%	More than 100%	Total
Gross amount	294	397	603	247	651	**2,192**
Of which: Non-performing	5	12	23	15	42	**97**

Securitisation

The balance of “Loans and Advances to Customers” in the accompanying consolidated balance sheets as at 31 December 2017 and 2016 includes, inter alia, the securitised loans transferred to third parties on which the Group has retained risks, albeit partially, and which therefore, in accordance with current regulations, cannot be derecognised. The breakdown of the securitised amounts at 31 December 2017 and 2016, classified by the subsidiaries which originated the securitised portfolio, and on the basis of whether the requirements for derecognition had been met (see Note 2-d), is as follows:

	Thousand Euros	
	2017	2016
Derecognised	**-**	**-**
Retained on the balance sheet:	**23,079,096**	**26,244,334**
Of which:		
Santander Consumer Bank AG (Germany)	*8,763,884*	*9,217,701*
Santander Consumer, E.F.C., S.A. (Spain)	*2,123,530*	*2,263,936*
Compagnie Generalé de Credit Aux Particuliers-Credipar (France)	*3,866,751*	*3,390,437*
Santander Consumer Bank S.p.A. (Italy)	*2,778,182*	*3,064,692*
Santander Consumer Bank A.S. (Norway)	*884,659*	*1,314,525*
Santander Consumer Finance Oy (Finlandia)	*1,085,142*	*861,877*
PSA Financial Services, Spain, E.F.C., S.A. (Spain)	*823,248*	*980,005*
Financiera El Corte Inglés, E.F.C., S.A. (Spain)	*1,032,499*	*968,621*
Banca PSA Italia S.p.A. (Italy)	*660,707*	*552,527*
PSA Bank Deutschland GmbH (Germany)	*540,694*	*541,646*
Santander Consumer Bank gmbh (Austria)	*256,163*	*418,641*
Santander Consumer Finance Benelux B.V. (Netherlands)	*263,636*	*248,631*
PSA Finance Suisse, S.A (Switzerland)	-	*240,247*
SCF Ajoneuvohallinto II Ltd (Irland)	-	*548,488*
Svensk Autofinans WH 1 Ltd (Irland)	-	*501,576*
Bilkreditt 7 Designated Activity Company (Irland)	-	*358,506*
Resto	-	*772,278*
Total	**23,079,095**	**26,244,334**

The securitised assets relate basically to vehicle financing and consumer finance.

In 2017 and 2016 the subsidiaries mentioned in the foregoing table securitised receivables amounting to EUR 5,902,061 thousand (2016: EUR 7,056,570 thousand). Since substantially all the risks and rewards associated with these receivables had not been transferred, they were not derecognised.

Note 19 details the liabilities associated with these securitisation transactions.

Impaired assests

The changes in 2017 and 2016 in the balance of the financial assets classified as loans and receivables and considered to be impaired due to credit risk (non-performing assets) at 31 December 2017 and 2016 were as follows:

	Thousand Euros	
	2017	2016
Balance at beginning of year	2,006,326	2,266,389
Additions net of recoveries	684,969	602,988
Written-off assets	(738,982)	(937,280)
Changes in the scope of consolidation exchange	-	11,272
Exchanges differences (net)	(17,836)	62,957
Balance at end of year	**1,934,477**	**2,006,326**

Following is a detail of the financial assets classified as loans and receivables and considered to be impaired due to credit risk (non-performing assets) at 31 December 2017 and 2016, classified by geographical location of risk and by age of the oldest past-due amount at those dates:

2017						
	Thousand Euros					
	With No Past-Due Balances or Less than 3 Months Past Due	With Balances Past Due by				
		3 to 6 Months	6 to 9 Months	9 to 12 Months	More than 12 Months	Total
Spain and Portugal	43,686	86,412	31,664	26,644	130,963	319,369
Germany and Austria	123,414	52,565	218,578	64,314	340,980	799,851
Italy	40,725	33,854	37,310	17,013	55,526	184,428
Scandinavia	155,661	59,103	18,375	16,432	46,326	295,897
France	35,140	20,866	75,237	9,447	120,272	260,962
Other	783	19,719	15,430	978	37,060	73,970
	399,409	**272,519**	**396,594**	**134,828**	**731,127**	**1,934,477**

2016						
	Thousand Euros					
	With No Past-Due Balances or Less than 3 Months Past Due	With Balances Past Due by				
		3 to 6 Months	6 to 9 Months	9 to 12 Months	More than 12 Months	Total
Spain and Portugal	123,629	41,953	34,024	28,203	187,789	415,598
Germany and Austria	166,867	81,330	73,325	74,895	427,185	823,602
Italy	35,669	51,769	19,428	39,586	44,513	190,965
Scandinavia	128,366	53,061	18,640	16,166	68,832	285,065
France	36,367	21,306	9,785	7,747	134,674	209,879
Other	1,026	17,280	22,424	1,448	39,039	81,217
	491,924	**266,699**	**177,626**	**168,045**	**902,032**	**2,006,326**

The non-performing loans ratio is calculated by dividing the impaired (non-performing) loans recognised in the consolidated balance sheet at year-end by the total balance of loans and advances to customers disregarding any impairment losses recognised. The ratio stood at 2.18% at 31 December 2017 (31 December 2016: 2.38%).

Loans classified as standard: past-due amounts receivable

In addition, at 31 December 2017 and 2016, there were assets with amounts receivable that were past due by three months or less, the detail of which, by age of the oldest past-due amount, is as follows:

2017			
	Thousand Euros		
	Less than 1 Month	1 to 2 Months	2 to 3 Months
Loans and advances to customers	95,029	36,667	19,134
Public sector	-	-	-
Private sector	*95,029*	*36,667*	*19,134*
Total	**95,029**	**36,667**	**19,134**

2016			
	Thousand Euros		
	Less than 1 Month	1 to 2 Months	2 to 3 Months
Loans and advances to customers	114,140	31,128	23,238
Public sector	-	-	-
Private sector	*114,140*	*31,128*	*23,238*
Total	**114,140**	**31,128**	**23,238**

11. Operations associated with hedges

Hedging derivatives

The detail, by type of hedge, of the fair value of the derivatives qualifying for hedge accounting at 31 December 2017 and 2016 is as follows:

	Thousand Euros			
	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Fair value hedges(**)				
Micro hedges	52,571	1,796	35,874	13,709
Portfolio hedge	3,455	94,456	2,731	189,616
Cash flow hedges (*)				
Micro hedges	77,373	71,548	83,887	44,716
Portfolio hedge	-	-	-	-
	133,399	**167,800**	**122,492**	**248,041**

(*) Of which EUR (196) thousand of losses, net of tax, were recognised under “Items that may be reclassified to profit or loss - Hedging derivatives. Cash flow hedges (Effective portion)” in the consolidated balance sheet as a reduction of consolidated equity at 31 December 2017 (31 December 2016: EUR (7,539) thousand of losses) (see Note 26).

(**) Of which EUR 13,048 thousand of gains, net of tax, were recognised under “Valuation Adjustments - Hedges of Net Investments in Foreign Operations” in the consolidated balance sheet as an increase in consolidated equity at 31 December 2017 (31 December 2016: EUR 30,632 thousand of losses, net of tax) (see Note 26).

Note 29 includes a description of the hedges arranged by the Group.

At 31 December 2017 and 2016, the asset heading "Fair value changes of the hedged items in portfolio hedge of interest rate risk" includes the positive or negative variations in the fair value of certain financial assets (primarily the lending portfolio), which amounts EUR 47,823 thousand and EUR 117,973 thousand, respectively.

12. Non-current assets held for sale and Liabilities associated with non-current assets held for sale

The balance of "Non-Current Assets Held for Sale" in the accompanying consolidated balance sheets as at 31 December 2017 and 2016 includes the amount of foreclosed assets (recovered by the consolidated entities on non-performing loans), net of impairment losses, and the assets of subsidiaries classified as discontinued operations, the detail being as follows:

	Thousand Euros	
	2017	2016
Foreclosed tangible assets	5,682	8,778
Of which Foreclosed tangible assets in Spain	*3,843*	*8,778*
Other tangible assets held for sale	1,190	1,165
	6,872	**9,943**

As of 31 December 2017, hedges constituted for real estate assets in Spain represent 88.3% (90.9% as of 31 December 2016). The net provisions made during the years 2017 and 2016 for impairment value adjustments of non-current assets and disposable groups of items that have been classified as held for sale have amounted to EUR 9,090 thousand and EUR 14,337 thousand, respectively, and the recoveries made during those years amounted to EUR 11,880 thousand and EUR 7,078 thousand, respectively.

In 2017, the Group sold foreclosed assets for EUR 13,212 thousand, the gross value of which amounted to EUR 55,783 thousand and which were provisioned for EUR 41,516 thousand. These sales have generated losses of EUR 1,055 thousand (EUR 1,010 thousand in 2016). Additionally, other assets have been sold for EUR 29,164 thousand, mainly assets that had been acquired in the same year and that have generated losses of EUR 209 thousand (EUR 809 thousand in 2016). These assets have been registered under the aforementioned heading - see Note 43.

Disclosures on assets received by the businesses in Spain in payment of debts

The detail of the foreclosed assets of the Group's businesses in Spain, based on the purpose of the initially granted loans or credit facilities giving rise to them, at 31 December 2017 and 2016 is as follows:

	Thousand Euros			
	31 December 2017		31 December 2016	
	Gross Amount	Of which: Impairment Losses	Carrying Amount	Of which: Impairment Losses
Property assets arising from financing granted for construction and property development	90	41	6,063	4,459
- Completed buildings	-	-	2,822	1,908
Residential			-	-
Other	-	-	*2,822*	*1,908*
- Land	90	41	3,241	2,551
Developed land	-	-	*2,703*	*2,178*
Other land	90	41	*538*	*373*
Property assets arising from home purchase mortgage financing granted to households	17,304	13,660	38,806	33,399
Other property assets received in payment of debts	606	456	5,131	3,364
Total property assets	**18,000**	**14,157**	**50,000**	**41,222**

13. Investments - Associates and jointly controlled entities

The detail, by company, of “Investments - Associates” and “Investments - Jointly Controlled Entities” in the accompanying consolidated balance sheets as at 31 December 2017 and 2016 is as follows:

	Thousand Euros	
	2017	2016
Associates:		
Bank of Beijing Consumer Finance Company	-	64,046
Santander Consumer Bank S.A. (Poland)	396,858	331,623
Santander Consumer Multirent, Sp, Zoo	9,497	7,809
Santander Consumer Finanse S.A. (Poland)	6,338	6,130
Payever Gmbh	1,264	-
Other associates	6,208	8,361
	420,165	417,969
Of which:		
Goodwill		
Payever Gmbh	*1,263*	-
Bank of Beijing Consumer Finance Company	-	*3,529*
Santander Consumer Bank S.A. (Poland)	*108,839*	*103,082*
	110,102	*106,611*
Jointly controlled entities:		
Fortune Auto Finance Co. Ltd. (China)	106,815	87,525
PSA Insurance Europe Ltd (Malta)	31,284	25,657
PSA Life Insurance Europe, Ltd (Malta)	9,024	4,293
Other jointly controlled entities	60	2,575
	147,183	120,050
	567,348	**538,019**

The changes in 2017 and 2016 in “Investments - Associates” and “Investments - Jointly Controlled Entities” in the accompanying consolidated balance sheets were as follows:

	Thousand Euros	
	2017	2016
Balance at beginning of year	538,019	545,539
Purchases and capital increases	13,329	10,767
Sales	-	(2,681)
Dividends paid	(28,295)	(41,547)
Effect of equity accounting (Note 32)	94,119	68,907
Changes in the scope of consolidation	-	(17,007)
Impairment value adjustments (Note 3.b)	(60,000)	-
Exchange differences and other	10,176	(25,959)
Balance at end of year	**567,348**	**538,019**

Impairment losses

The Group, based on the evolution of the results of the Bank of Beijing Consumer Finance Company (China), has decided to fully impair its ownership, which is why it recorded an impairment of EUR 60,000 thousand in the "Impairment or reversal of impairment subsidiaries, joint ventures and associates" heading in the consolidated income statement for the year 2017. In 2016 there was no evidence of significant impairment in the Group's participations.

The financial information on the associates and jointly controlled entities is summarised below:

	Millions Euros	
	2017 (*)	2016
Data at 31 December		
Total assets	8,321	8,822
Total liabilities	(6,939)	(7,601)
Equity	(1,382)	(1,221)
Group's share of the net assets of associates	457	431
Goodwill	110	107
Total Group share	**567**	**538**
Data for the year		
Total income	1,256	1,200
Total profit	194	157
Group's share of the profit of associates	94	69

(*) This information was obtained from the financial statements of each of the investees, which had not yet been approved by the respective control bodies at the date of preparation of these consolidated financial statements. However, the Bank’s Directors consider that they will be approved without any changes.

14. Tangible assets

The changes in 2017 and 2016 in the balance of "Tangible Assets" in the accompanying consolidated balance sheets as at 31 December 2017 and 2016 were as follows:

	Thousand Euros		
	Property, Plant and Equipment for Own Use	Other Assets Leased out under an Operating Lease	Total
Cost:			
Balances at 1 January 2016	**406,946**	**229,478**	**636,424**
Additions / disposals (net)	4,761	(31,208)	(26,447)
Additions	*42,442*	*13,289*	*55,731*
Disposals	*(37,681)*	*(44,497)*	*(82,178)*
Net additions/disposals due to change in the scope of Consolidation	4,776	-	4,776
Exchange differences	263	(180)	83
Transfers and other	4,112	17,948	22,060
Balances at 31 December 2016	**420,858**	**216,038**	**636,896**
Additions / disposals (net)	(15,646)	(10,891)	(26,537)
Additions	*25,717*	*70,394*	96,111
Disposals	*(41,363)*	*(81,285)*	(122,648)
Net additions/disposals due to change in the scope of Consolidation	-	-	-
Exchange differences	(759)	60	(699)
Transfers and other	(41)	632	591
Balances at 31 December 2017	**404,412**	**205,839**	**610,251**
Accumulated depreciation:			
Balances at 1 January 2016	**(240,976)**	**(69,281)**	**(310,257)**
Net additions/disposals due to change in the scope of Consolidation	414	-	414
Charge for the year (1)	(30,114)	-	(30,114)
Disposals and retirements	30,336	11,701	42,037
Exchange differences	4,551	(32)	4,519
Transfers and other	(4,955)	(2,191)	(7,146)
Balances at 31 December 2016	**(240,744)**	**(59,803)**	**(300,547)**
Net additions/disposals due to change in the scope of Consolidation	-	-	-
Charge for the year (1)	(29,637)	*(10,657)*	(40,294)
Disposals and retirements	20,803	14,676	35,479
Exchange differences	377	(44)	333
Transfers and other	2,651	1,306	3,957
Balances at 31 December 2017	**(246,550)**	**(54,522)**	**(301,072)**
Impairment losses:			
Balance at 1 January 2016	**-**	**(3,282)**	**(3,282)**
Charge for the year	(9)	(1,354)	(1,363)
Releases	-	537	537
Disposals and retirements	9	83	92
Transfers and other	-	1,358	1,358
Balance at 31 December 2016	**-**	**(2,658)**	**(2,658)**
Charge for the year	(30)	(940)	(970)
Releases	-	66	66
Disposals and retirements	30	59	89
Transfers and other	-	(1,295)	(1,295)
Balances at 31 December 2017	**-**	**(4,768)**	**(4,768)**
Net tangible assets:			
Balances at 31 December 2016	**180,114**	**153,577**	**333,691**
Balances at 31 December 2017	**157,862**	**146,549**	**304,411**

(1) The period depreciation charges are recognised under "Depreciation and Amortisation Charge" in the consolidated income statement.

The balance of tangible assets acquired under finance leases amounted to EUR 49,157 thousand at 31 December 2017 (31 December 2016: EUR 50,321 thousand).

The Group obtained a net profit of EUR 70 thousand in 2017 (2016: losses of EUR 7,392 thousand) on sales of intangible asstes relating mainly to assets leased out under an operating lease (see Note 42).

The detail, by class of asset, of “Property, Plant and Equipment - For Own Use” in the consolidated balance sheets as at 31 December 2017 and 2016 is as follows:

	Thousand Euros		
	Cost	Accumulated Depreciation	Carrying Amount
Buildings	76,095	(15,734)	60,361
Furniture	214,520	(126,520)	88,000
IT equipment	94,249	(81,658)	12,591
Other	35,994	(16,832)	19,162
Balances at 31 December 2016	**420,858**	**(240,744)**	**180,114**
Buildings	73,005	(15,969)	57,036
Furniture	208,780	(136,701)	72,079
IT equipment	85,296	(75,378)	9,918
Other	37,331	(18,502)	18,829
Balances at 31 December 2017	**404,412**	**(246,550)**	**157,862**

The net balance of “Property, Plant and Equipment for Own Use” at 31 December 2017 includes approximately EUR 154,214 thousand (31 December 2016: EUR 176,200 thousand) relating to property, plant and equipment owned by Group entities and branches located abroad.

15. Intangible assets

a) Goodwill

The detail of “Goodwill” in the accompanying consolidated balance sheets as at 31 December 2017 and 2016, based on the cash-generating units giving rise thereto, is as follows:

	Thousand Euros	
	2017	2016
Germany	1,186,315	1,186,315
Austria	98,074	98,074
Nordic countries (Scandinavia)	517,585	536,811
The Netherlands	35,550	35,550
Spain/Portugal	32,512	32,512
Total	**1,870,036**	**1,889,262**

At least once per year (or whenever there is any indication of impairment), the Group reviews goodwill for impairment (i.e. a potential reduction in its recoverable amount to below its carrying amount). The first step that must be taken in order to perform this analysis is the identification of the cash-generating units, i.e. the Group's smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The amount to be recovered of each cash-generating unit is determined taking into consideration the carrying amount (including any fair value adjustment arising on the business combination) of all the assets and liabilities of all the independent legal entities composing the cash-generating unit, together with the related goodwill.

This book value to be recovered from the cash generating unit is compared with its recoverable amount in order to determine whether there is impairment.

The Group assesses the existence of any indication that might be considered to be evidence of impairment of the cash-generating unit by reviewing certain information, including the following: (i) various macroeconomic variables that might affect its investments (population data, political situation and economic situation - including bankarisation-, among others) and (ii) various microeconomic variables comparing the investments of the Group with the financial services industry of the country in which the cash-generating unit carries on most of its business activities (balance sheet composition, total funds under management, results, efficiency ratio, capital adequacy ratio and return on equity, among others).

Regardless of whether there is any indication of impairment, every year the Group calculates the recoverable amount of each cash-generating unit to which goodwill has been allocated and, to this end, it uses price quotations, if available, market references (multiples), internal estimates, and appraisals performed by independent experts.

Firstly, the Group determines the recoverable amount by calculating the fair value of each cash-generating unit on the basis of the quoted price of the cash-generating units, if available, and of the price earnings ratios of comparable local entities.

In addition, the Group performs estimates of the recoverable amounts of certain cash-generating units by calculating their value in use using discounted cash flows. The main assumptions used in this calculation are: (i) earnings projections based on the financial budgets approved by the directors which normally cover a three- five year period (unless a longer time horizon can be justified), ii) discount rates determined as the cost of capital taking into account the risk-free rate of return plus a risk premium in line with the market and the business in which the units operate and (iii) growth rates to estimate earnings to perpetuity that do not exceed the long-term average growth rate for the market in which the cash-generating unit in question operates.

The cash flow projections used by Group management to obtain the values in use are based on the financial budgets approved by both local management of the related units and the Group's Directors. The Group's budgetary estimation process is common for all the cash-generating units. The local management teams prepare their budgets using the following key assumptions:

a) Microeconomic variables of the cash-generating unit: management takes into consideration the current balance sheet structure, the product mix on offer and the business decisions taken by local management in this regard.

b) Macroeconomic variables: growth is estimated on the basis of the changing environment, taking into consideration expected GDP growth in the unit's geographical location and forecast trends in interest and exchange rates. These data, which are based on external information sources, are provided by the Group's economic research service.

c) Past performance variables: in addition, management takes into consideration in the projection the difference (both positive and negative) between the cash-generating unit's past performance and that of the market.

Following is a detail of the main assumptions used in determining the recoverable amount, at 2017 year-end, of the most significant cash-generating units valued using the discounted cash flow method:

	Projected Period	Discount Rate (*)	Nominal Perpetuity Growth Rate
Austria	5 years	8.7%	1.6%
Germany	3 years	8.6%	2.5%
Nordic countries (Scandinavia)	5 years	9.0%	2.5%

(*) Post-tax discount rate for the purpose of consistency with the earnings projections used.

Given the degree of uncertainty of these assumptions, the Group performs a sensitivity analysis thereof using reasonable changes in the key assumptions on which the recoverable amount of the cash-generating units is based in order to confirm whether their recoverable amount still exceeds their carrying amount. The sensitivity analysis involved adjusting the discount rate by +/- 50 bp and the perpetuity growth rate by +/-50 bp. Following the sensitivity analysis performed, the value in use of these cash-generating units still exceeds their recoverable amount.

Finally, the Group also estimates the recoverable amount of smaller goodwill amounts using a market multiples measurement approach. This method indicates the value of a company based on a comparison with multiples for comparable companies that are either listed on a stock exchange or form part of a public or private transaction. Its consists of comparing the most significant figures in the income statement of the company being measured against that of listed companies (in the case of comparable companies) or acquired companies (in the case of transactions) of similar characteristics. An analysis of the market multiples of companies engaging in similar businesses provides information regarding investor perceptions and, therefore, the value of the company, to the extent that are considered to be reasonably comparable. After identifying and selecting the theoretically comparable listed companies, or those that recently participating in a private transaction, their businesses and financial profiles are analysed to determine the degree to which they are comparable. Once the universe of comparables has been selected the prices or value multiples of their financial figures are calculated and adjusted, of necessary, for factors such as relative size, growth outlook, profitability, illiquidity, risk and return on investment. The validity of this analysis depends on the comparability (similarity and affinity) of the selected companies with respect to their business and other financial characteristics, as well as the appropriateness of the most relevant ratios in the sector.

Based on the foregoing and on the estimates, projections and sensitivity analyses available to the Bank's Directors, in 2017 and 2016 the Group did not recognise any impairment loss on goodwill.

The changes in 2017 and 2016 in the balance of "Goodwill" in the accompanying consolidated balance sheets as at 31 December 2017 and 2016 were as follows:

	Thousand Euros	
	2017	2016
Balance at beginning of year	1,889,262	1,898,353
Impairment losses	-	-
Exchange differences and other	(19,226)	(9,091)
Balance at end of year	**1,870,036**	**1,889,262**

At 31 December 2017 and 2016, the Group had goodwill associated with cash-generating units located in non-euro currency countries (mainly Scandinavia), which gives rise to exchange differences on the translation to euros, at closing rates, of the amounts of goodwill denominated in foreign currencies. In accordance with current legislation, these exchange differences are recognised with a charge to "Items that may be reclassified to profit or loss - Exchange differences" in consolidated equity. The changes in this line item are disclosed in the accompanying consolidated statement of recognised income and expense.

b) *Other intangible assets*

The detail of "Other Intangible Assets" in the accompanying consolidated balance sheets as at 31 December 2017 and 2016 is as follows:

	Estimated Useful Life	Thousand Euros	
		2017	2016
With finite useful lives:			
Customer base	2 years	-	15
IT developments	3 years	241,947	281,254
Other		2,247	814
		244,194	**282,083**

The changes in 2017 and 2016 in "Other Intangible Assets" in the accompanying consolidated balance sheets were as follows:

	Thousand Euros	
	2017	2016
Balance at beginning of year	282,083	354,571
Net additions	121,633	87,331
Amortisation charge (1)	(127,193)	(159,167)
Impairment losses (Note 41)	(32,329)	(652)
Balance at end of year	**244,194**	**282,083**

(1) The period amortisation charges are recognised under "Depreciation and Amortisation Charge" in the consolidated income statement.

Most of the additions in 2017 and 2016 relate to the implementation of management and accounting software at certain Group companies, mainly in Germany, Spain and Norway.

In 2017 the Group has derecognized intangible asset elements that have generated losses due to obsolescence for EUR 32,329 thousand (2016: EUR 652 thousand) which were recognised under “Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss, net” in the consolidated income statement (see Note 41).

16. Other assets and Other liabilities

The detail of “Other Assets” and “Other Liabilities” in the accompanying consolidated balance sheets as at 31 December 2017 and 2016 is as follows:

	Thousand Euros			
	Assets		Liabilities	
	2017	2016	2017	2016
Inventories	99,746	96,139	-	-
Prepaid expenses	77,277	72,022	-	-
Accrued expenses	-	-	619,798	579,310
Transactions in transit	7,908	22,432	193,152	148,714
Other	1,241,226	1,106,357	639,213	648,980
	1,426,157	**1,296,950**	**1,452,163**	**1,377,004**

17. Deposits from central banks and Deposits from credit institutions

The balance of “Financial Liabilities at Amortised Cost - Deposits from Central Banks” in the accompanying consolidated balance sheets as at 31 December 2017 of EUR 10,244,875 thousand (2016: EUR 10,001,944 thousand) corresponds mainly to the financing received in connection with asset-backed securities discounted at European central banks.

The detail, by type and currency, of the balance of “Financial Liabilities at Amortised Cost - Deposits from Credit Institutions” in the accompanying consolidated balance sheets as at 31 December 2017 and 2016 is as follows:

	Thousand Euros	
	2017	2016
Type:		
Reciprocal accounts	40,614	24,701
Time deposits	10,401,693	8,329,690
Other demand accounts	199,221	978,757
Subordinates (*)	957,370	866,346
	11,598,898	**10,199,494**
Currency:		
Euro	11,552,781	10,158,907
Foreign currency	46,117	40,587
	11,598,898	**10,199,494**

A significant portion of these deposits from credit institutions at 31 December 2017 and 2016 relates to transactions performed with Santander Group entities (see Note 46).

Note 44 contains a detail of the terms to maturity and estimated fair value of these financial liabilities at amortised cost at 31 December 2017 and 2016 and of the related average annual interest rates in the years then ended.

At 31 December 2017, the consolidated entities had unused credit facilities amounting to EUR 613,722 thousand (31 December 2015: EUR 500,254 thousand).

The detail of the balance of subordinated liabilities at 31 December 2017 and 2016 based on the currency in which the issue is denominated is as follows:

	Thousand Euros		2017		2016	
Issue currency	2017	2016	Active amount of the issue in foreign currency (Millions)	Annual interest rate at 31-12-16	Active amount of the issue in foreign (Millions)	Annual interest rate at 31-12-15
Euro	957,370	866,346	957	2.99%	866	3.16%
Balance at the end of the year	**957,370**	**866,346**				

The list of subordinated liabilities denominated in euro at 31 December 2017 and 2016, set out by company, is as follows:

2017				
Company	Thousand Euros	Counterparty	Date of early repayment	Maturity date
Santander Consumer Bank S.p.A.	3,250	Open Bank, S.A.	(1)	31/10/2018
Santander Consumer Bank S.p.A.	16,250	Open Bank, S.A.	(1)	31/10/2018
Santander Consumer Bank S.p.A.	3,250	Open Bank, S.A.	(1)	31/10/2018
Santander Consumer Bank S.p.A.	16,250	Open Bank, S.A.	(1)	31/10/2018
Santander Consumer Bank S.p.A.	5,000	Banco Madesant, Sociedade Unipessoal, S.A.	(1)	30/09/2019
Santander Consumer Bank S.p.A.	12,500	Banco Madesant, Sociedade Unipessoal, S.A.	(1)	30/09/2019
Santander Consumer Holding GmbH	600,000	Banco Santander, S.A.	(2)	22/03/2021
Santander Consumer Holding GmbH	200,000	Banco Santander, S.A.	(2)	22/03/2021
Banca PSA Italia S.p.a.	22,500	Banque PSA Finance	(3)	13/12/2027
PSA Banque France	77,500	PSA Finance Nederland B.V.	(3)	15/12/2027
	956,500			
Plus- Measurement adjustments	870			
Total	**957,370**			

(1) May be fully or partially repaid starting on the first principal repayment date, after receiving authorization from the Bank of Italy.

(2) May not be repaid early.

(3) May be repaid early.

2016				
Company	Thousand Euros	Counterparty	Date of early repayment	Maturity date
Santander Consumer Bank S.p.A.	7,500	Banco Madesant, Sociedade Unipessoal, S.A.	(1)	30/09/2019
Santander Consumer Bank S.p.A.	12,500	Banco Madesant, Sociedade Unipessoal, S.A.	(1)	30/09/2019
Santander Consumer Bank S.p.A.	6,500	Open Bank, S.A.	(1)	31/10/2018
Santander Consumer Bank S.p.A.	16,250	Open Bank, S.A.	(1)	31/10/2018
Santander Consumer Bank S.p.A.	6,500	Open Bank, S.A.	(1)	31/10/2018
Santander Consumer Bank S.p.A.	16,250	Open Bank, S.A.	(1)	31/10/2018
Santander Consumer Holding GmbH	600,000	Banco Santander, S.A.	(2)	22/03/2021
Santander Consumer Holding GmbH	200,000	Banco Santander, S.A.	(2)	22/03/2021
	865,500			
Plus- Measurement adjustments	846			
Total	**866,346**			

(1) May be fully or partially repaid starting on the first principal repayment date, after receiving authorization from the Bank of Italy.

(2) May not be repaid early.

The movements in the consolidated balance sheet heading in 2017 and 2016 are as follows:

	Thousand Euros	
	2017	2016
Balance at beginning of the year	866,346	1,025,375
Additions	100,000	-
Of which:		
Italy	*22,500*	-
France	*77,500*	-
Repayments	(9,000)	(88,748)
Of which:		
Norway	-	*(18,748)*
Germany	-	*(22,000)*
Italy	*(9,000)*	*(45,500)*
Portugal	-	*(2,500)*
Additions / Disposals (net) due to changes in scope of consolidation (*)	-	(70,000)
Exchange differences and other	24	(281)
Balance at the end of the year	**957,370**	**866,346**

(*) 2016 Includes the entry of Santander Benelux, S.A.,N.V. into the scope of consolidation. - See Note 3.b.

(**) The balance related to additions and repayments (EUR 91,000 thousand) plus the interest paid as remuneration of these issues (EUR 27,534 thousand) is included in the cash flow of the financing activities.

18. Customer deposits

The detail, by type, geographical area and currency, of “Customer Deposits” in the accompanying consolidated balance sheets as at 31 December 2017 and 2016 is as follows:

	Thousand Euros	
	2017	2016
Type:		
On demand-		
Current accounts	15,449,497	15,197,271
Savings accounts	8,601,282	8,021,570
Other demand deposits	3,452	3,637
Time deposits-		
Term deposits and other term deposits	9,485,457	10,034,998
Home-purchase savings accounts	5	2
	33,539,693	**33,257,478**
Geographical area:		
Spain and Portugal	357,414	375,273
Germany	23,448,251	24,568,070
Italy	1,083,379	814,665
France	2,102,103	1,804,378
Scandinavia	5,143,856	4,509,047
Austria	1,259,253	1,117,196
Other	145,437	68,849
	33,539,693	**33,257,478**
Currency:		
Euro	28,383,298	28,736,745
Foreign currency	5,156,395	4,520,733
	33,539,693	**33,257,478**

The amount recognised under “Term deposits and other term deposits” at 31 December 2017 and 2016 in the foregoing table relates basically to single mortgage-backed bonds (“cédulas hipotecarias”) issued by the Bank on 17 July 2007 for a principal amount of EUR 150,000 thousand, which mature on 20 July 2022 and are secured by mortgages registered in the Bank’s favour (see Notes 10 and 19). These bonds were subscribed by Santander Investment Bolsa, Sociedad de Valores, S.A., which in turn transferred them to the securitisation special-purpose vehicle Programa Independiente de Titulización de Cédulas Hipotecarias. The annual interest rate on these bonds is 5.135% and their maturity on 20 July 2022. There are no early redemption options on these bonds for the Bank or for the holder, except in the legally stipulated circumstances. At 31 December 2017 the mentioned heading includes other securities received amounting EUR 129,075 thousand (2016: EUR 1334,447 thousand) and term deposits totalling EUR 18,018 thousand (2016: EUR 21,518 thousand).

Note 44 contains a detail of the terms to maturity and estimated fair value of these financial liabilities at amortised cost at 31 December 2017 and 2016 and of the related average annual interest rates in the years then ended.

19. Marketable debt securities

The detail, by type, of “Marketable Debt Securities” in the accompanying consolidated balance sheets as at 31 December 2017 and 2016 is as follows:

	Thousand Euros	
	2017	2016
Bonds and debentures outstanding	21,890,933	18,164,792
Mortgage-backed bonds	500,021	500,000
Notes and other securities	5,914,298	9,200,863
	28,305,252	**27,865,655**

Bonds and debentures outstanding

The balance of “Bonds and Debentures Outstanding” in the foregoing table includes, inter alia, the outstanding balance of the bonds and debentures issued by Group subsidiaries – PSA Banque France, S.A. (France), Santander Consumer Bank S.p.A. (Italy), Santander Consumer Bank AG (Alemania) and Santander Consumer Bank AS (Norway) – amounting to EUR 6,203,856 thousand at 31 December 2017 (31 December 2016: EUR 3,215,957 thousand). At 31 December 2017, “Bonds and Debentures Outstanding” also included the balance of the financing obtained by the Group in the securitisation transactions performed by Group subsidiaries amounting to EUR 6,351,047 thousand (31 December 2016: EUR 6,478,619 thousand).

The shareholders at the Annual General Meeting of the Bank on 27 April 2015 resolved to empower the Bank's Board of Directors to issue fixed-income securities up to an amount of EUR 30,000 million. In turn, at the Board meeting held on 2 June 2015, the Directors delegated these powers to the Bank's Executive Committee. At its meeting held on 11 June 2015, the Board of Directors resolved to launch a Euro Medium Term Notes programme, replacing the programme described above, with a maximum principal amount outstanding that may not exceed EUR 10,000 million. The programme was listed on the Irish Stock Exchange on 12 June 2015.

At the meeting held subsequently on 26 May 2016, the Board of Directors adopted a resolution to issue “Euro Medium Term Notes” to replace the aforementioned vehicle for a maximum nominal amount of EUR 15,000 million. That programme was listed on the Ireland Stock Exchange on 16 June 2016.

At the meeting held on 1 June 2017, the Board of Directors Meeting adopted a resolution to issue “Euro Medium Term Notes” to replace the aforementioned vehicle for a maximum nominal amount of EUR 15,000 million. That programme was listed on the Ireland Stock Exchange on 15 June 2017.

At 31 December 2017, the outstanding balance of these notes amounted to EUR 9,287,480 thousand (31 December 2016: EUR 8,406,738 thousand), and their maturity date is between 7 July 2017 and 30 November 2021. The annual interest rate on these financial liabilities is between 0.12% and 2.40% (2016: between 0.19% and 2.15%).

Mortgage-backed bonds

At 31 December 2017 and 2016, the balance of “Mortgage-Backed Bonds” in the foregoing table includes the amount of the mortgage-backed bonds issued by the Bank on 29 April 2016. These bonds, which are listed on the Spanish AIAF fixed-income market, are secured by mortgages registered in the Bank’s favour (see Note 10), have a principal amount of EUR 500,000 thousand and mature on 3 May 2019. The annual interest rate on these liabilities in 2017 is 0.125% (2016: 5.135%) and there are no early redemption options on these bonds for the Bank or for the holders, except in the legally stipulated circumstances.

Notes and other securities

"Notes and Other Securities" in the foregoing table relates to issues launched by the Bank, admitted to trading, which bore average annual interest of 0.29% in 2017 (2016: 0.22%), the detail being as follows:

- At its meeting held on 14 July 2016, the Bank's Executive Committee resolved to issue a Notes Programme replacing described above, with a maximum principal amount outstanding that may not exceed EUR 5,000 million. These notes, whose unit nominal value is EUR 100,000, have maturities ranging from a minimum of 3 business days to a maximum of 731 calendar days (2 years and 1 day). This programme is registered in the Official Registers of the Spanish National Securities Market Commission (CNMV). At a meeting held on 6 October 2016 the Executive Committee adopted a resolution to modify the increase in the nominal unitary amounts to EUR 500,000.

- Also, at its meeting held on 27 July 2017, the Bank's Executive Committee resolved to issue a Notes Programme, replacing the programme described above, with a maximum principal amount outstanding that may not exceed EUR 5,000 million. These notes, whose unit nominal value is EUR 100,000, have maturities ranging from a minimum of 3 business days to a maximum of 731 calendar days (2 years and 1 day). This programme was registred in the Official Registers of the Spanish National Securities Market Commission (CNMV) on 17 October 2017.

At 31 December 2017, the outstanding balance of these notes amounted to EUR 2,172,036 thousand (31 December 2016: EUR 4.062.469 thousand).

- At its meeting held on 26 May 2016, the Bank's Executive Committee resolved to launch a Euro Commercial Paper programme with a maximum principal amount outstanding that may not exceed EUR 10,000 million. The maturities of this commercial paper range from a minimum of 1 day to a maximum of 364 days. The programme was listed on the Irish Stock Exchange on 15 June 2016.

- Also, at its meeting held on 1 June 2017, the Bank's Executive Committee resolved to launch a Euro Commercial Paper programme, replacing the programme described above, with a maximum principal amount outstanding that may not exceed EUR 10,000 million. The maturities of this commercial paper range from a minimum of 1 day to a maximum of 364 days. The programme was listed on the Irish Stock Exchange on 15 June 2017.

The outstanding balance of this commercial paper recognised in these consolidated financial statements amounted to EUR 3,741,482 thousand at 31 December 2017 (31 December 2016: EUR 4,621,394 thousand). Aditionnally, at 31 December 2017 PSA Banque France, S.A. maintained issues in promissory notes and marketable securities totalling EUR 554 million (31 December 2016: EUR 517 million).

Other information

At 31 December 2017 and 2016, none of these issues are convertible into Bank shares or granted privileges or rights which, in certain circumstances, make them convertible into shares.

Note 44 contains a detail of the terms to maturity and estimated fair value of these financial liabilities at amortised cost at 31 December 2017 and 2016 and of the related average annual interest rates in the years then ended.

Information on issues, repurchases or redemptions of debt instruments

Following is a detail, by trading market, if any, of the outstanding balance of the debt instruments issued by the Bank or by any other Group entity at 31 December 2017 and 2016, and of the changes in this balance in 2017 and 2016:

	Thousand Euros				
	2017				
	Outstanding Balance at 01/01/17	Issues	Repurchases or Redemptions	Exchange Rate and Other Adjustments (*)	Outstanding Balance at 31/12/17
Debt instruments issued in an EU Member State for which it was necessary to file a prospectus	26,633,484	12,945,289	(12,434,840)	(205,681)	26,938,252
Debt instruments issued in an EU Member State for which it was not necessary to file a prospectus	559,064	151,000	(368,922)	34	341,176
Other debt instruments issued outside EU Member States	673,107	527,561	(107,055)	(67,789)	1,025,824
Total	27,865,655	13,623,850	(12,910,817)	(273,436)	28,305,252

(*) Includes, inter alia, the additions to and exclusions from the Group's scope of consolidation.

	Thousand Euros				
	2016				
	Outstanding Balance at 01/01/16	Issues	Repurchases or Redemptions	Exchange Rate and Other Adjustments (*)	Outstanding Balance at 31/12/16
Debt instruments issued in an EU Member State for which it was necessary to file a prospectus	24,462,169	15,805,231	(13,385,862)	(248,054)	26,633,484
Debt instruments issued in an EU Member State for which it was not necessary to file a prospectus	440,568	437,875	(319,379)	-	559,064
Other debt instruments issued outside EU Member States	426,217	400,000	(181,894)	28,784	673,107
	25,328,954	16,643,106	(13,887,135)	(219,270)	27,865,655

(*) Includes, inter alia, the additions to and exclusions from the Group's scope of consolidation.

Other issues guaranteed by the Group

At 31 December 2017 and 2016, the Group guaranteed certain debt securities issued by Group companies.

Spanish mortgage-market issues

The members of the Bank's Board of Directors state that the relevant Group companies have specific policies and procedures in place that cover all mortgage market issue activities and guarantee strict compliance with the mortgage market regulations applicable thereto, as stipulated in Royal Decree 716/2009, of 24 April, implementing certain provisions of Mortgage Market Law 2/1981, of 25 March, and, by application thereof, in Bank of Spain Circulars 7/2010 and 5/2011, and other financial and mortgage system regulations. Also, financial management defines the Group entities' funding strategy.

The risk policies applicable to mortgage market transactions envisage maximum loan-to-value (LTV) ratios, and specific policies adapted to each mortgage product are also in place, which occasionally require the application of stricter limits.

The Bank's general policies in this respect require the repayment capacity of each potential customer to be analysed using set indicators that must be met (the debt-to-income ratio in loan approval). This analysis must determine whether each customer's income is sufficient to meet the repayments of the loan requested. In addition, the analysis of each customer must include a conclusion on the stability over time of the customer's income considered with respect to the life of the loan. The aforementioned indicator used to measure the repayment capacity (debt-to-income ratio) of each customer considers mainly the relationship between the potential debt and the income generated, taking into account, on the one hand, the monthly repayments of the loan requested and other transactions and, on the other, the monthly salary income and other duly supported income.

The Group entities have specialised document comparison procedures and tools for verifying customer information and solvency.

The Group entities’ procedures envisage that each mortgage originated in the mortgage market must be individually valued by an appraisal company not related to the Group.

In accordance with Article 5 of Mortgage Market Law 41/2007, any appraisal company approved by the Bank of Spain may issue valid appraisal reports. However, as permitted by this same article, the Group entities perform several checks and select, from among these companies, a small group with which they enter into cooperation agreements with special conditions and automated control mechanisms. The Group’s internal regulations detail the internally approved companies, the approval requirements and procedures, and the controls established to uphold them. In this connection, the regulations establish the functions of an appraisal company committee on which the various areas of the Santander Group related to these companies are represented. The aim of the committee is to regulate and adapt the internal regulations and the activities of the appraisal companies to the current market and business situation.

Essentially, the companies wishing to cooperate with the Group must have a significant level of activity in the mortgage market in the geographical area in which they operate, pass a preliminary screening process based on criteria of independence, technical capacity and solvency -in order to ascertain the continuity of their business- and, lastly, they must pass a series of tests prior to obtaining definitive approval.

In order to comply in full with the legislation, any appraisal provided by the customer is reviewed, irrespective of the issuing appraisal company, to verify whether the appraiser formally meets the requirements, procedures and methods established in current legislation and whether the values reported are customary in the market.

Summarised below is the information required by Bank of Spain Circulars 7/2010 and 5/2011, pursuant to the aforementioned Royal Decree 716/2009, of 24 April:

	Millions Euros	
	2017	2016
Face value of the outstanding mortgage loans and credits that support the issuance of mortgage-backed and mortgage bonds pursuant to Royal Decree 716/2009 (excluding securitised loans and credits) (*)	2,033	2,213
Of which:		
Loans eligible to cover issues of mortgage-backed securities	*1,224*	*1,304*
Non-eligible mortgage loans and credits	*809*	*909*

(*) At 31 December 2017 and 2016, the only issues of this type related to the mortgage-backed bond issues launched by the Bank.

Mortgage-backed bonds

The mortgage-backed bonds ("cédulas hipotecarias") issued by the Group entities are securities the principal and interest of which are specifically secured by mortgages, there being no need for registration in the Property Register, without prejudice to the issuer's unlimited liability.

The mortgage-backed bonds include the holder’s financial claim on the issuer, secured as indicated in the preceding paragraph, and may be enforced to claim payment from the issuer after maturity. The holders of these securities have the status of special preferential creditors vis-à-vis all other creditors (established in Article 1923.3 of the Spanish Civil Code) in relation to all the mortgage loans and credits registered in the issuer's favour and, where appropriate, in relation to the cash flows generated by the derivative financial instruments associated with the issues.

In the event of insolvency, the holders of mortgage-backed bonds will enjoy the special privilege established in Article 90.1.1 of Insolvency Law 22/2003, of 9 July. Without prejudice to the foregoing, in accordance with Article 84.2.7 of the Insolvency Law, during the insolvency proceedings, the payments relating to the repayment of the principal and interest of the bonds issued and outstanding at the date of the insolvency filing will be settled up to the amount of the income received by the insolvent party from the mortgage loans and credits and, where appropriate, from the replacement assets backing the bonds and from the cash flows generated by the financial instruments associated with the issues (Final Provision 19 of the Insolvency Law). If, due to a timing mismatch, the income received by the insolvent party is insufficient to meet the payments described in the preceding paragraph, the insolvency managers must settle them by realising the replacement assets set aside to cover the issue and, if this is not sufficient, they must obtain financing to meet the mandated payments to the holders of the mortgage-backed bonds, and the finance provider must be subrogated to the position of the bond-holders. In the event that the measure indicated in Article 155.3 of the Insolvency Law were to be adopted, the payments to all holders of the mortgage-backed bonds issued would be made on a pro-rata basis, irrespective of the issue dates of the bonds.

The Group has mortgage-backed bonds outstanding amounted to EUR 500 million and EUR 150 million at 31 December 2017 and 2016 (see note 18), respectively, relating to issues launched by the Bank, which is the only Spanish entity in the Group to have launched this type of issue.

Mortgage-backed bond issuers have an early redemption option solely for the purpose of complying with the limits on the volume of outstanding mortgage-backed bonds stipulated by mortgage market regulations.

None of the mortgage-backed bonds issued by the Group entities had replacement assets assigned to them.

Appendix VI contains the additional disclosures required pursuant to Mortgage Market Law 2/1981, of 25 March, and to Royal Decree 716/2009, of 24 April, implementing certain provisions of the aforementioned Law, implemented by Bank of Spain Circular 5/2011.

20. Other financial liabilities

The detail of "Other Financial Liabilities" in the accompanying consolidated balance sheets as at 31 December 2017 and 2016 is as follows:

	Thousand Euros	
	2017	2016
Declared dividends payable	861	541,309
Trade payables	248,749	221,809
Tax collection accounts	22,030	17,347
Unsettled financial transactions	-	324
Other financial liabilities (*)	696,738	559,981
	968,378	**1,340,770**

(*) This item included EUR 37,253 thousand at 31 December 2017 relating to balances payable arising from tax consolidation with Banco Santander, S.A. (There is no amount recognized in this respect at 31 December 2016).

Note 44 contains a detail of the terms to maturity and estimated fair value of these financial liabilities at 31 December 2017 and 2016.

Disclosures on the average period of payment to suppliers. Additional Provision Three "Disclosure obligation" provided for in Law 15/2010, of 5 July

Additional Provision Three of Law 15/2010, of 5 July, amending Law 3/2004, of 29 December, on combating late payment in commercial transactions, amended by Final Provision Two of Law 31/2014, of 3 December, establishes the obligation for companies to expressly disclose their average periods of payment to suppliers in the notes to their financial statements, and stipulates that the Spanish Accounting and Audit Institute ("ICAC") shall indicate, by way of a resolution, such adaptations as may be required, in accordance with the provisions of this Law, in order for companies not covered by Article 2.1 of Organic Law 2/2012, of 27 April, on Budgetary Stability and Financial Sustainability to correctly apply the methodology for calculating the average period of payment to suppliers established by the Ministry of Finance and Public Administration. This disclosure obligation is also applicable to the consolidated financial statements of such companies as prepare them, although solely in respect of the fully consolidated companies located in Spain.

The aforementioned ICAC Resolution (*Resolution of 29 January 2016 on the disclosures to be included in notes to financial statements on the average period of payment to suppliers in commercial transactions*), which was published in the Spanish Official State Gazette on 4 February 2016, implements, inter alia, the methodology that must be applied to calculate the average period of payment to suppliers. Therefore, this methodology was applied by the Bank for the purpose of preparing the disclosures included in this connection in these consolidated financial statements.

In order to ensure a proper understanding of the disclosures contained in this Note, as provided for in the aforementioned applicable legislation, it should be noted that "suppliers" are considered to be only those suppliers of goods and services to the Group's Spanish companies for which the related expense is recognised, mainly, under "Administrative Expenses – Other Administrative Expenses" in the consolidated income statement; this Note does not include, therefore, any information on payments in financial transactions constituting the Group's object and core activity or on payments to any non-current asset suppliers, which in any case were made in accordance with the periods established in the corresponding agreements and in current legislation.

Also, it should be noted that, in accordance with the provisions of the aforementioned ICAC Resolution, only transactions for goods or services received for which payment has accrued since the entry into force of Law 31/2014 were taken into consideration and that, given the nature of the services that the Group's consolidated Spanish entities receive, for the purpose of preparing this information "period of payment (days)" was deemed to be the period between the date of receipt of the invoices and the payment date.

The information for 2017 and 2016 required under the aforementioned legislation, in the format required by the ICAC Resolution mentioned above for the Spanish consolidated Group companies in these consolidated financial statements, is as follows:

	2017	2016
	Days	Days
Average period of payment to suppliers	2.36	1.73
Ratio of transactions settled	2.21	1.57
Ratio of transactions not yet settled	18.20	17.15
	Thousand Euros	Thousand Euros
Total payments made	229,459	184,359
Total payments outstanding	2,206	1,936

It should be noted that although under Law 3/2014, of 29 December, the maximum period for payment to suppliers is 60 days, Law 11/2013, of 26 July, established a maximum payment period of 30 days, extendable by agreement between the parties to a maximum of 60 days.

The average period and the ratios of transactions settled and transactions not yet settled shown in the table above were calculated on the basis of the definitions and methodology established in the aforementioned ICAC Resolution of 29 January 2016.

21. Provisions

The detail of "Provisions" in the accompanying consolidated balance sheets as at 31 December 2017 and 2016 is as follows:

	Thousand Euros	
	2017	2016
Provision for pensions and other employement defined benefit obligations	491,729	508,851
Provisions for other long term employee benefits	66,330	70,549
Provisions for taxes and other legal contingencies	53,511	50,715
Provisions for commitments and guarantees given	6,338	5,053
Other provisions	208,611	124,915
	826,519	**760,083**

The changes in 2017 and 2016 in the balances of these items in the accompanying consolidated balance sheets were as follows:

	2017					
	Pensions and Similar Obligations	Other long term employee benefits	Taxes ad other legal contingencies	Contingent Liabilities and Commitments	Other Provisions (****)	Total
Balances at beginning of year	**508,851**	**70,549**	**50,715**	**5,053**	**124,915**	**760,083**
Net inclusion (exclusion) of entities in (from) the Group	2,876	125	-	-	-	3,001
Additions/(Reversals) charged (credited) to income:						
Interest expense (Note 31)	8,947	638	-	-	-	9,585
Other Interest (Note 30)	-	-	-	-		-
Staff costs (Note 39)	10,755	1,016	-	-	-	11,771
Net additions to provisions (amounts used) (*) (***)	(19,022)	7,631	13,150	576	130,827	133,162
	512,407	**79,959**	**63,865**	**5,629**	**255,742**	**917,602**
Changes in value recognised in equity	(7,221)	-	-	-	-	(7,221)
Payments to retired employees and pre-retirees with a charge to internal provisions (**)	(12,982)	(12,558)	-	-	-	(25,540)
Insurance premiums paid, return premiums received and payments to external funds	-	41	-	-	-	41
Payments to retired employees by insurance companies	(3,387)	-	-	-	-	(3,387)
Amounts used	-	-	(11,388)	-	(34,578)	(45,966)
Transfers, exchange differences and other changes	2,912	(1,112)	1,034	709	(12,553)	(9,010)
	(20,678)	**(13,629)**	**(10,354)**	**709**	**(47,131**	**(91,083)**
Balances at end of year	**491,729**	**66,330**	**53,511**	**6,338**	**208,611**	**826,519**

	2016					
	Pensions and Similar Obligations	Other long term employee benefits	Taxes ad other legal contingencies	Contingent Liabilities and Commitments	Other Provisions (****)	Total
Balances at beginning of year	**484,851**	**73,277**	**38,184**	**7,547**	**126,961**	**730,820**
Net inclusion (exclusion) of entities in (from) the Group	10,827	2,704	808	45	3,463	17,847
Additions/(Reversals) charged (credited) to income:						
Interest expense (Note 31)	10,303	1,159	-	-	-	11,462
Other Interest (Note 30)	(206)	(396)	-	-	-	(602)
Staff costs (Note 39)	11,992	2,148	-	-	-	14,140
Net additions to provisions (amounts used) (*) (***)	(7,255)	5,760	2,298	(2,538)	26,081	24,346
	25,661	**11,375**	**3,106**	**(2,493)**	**29,544**	**67,193**
Changes in value recognised in equity	8,370	-	-	-	-	8,370
Payments to retired employees and pre-retirees with a charge to internal provisions (**)	(15,052)	(13,407)	-	-	-	(28,459)
Insurance premiums paid, return premiums received and payments to external funds	(750)	-	-	-	-	(750)
Payments to retired employees by insurance companies	(4,776)	-	-	-	-	(4,776)
Amounts used	-	-	(4,843)	-	(18,729)	(23,572)
Transfers, exchange differences and other changes	10,547	(696)	14,268	(1)	(12,861)	11,257
	(1,661)	**(14,103)**	**9,425**	**(1)**	**(31,590)**	**(37,930)**
Balances at end of year	**508,851**	**70,549**	**50,715**	**5,053**	**124,915**	**760,083**

(*) The detail of “Net Additions to Provisions (Amounts Used)” with respect to pensions and similar obligations in 2017 and 2016 is as follows:

	Thousand Euros	
	2017	2016
	Expense/(Income)	
Post-employment benefits - Spanish entities:		
Past service cost	-	-
Pre-retirements	-	-
Curtailments/settlements	-	-
Return premiums received on defined contribution pension plans	-	-
	-	-
Other long-term benefits - Spanish entities:		
Recognised actuarial losses/(gains) (obligations and assets)	294	476
Pre-retirements	7.367	5,404
Past service cost	1	-
Curtailments/settlements	-	-
	7.662	5,880
Foreign entities:		
Recognised actuarial losses/(gains) (obligations and assets)	(31)	(856)
Past service cost	-	256
Pre-retirements	-	(261)
Curtailments/settlements	(19.022)	(6,514)
	(19.053)	(7,375)
	(11.391)	**(1,495)**

(**) The detail of "Payments to Retired Employees and Pre-retirees with a Charge to Internal Provisions" is as follows:

	Thousand Euros	
	2017	2016
Post-employment benefits - Spanish entities	2,315	2,578
Other long-term benefits - Spanish entities	11,556	11,591
Foreign entities	11,669	14,290
	25,540	**28,459**

(***) This amount is recognised with a charge to "Provisions or reversal of provisions" in the consolidated income statement.
(****)Includes provisions allocated by the various group companies as a result of their normal operations.

a) Provisions for pensions and similar obligations

i. Post-employment benefits: Defined contribution plans - Spanish entities

The Group guarantees the following defined contribution post-employment commitments:

Santander Consumer Finance, S.A.

Obligations guaranteed from the date of effective retirement to employees who took pre-retirement after May 1996, which were externalised through an insurance policy taken out with a non-related entity (Generali España, Sociedad Anónima de Seguros y Reaseguros). Currently, pre-retired collective is already collecting the retirement compensation (meaning: they have actually retired).

No premiums were paid to the insurance company in 2017 and 2016 (see Note 2-q).

Santander Consumer, E.F.C., S.A.

Obligations guaranteed to employees who retired after May 1996 and the disability and surviving spouse/child benefits of employees who took pre-retirement after May 1996, which were externalised through an insurance policy taken out with a non-related entity (Generali España, Sociedad Anónima de Seguros y Reaseguros). Currently, pre-retired collective is already collecting the retirement compensation (meaning: they have actually retired).

No premiums were paid to the insurance company in 2017 and 2016 (see Note 2-q).

1. Spanish entities

2. The Collective Agreement of the Group's Spanish entities entered into on 2 February 2012 established a supplementary employee welfare system for current employees meeting certain conditions, which was instrumented through a defined contribution pension plan. This pension plan covers the following contingencies: retirement, death and permanent disability (total, absolute or severe disability). The Group's Spanish entities assumed the obligation of making an annual contribution of EUR 640 for each employee participating in the plan. This amount has be reviewed in 2017, increasing to EUR 800 for each employee participating in the plan from 31 December 2017). In 2017 the contributions made in this connection amounted to EUR 388 thousand (2016: EUR 365 thousand) and were recognised with a charge to “Administrative Expenses - Staff Costs” in the accompanying consolidated income statement (see Note 39).

ii. Post-employment benefits: Defined benefit plans - Spanish entities

The Group guarantees the following obligations of the Spanish entities as defined benefit plans:

Santander Consumer Finance, S.A.

- Pension obligations under the Banking Collective Agreement to current employees, employees who took pre-retirement (including future insurance premiums for disability and surviving spouse/child benefits) and retired employees, in addition to other commitments acquired with early-retired personnel and liabilities prior to May 1996, which are covered in full by an internal provision.

- Life insurance guaranteed to retired employees from Banco de Fomento, S.A., covered by an insurance policy (that does not meet the requirements for externalisation) taken out with a non-related entity (Axa España, S.A.). The present value of future premiums is covered by an internal provision.

- Company store and coal and gas benefits guaranteed to retired employees by virtue of the Internal Regulations of Banking Company Stores, which are covered by an internal provision.

- Pension obligations under the Banking Collective Agreement to pre-retirees (including future insurance premiums for disability and surviving spouse/child benefits for employees who took pre-retirement prior to May 1996) and employees who retired prior to May 1996, which are covered in full by an internal provision.

  The present value of the obligations assumed by the Spanish consolidated entities in relation to post-employment benefits at 31 December 2017 and 2016 is as follows:

	Thousand Euros	
	2017	2016
Present value of the obligations:		
To current employees	191	189
Vested obligations to retired employees and pre-retirees	27,482	30,653
Other obligations to retired employees	135	170
Provisions - Provisions for pensions and similar obligations (Note 2-q)	**27,808**	**31,012**

The present value of the obligations was determined by independent actuaries using the following actuarial techniques:

Valuation method: projected unit credit method, which sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately.

Actuarial assumptions used: unbiased and mutually compatible. Specifically, the most significant actuarial assumptions used in the calculations were as follows:

	2017	2016
Annual discount rate	0.85%	0.85%
Mortality tables	PERM/F-2000P	PERM/F-2000P
Cumulative annual CPI growth	1%	1%
Annual salary increase rate	2%	2%
Annual social security pension increase rate	1%	1%

The discount rate used for the flows was determined by reference to high-quality corporate bonds.

The estimated retirement age of each employee is the earliest at which the employee is entitled to retire or the agreed-upon age, as appropriate.

The amounts recognised in the consolidated income statements in relation to these pension obligations in 2017 and 2016 were as follows:

	Thousand Euros	
	2017	2016
	Expense/(Income)	
Current service cost (Notes 2-q and 39)	63	153
Net interest cost (Note 31)	254	293
Extraordinary charges		
Past service cost	2	-
Return premiums received on defined contribution pension plans	-	-
Amount recognised in the year	**319**	**446**

In addition, in 2017 a net charge of EUR 846 thousand with respect to defined benefit obligations was recognised under "Other comprehensive income - Actuarial gains or (-) losses on defined benefit pension plans" (2016: a net charge of EUR 389 thousand).

The changes in 2017 and 2016 in the present value of the accrued defined benefit obligations of the Spanish entities in the Group were as follows:

	Thousand Euros	
	2017	2016
Present value of the obligations at beginning of year	31,012	32,588
Current service cost (Notes 39 and 2-q)	63	153
Interest cost (Note 31)	254	293
Pre-retirements	2	-
Effect of curtailments/settlements	-	-
Benefits paid	(2,315)	(2,578)
Past service cost	-	-
Actuarial (gains)/losses (Note 2-q) (*)	(1,209)	556
Other	1	-
Present value of the obligations at end of year	**27,808**	**31,012**

(*) Including in 2017 demographic actuarial gains of EUR 1,209 thousand (2016: demographic actuarial losses of EUR 60 thousand and financial actuarial losses of EUR 496 thousand)

iii. Other long-term benefits - Spanish entities

The long-term benefit obligations (other than post-employment benefit obligations) guaranteed by the Spanish subsidiaries of the Group and classified as defined benefit plans are as follows:

Santander Consumer Finance, S.A.

- Obligations to pre-retirees until the effective date of retirement, which are covered by an internal provision.

- Life insurance guaranteed to pre-retirees, by virtue of the Group's Collective Agreement, taken out with a non-related entity (Generali España, Sociedad Anónima de Seguros y Reaseguros). The present value of future premiums is covered by an internal provision.

- Health insurance guaranteed to pre-retirees by virtue of the Group's Collective Agreement. The present value of future premiums is covered by an internal provision.

- Long-service bonus guaranteed to current employees, by virtue of the Group's Collective Agreement, which is covered by an internal provision.

Santander Consumer, E.F.C., S.A.

- Obligations to pre-retirees until the effective date of retirement, which are covered by an internal provision.

- Life insurance guaranteed to pre-retirees, by virtue of individual pre-retirement agreements and/or the Group's Collective Agreement, taken out with a non-related entity (Generali España, Sociedad Anónima de Seguros y Reaseguros). The present value of future premiums is covered by an internal provision.

- Health insurance guaranteed to pre-retirees by virtue of the Group's Collective Agreement. The present value of future premiums is covered by an internal provision.

- Long-service bonus guaranteed to current employees, by virtue of the Group's Collective Agreement, which is covered by an internal provision.

Santander Consumer Renting, S.L.

- Obligations to pre-retirees until the effective date of retirement, which are covered by an internal provision.

- Life insurance guaranteed to pre-retirees, by virtue of the Group's Collective Agreement, taken out with a non-related entity (Generali España, Sociedad Anónima de Seguros y Reaseguros). The present value of future premiums is covered by an internal provision.

- Health insurance guaranteed to pre-retirees by virtue of the Group's Collective Agreement. The present value of future premiums is covered by an internal provision.

The present value of the aforementioned obligations at 31 December 2017 and 2016 was as follows:

	Thousand Euros	
	2017	2016
Present value of the obligations:		
To pre-retirees	52,905	56,341
Long-service bonuses	160	176
Provisions - Provisions for pensions and similar obligations (Note 2-q)	**53,065**	**56,517**

The present value of the obligations was determined by qualified independent actuaries using the following actuarial techniques:

Valuation method: projected unit credit method.

Actuarial assumptions used: unbiased and mutually compatible. Specifically, the most significant actuarial assumptions used in the calculations were as follows:

	2017	2016
Annual discount rate	0.85%	0.85%
Mortality tables	PERM/F-2000P	PERM/F-2000P
Cumulative annual CPI growth	1%	1%
Annual increase in pre-retirements	0% - 1.5%	0% - 1.5%
Annual bonus increase rate	1%	1%

The discount rate used for the flows was determined by reference to high-quality corporate bonds.

The estimated retirement age of each employee is the earliest at which the employee is entitled to retire orthe agreed-upon age, as appropriate.

The amounts recognised in the consolidated income statements for 2017 and 2016 in relation to these long-term obligations were as follows:

	Thousand Euros	
	2017	2016
	Expense/(Income)	
Current service cost (Note 39)	9	11
Net interest cost (Note 31)	429	524
Expected return on insurance contracts linked to pensions	-	-
Extraordinary charges		
Actuarial (gains)/losses recognised in the year	295	476
Past service cost	6	-
Pre-retirement cost	7,364	5,404
Curtailments/settlements	-	-
Amount recognised in the year	**8,103**	**6,415**

The changes in 2017 and 2016 in the present value of the accrued obligations for other long-term benefits at the Spanish entities in the Group were as follows:

	Thousand Euros	
	2017	2016
Present value of the obligations at beginning of year	56,517	61,483
Current service cost (Note 39)	9	11
Interest cost (Note 31)	429	524
Pre-retirement cost	7,364	5,404
Effect of curtailments/settlements	-	-
Benefits paid	(11,556)	(11,591)
Past service cost	6	-
Actuarial (gains)/losses recognised in the year	295	476
Other	1	210
Present value of the obligations at end of year	**53,065**	**56,517**

iv. Post-employment benefits – Other foreign subsidiaries

Certain of the consolidated foreign entities have acquired obligations to their employees similar to post-employment benefits and other long-term benefits. The technical assumptions applied by these companies (discount rates, mortality tables, cumulative annual CPI growth, etc.) in their actuarial estimates of these obligations are consistent with the economic and social conditions prevailing in the countries in which they are located.

The detail of the present value of these obligations at 31 December 2017 and 2016, net of the assets that meet the requirements established in the applicable legislation in order to qualify as plan assets, is as follows:

	Thousand Euros	
	2017	2016
Present value of the obligations:	556,151	596,290
Of which:		
Germany	*459,844*	*456,724*
Nordics (Scandinavia)	*34,193*	72,693
Less-		
Plan assets	(78,965)	(104,419)
Provisions - Provisions for pensions and similar obligations (Note 2-q)	**477,186**	**491,871**

The most significant actuarial assumptions used by the Group companies located in Germany and Nordics (Scandinavia) in estimating the value of their obligations were as follows:

	2017		2016	
	Germany	Nordics (Scandinavia)	Germany	Nordics (Scandinavia)
Annual discount rate	1.87%	2.50% - 2.75%	1.84%,	2.75% - 3.00%
Mortality tables	R2005G	K2013 / DUS2014	R2005G	K2013 / DUS2014
Cumulative annual CPI growth	1.90%	-	1.90%,	-
Annual salary increase rate	2.75%	2.25% - 3.25%	2.75%,	2.25% - 3.25%
Annual social security pension	1.90%	2.00% - 1.75%	1.90%,	1.75% - 1.99%
Estimated retirement age	60/63(M/F)	65 - 67	60/63(M/F)	65 - 67

The discount rate used for the flows was determined by reference to high-quality corporate bonds.

The amounts recognised in the consolidated income statements for 2017 and 2016 in relation to these defined benefit pension obligations of the Germany's foreign entities were as follows:

	Thousand Euros	
	2017	2016
	Expense/(Income)	
Current service cost (Note 39)	9,516	10,996
Net interest cost (Note 31)	7,973	9,101
Extraordinary charges		
Actuarial gains or losses recognized	-	(397)
Past service cost	(9)	-
Pre-retirements	-	(173)
Effect of curtailments/settlements	-	(2)
Expected return on plan assets	-	
Other interest	-	(199)
Amount recognised in the year	17,480	19,326

The changes in 2017 and 2016 in the present value of the accrued defined benefit obligations of the Germany's foreign companies, were as follows:

	Thousand Euros	
	2017	2016
Present value of the obligations at beginning of year	456,724	410,171
Net inclusion/(exclusion) of entities in/(from) the Group	3,001	19,852
Current service cost (Note 39)	9,516	10,996
Interest cost (Note 31)	7,973	9,101
Pre-retirements	-	(173)
Effect of curtailments/settlements	-	(2)
Benefits paid	(11,341)	(10,600)
Past service cost	-	-
Actuarial (gains)/losses (*)	(7,118)	17,918
Exchange differences, transfers and other items	1,089	(539)
Present value of the obligations at end of year	**459,844**	**456,724**

(*) Including in 2017 demographic actuarial gains of EUR 4,616 thousand (2016: gains of EUR 5,218 thousand) and financial actuarial gains of EUR 2,502 thousand (2015: financial actuarial losses of EUR 23,136 thousand).

The changes in 2017 and 2016 in the fair value of the plan assets associated with these defined benefit obligations of the Germany's foreign subsidiaries were as follows:

	Thousand Euros	
	2017	2016
Fair value of plan assets at beginning of year	17,808	-
Net inclusion (exclusion) of entities in (from) the Group	-	17,165
Expected return on plan assets	366	-
Actuarial gains/(losses) arising in the year	-	461
Contributions	698	750
Benefits paid	(571)	(568)
Exchange differences and other items	-	-
Fair value of plan assets at end of year	**18,301**	**17,808**

The amounts recognised in the consolidated income statements for 2017 and 2016 in relation to these defined benefit pension obligations of the Group's foreign entities (without Germany) were as follows:

	Thousand Euros	
	2017	2016
	Expense/(Income)	
Current service cost (Note 39)	2,183	2,980
Net interest cost	2,550	3,203
Extraordinary charges		
Actuarial gains or losses recognized	-	(459)
Past service cost	-	256
Pre-retirements	-	(88)
Effect of curtailments/settlements	(19,050)	(6,512)
Expected return on plan assets (*)	(1,620)	(1,659)
Other interest	-	(403)
Amount recognised in the year	(15,937)	(2,682)

(*) These items are recognised at their net amount (2017: EUR 930 thousand; 2016: EUR 1,544 thousand) under "Interest Expense" in the consolidated income statement (see Note 31).

The changes in 2017 and 2016 in the present value of the accrued defined benefit obligations of the Group's foreign companies (without Germany), were as follows:

	Thousand Euros	
	2017	2016
Present value of the obligations at beginning of year	139,567	110,370
Net inclusion/(exclusion) of entities in/(from) the Group	-	35,367
Current service cost (Note 39)	2,182	2,980
Interest cost	930	3,203
Pre-retirements	-	(88)
Effect of curtailments/settlements	(19,050)	(6,512)
Benefits paid	(5,352)	(11,691)
Benefits paid in case of liquidation	(23,474)	-
Past service cost	-	256
Actuarial (gains)/losses (*)	(1,367)	395
Exchange differences, transfers and other items	2,871	5,287
Present value of the obligations at end of year	**96,307**	**139,567**

(*) Including in 2017 demographic actuarial gains of EUR 849 thousand (2016: gains of EUR 1,905 thousand) and financial actuarial losses of EUR 517 thousand (2016: financial actuarial gains of EUR 2,300 thousand).

The changes in 2017 and 2016 in the fair value of the plan assets associated with these defined benefit obligations of the Group's foreign subsidiaries (without Germany) were as follows:

	Thousand Euros	
	2017	2016
Fair value of plan assets at beginning of year	86,612	56,484
Net inclusion (exclusion) of entities in (from) the Group	-	25,014
Expected return on plan assets	1,620	1,659
Actuarial gains/(losses) arising in the year	(2,178)	4,138
Contributions	4,505	5,747
Benefits paid	(27,927)	(7,433)
Exchange differences and other items	(1,968)	1,003
Fair value of plan assets at end of year	**60,664**	**86,612**

In 2017 the heading “Other comprehensive income - Items that will not be reclassified to profit or loss - actuarial losses on defined benefit pension plans” recognized a net payment totalling EUR 742 thousand for defined benefit commitments relating to the Group's foreign companies (net charge of EUR 9,989 thousand in 2016).

Also, certain foreign entities have defined contribution plans (mainly Santander Consumer Bank, S.p.A., Santander Consumer Bank AS, Santander Consumer Bank, AG, Santander Consumer Finance Benelux, B.V. and Santander Consumer France, S.A.). The contributions made to these plans in 2017 amounted to EUR 37,107 thousand (2016: EUR 34,427 thousand), which were recognised under “Administrative Expenses - Staff Costs” in the consolidated income statement (see Note 39).

v. Sensitivity analysis

Changes in the main assumptions used in the valuation can affect the calculation of the obligations. At 31 December 2017, if the discount rate used had been decreased or increased by 50 bp, there would have been an increase or decrease in the present value of the post-employment obligations of +/-10%.

vi. Statement of provisions for pensions in 2017 and the four preceding years

The situation of the defined benefit obligations at the end of 2017 and the four preceding years was as follows:

Spanish entities-

	Thousand Euros									
	Post-Employment Benefits					Other Long-Term Employee Benefits				
	2017	2016	2015	2014	2013	2017	2016	2015	2014	2013
Present value of the obligations:										
To current employees	191	189	179	161	115	-	-	-	-	-
Vested obligations to retired employees	27,483	30,653	32,223	32,491	31,131	-	-	-	-	-
To pre-retirees	-	-	-	-	-	52,911	56,177	61,290	68,800	72,108
Long-service bonuses and other obligations	-	-	-	-	-	154	175	193	180	172
Other	134	170	186	198	189		-	-	-	-
Provisions - Provisions for pensions	**27,808**	**31,012**	**32,588**	**32,850**	**31,435**	**53,065**	**56,352**	**61,483**	**68,980**	**72,280**
Of which: *Insurance contracts linked to pensions*	-	-	-	-	-	-	-	-	-	-

Foreign entities-

	Thousand Euros				
	2017	2016	2015	2014	2013
Present value of the obligations	556,151	596,290	520,541	506,475	379,635
Less- Fair value of plan assets	(78,965)	(104,419)	(56,484)	(43,665)	(30,027)
Provisions - Provisions for pensions	**477,186**	**491,871**	**464,057**	**462,810**	**349,608**

b) Other provisions

The balance of “Other provisions” under the Provisions heading includes provisions for restructuring and tax and other law suits. It is estimated using prudent calculation procedures consistent with the uncertainty inherent to the obligations they cover, with the timing of the outflow of resources embodying economic benefits for the Group being determined for each of the obligations, in some cases with no fixed expiry period, and, in other cases, depending on the progress of law suits that are under way.

The balance of this item by geographic area is as follows:

	Thousands euros	
	2017	2016
Recognised in Spanish companies	52,194	46,623
Recognised in other European Union companies	209,928	129,007
	262,122	**175,630**

A breakdown of the balance of the headings Provisions for taxes and other legal contingencies and Other provisions is shown below for each type of provision at 31 December 2017 and 2016. The types of provisions have been determined by grouping items of a similar nature:

	Thousand euros	
	2017	2016
Provisions for taxes	25,332	11,659
Provisions for other proceedings of a legal nature	60,094	62,233
Provisions for operational risks	6,963	13,409
Provisions for restructuring	105,040	14,631
Other	64,693	73,698
	262,122	**175,630**

Information is provided below for each of the types of provisions shown in the table:

Provisions for taxes include provisions for tax proceedings.

The provisions for other proceedings of a legal nature include provisions for court, arbitration and administrative proceedings (other than those included in other categories or types of provisions stated separately) commenced against companies in the Santander Consumer Finance Group. The most significant of these at 31 December 2017 relate to Santander Consumer Bank, A.G. and Santander Consumer Bank, S.p.A., amounting to 16.915 million euros and 26.600 million euros (17.906 million euros and 34.820 million euros at 31 December 2016), respectively, in relation to proceedings in those countries.

The provisions for operational risks mainly relate to provisions for risks deriving from the business activities of Group companies.

Provisions for restructuring only include expenses deriving from restructuring processes carried out by Group entities. The Group has carried out restructuring processes in some companies to adapt to current market conditions in their countries. In these cases, the Group companies offer their employees the option of early retirement or redundancy incentives. In 2017, these processes mainly involved Santander Consumer Bank, A.G. (Germany), Santander Consumer E.F.C., S.A. (Spain) and Compagnie General de Credit Aux Paticuliers – Credipar, S.A. (France). The processes in the German and French subsidiaries mainly involved redundancy plans with incentives for employees. The implementation period for these plans is expected to have mainly been completed in 2018. The provision for these commitments, and other costs relating to the restructuring plan such as impairment of property, plant and equipment, was 104.453 million euros at 31 December 2017, recognised under the heading "Provisions-Other provisions" (provision for restructuring plan commitments at 31 December 2016, 14.631 million euros). The restructuring plan implemented in Spain mainly involved early retirement. Funds were therefore provisioned to cover commitments in terms of salaries and other benefits to employees who take early retirement, from the date of early retirement through to their actual retirement date. The provision for these commitments in the year in Spain was 5.404 million euros at 31 December 2017, corresponding to the 2017 early retirement offer (5.659 million euros, corresponding to early retirement at 31 December 2016), recognised under the heading "Provisions - Pensions and other post employment defined benefit obligations".

The Group's general policy is to recognise provisions for fiscal and legal processes when it considers that the risk of a loss is likely. No provisions are recognised when the risk of loss is possible or remote. Provisions are calculated using the best estimate of the amount needed to settle the corresponding obligation, based on individualised analysis of the events, supplemented by legal opinions from internal and external advisers, and considering average historical losses in similar cases. The definitive date of the outflow of resources embodying economic benefits for the Group depends on each of the obligations. In some cases, there are no fixed settlement dates, while in others this depends on the progress of law suits.

22. Tax matters

a) *Current tax receivables and payables*

The balance of “Tax Assets – Current Tax Assets” in the consolidated balance sheets as at 31 December 2017 and 2016 includes basically income tax prepayments made by the consolidated entities to the public authorities of the countries in which they reside. The balance of “Tax Liabilities – Current Tax Liabilities” in the consolidated balance sheet includes the liability for the various taxes applicable to the Group.

b) *Reconciliation of the accounting profit to the income tax expense recognised in the consolidated income statement*

The reconciliation of the consolidated accounting profit to the income tax expense in the consolidated income statements for 2017 and 2016 is as follows:

	Thousand Euros	
	2017	2016
	Continuing Operations	Continuing Operations
Consolidated profit (loss) before tax	1,895,629	1,838,089
Accounting profit multiplied by income tax rate (*)	*568,689*	*551,427*
Permanent differences and adjustments (**)	35,061	63,127
Consolidated income tax expense	603,750	614,554
Effective tax rate	**31.85%**	**33.43%**

(*) Calculated using the nominal tax rate applicable to the Bank (30%)

(**) These include the net tax effect of permanent differences at the consolidated entities, differences resulting from the existence of different tax rates in the countries in which the Group operates, the effects of consolidation, prior years' tax adjustments, and the effect of considering the exemptions, tax credits and tax relief based on the jurisdictions in which the Group companies carry on their business.

c) *Years open for review by the Tax Authorities*

The Bank forms part of the Tax Group headed by Banco Santander, S.A. Under current legislation, taxes cannot be deemed to have been definitively settled until the tax returns filed have been reviewed by the tax authorities or until the four-year statute-of-limitations period has expired.

In 2015 notification was received of the final agreed payments relating to the assessments arising from the outcome of the tax audit of the Consolidated Tax Group of the years 2005 to 2007, which were signed partly on an uncontested basis and partly on a contested basis. As the Parent of the Consolidated Tax Group, in accordance with the advice of its external lawyers, Banco Santander, S.A. considers that the aforementioned final agreed payments should not have a material impact on the consolidated financial statements as there are sound defence arguments in relation to the appeals filed against them. As a result, no provision has been recognised in this connection. In 2016 the inspections of prior years resulted in an execution agreement regarding the Supreme Court judgment for 2001 and 2002, but the effects did not have a material impact on the consolidated annual accounts.

Otherwise, in 2014 an audit by the Tax Authorities was initiated at the Consolidated Tax Group in relation to the years up to 2011, and the Consolidated Tax Group has the years subject to that audit and the subsequent years up to and including 2017 open for review in relation to the main taxes applicable to it.

The other entities have the corresponding years open for review, pursuant to their respective tax regulations.

The notes to the separate financial statements of the Group's consolidated entities include other salient information in relation to the tax matters affecting those entities.

Because of the possible different interpretations which can be made of the tax regulations, the outcome of the tax audits of the years open for review may give rise to contingent tax liabilities. However, the Group's tax advisers and the Bank's directors consider that it is unlikely that such tax liabilities will arise, and that in any event the tax charge arising therefrom would not materially affect the Group's consolidated financial statements.

Except for the above mentioned, in 2017 there were no developments with a significant impact in connection with the tax disputes at various instances which were pending resolution at 31 December 2016.

d) Deferred taxes

The detail of the deferred taxes at 31 December 2017 and 2016 is as follows:

	Thousand Euros					
	2017			2016		
	Monetisable	Other	Total	Monetisable	Other	Total
Tax assets	**(*) 335,718**	**292,037**	**627,755**	**338,275**	**343,333**	**681,608**
Tax losses and tax credits	-	*63,260*	*63,260*	-	*64,094*	*64,094*
Temporary differences	*335,718*	*228,777*	*564,495*	*338,275*	*279,239*	*617,514*
Of which:						
Non-deductible provisions	-	*58,625*	*58,625*	-	*49,714*	*49,714*
Valuation of financial instruments	-	*31,585*	*31,585*	-	*31,270*	*31,210*
Tax credit for reinvestment and double taxation of gains on disposal of investments				-	-	-
Credit losses	*289,046*	*7,980*	*297,026*	*291,493*	*6,442*	*297,935*
Pensions	*34,655*	*87,980*	*122,635*	*34,765*	*109,282*	*144,047*
Valuation of tangible and intangible assets	*12,017*	*41,542*	*53,559*	*12,017*	*41,536*	*53,553*
Tax liabilities	**-**	**644,141**	**644,141**	**-**	**532,927**	**532,927**
Temporary differences	-	*644,141*	*644,141*	-	*532,927*	*532,927*
Of which:						
Valuation of financial instruments	-	*107,088*	*107,088*	-	*104,610*	*104,610*
Valuation of tangible and intangible assets	-	*310,096*	*310,096*	-	*316,744*	*316,744*
Gains on disposal of investments	-	-	-	-	-	-
Valuation of Group investments	-	*91,448*	*91,448*	-	*32,366*	*32,366*

(*) At 31 December 2017, EUR 152 million of the monetisable tax assets corresponded to Spain (31 December 2016: EUR 139 million) and EUR 183 million corresponded to Italy (31 December 2016: EUR 199 million).

The balance of “Tax Assets - Deferred” in the consolidated balance sheets as at 31 December 2017 and 2016 includes the balances receivable from the tax authorities in respect of deferred income tax assets. The balance of “Tax Liabilities - Deferred” in the consolidated balance sheets includes the liability for the various deferred taxes at 31 December 2017 and 2016.

On 26 June 2013, the Basel III legal framework was included in European law through Directive 2013/36 (CRD IV) and Regulation 575/2013 on prudential requirements for credit institutions and investment firms (CRR), directly applicable in every Member State as from 1 January 2014, albeit with a gradual timetable with respect to the application of, and compliance with, various requirements.

This legislation establishes that deferred tax assets, the use of which relies on future profits being obtained, must be deducted from regulatory capital.

In this regard, pursuant to Basel III, in recent years several countries have amended their tax regimes with respect to certain deferred tax assets so that they may continue to be considered regulatory capital since their use does not rely on the future profits of the entities that generate them (referred to hereinafter as "monetizable tax assets").

Italy had similar regime to that described above, which was introduced by Decree-Law no. 225, of 29 December 2010, and amended by Law no. 10, of 26 February 2011.

In addition, in Spain, through Royal Decree-Law 14/2013, of 29 November confirmed by Law 27/2014, of 27 November tax regimes were established whereby certain deferred tax assets (arising from provisions to allowances for loan losses, provisions to allowances for foreclosed assets and provisions for pension and pre-retirement obligations) may be converted into tax receivables in specific circumstances. As a result, their use does not rely on the entities obtaining future profits and, accordingly, they are exempt from deduction from regulatory capital.

In 2015 Spain completed its regulations on monetizable tax assets with the introduction of a financial contribution which will involve the payment of 1.5% for maintaining the right to monetise which will be applied to the portion of the deferred tax assets that qualify under the legal requirements as monetisable assets generated prior to 2016.

In a similar manner, Italy, by decree of 3 May 2016 has introduced a fee of 1.5% annually to maintain the monetisable of part of the deferred tax assets.

The Group only recognises deferred tax assets for temporary differences or tax loss and tax credit carryforwards where it is considered probable that the consolidated entities that generated them will have sufficient future taxable profits against which they can be utilised.

The deferred tax assets and liabilities are reassessed at the reporting date in order to ascertain whether any adjustments need to be made on the basis of the findings of the analyses performed.

These analyses take into account, inter alia: (i) the results generated by the various entities in prior years, (ii) each entity or tax group's projected earnings, (iii) the estimated reversal of the various temporary differences, based on their nature, and (iv) the period and limits established by the legislation of each country for the recovery of the various deferred tax assets, thereby concluding on each entity or tax group's ability to recover its recognised deferred tax assets.

The projected earnings used in these analyses are based on the financial budgets approved by the Group's directors for the various entities applying constant growth rates not exceeding the average long-term growth rate for the market in which the consolidated entities operate, in order to estimate the earnings for subsequent years considered in the analyses.

e) Tax recognised in equity

In addition to the income tax recognised in the consolidated income statements, in 2017 and 2016 the Group recognised the following amounts in consolidated equity:

	Thousand Euros	
	Credits (Charges) to Consolidated Equity	
	2017	2016
Actuarial gains and losses on pension plans	(2,220)	4,750
Cash flow hedges	(1,544)	2,499
Available-for-sale financial assets	(833)	(217)
Total	**(4,597)**	**7,032**

23. Registered share capital

At 31 December 2017 and 2016, the Bank's share capital, the only share capital included in the accompanying consolidated balance sheet as at that date as a result of the consolidation process, consisted of 1,879,546,172 fully subscribed and paid registered shares of EUR 3 par value each, all with the same voting and dividend rights. At that date, the Bank's shareholders were as follows:

	Ownership interest (**)	
	2017	2016
Banco Santander, S.A.	75.00%	63.19%
Holneth, B.V. (*)	25.00%	25.00%
Fomento e Inversiones, S.A. (**)	-	11.81%
	100.00%	**100.00%**

(*) Santander Group company.
(**) During 2017, as a result of the merger by absorption of Fomento e Inversiones, .S.A. by Banco Santander, S.A., there has been an increase in the ownership of the lhis company in Santander Consumer Finance, S.A.

At 31 December 2017, the capital increases in progress at Group companies and the additional capital authorised by their shareholders at the respective Annual General Meetings were not material at Group level.

b) Equity instruments different than capital

On 14 December 2017, the Annual General Meeting of the Bank approved an issuance of contingently preferred shares in ordinary shares of the newly issued Bank (the "PPCC") for a nominal amount of EUR 850,000 thousand. The remuneration of the PPCCs, whose payment is subject to compliance with certain conditions for their distribution linked mainly to the availability of the necessary funds, as well as the decision by the Bank, was fixed at an annual 5.75% for the first five years, being revised thereafter applying a margin of 5.545% per year plus the Mid-Swap rate to five years (5 year Mid-Swap Rate).

On 7 February 2018, the European Central Bank has approved the computability of these PPCCs as Tier 1 capital (additional tier 1) under the new European regulations on own resources of the European Regulation 575/2013. The PPCCs are perpetual, although they can be amortized early if the Bank or its consolidated group presents a ratio of less than 5.125% of ordinary capital (common equity Tier 1 ratio) calculated according to the applicable regulations. In this case and subject to compliance with certain requirements, the shares would be converted into ordinary shares of new issue of Santander Consumer Finance, S.A. in accordance with the value established in the brochure of issuance of the shares. In addition, these shares may be redeemed by the Bank's decision only when there is a change in the rules for calculating regulatory capital or the tax framework applicable to preferred shares, and with the prior approval of the European Central Bank. PPCCs are traded on the Frankfurt Stock Exchange. All of the preferred shares have been fully subscribed by Banco Santander, S.A. as of 31 December 2017.

As of 31 December 2017, the distributions accrued by these participations have not been significant.

24. Share premium

The balance of “Share Premium” in the accompanying consolidated balance sheets as at 31 December 2017 and 2016 includes the amount paid up by the Bank's shareholders in capital issues in excess of the par value. The Consolidated Spanish Limited Liability Companies Law expressly permits the use of the share premium account balance to increase capital at the entities at which it is recognised and does not establish any specific restrictions as to its use.

25. Accumulated retained earnings and other reserves

The balance of “Shareholders’ Equity - Reserves - Accumulated Retained Earnings” in the accompanying consolidated balance sheets includes the net amount of the accumulated profit or loss attributable to the Group recognised in previous years through the consolidated income statement that, in the distribution of profit, was appropriated to consolidated equity, as well as any own equity instrument issuance expenses and the differences between the selling price of treasury shares and the cost of acquisition thereof, should the Bank perform such transactions, and the distribution of profits to the Bank's shareholders recognised with a charge to reserves.

The balance of “Shareholders' Equity – Other Reserves – Reserves or Accumulated Losses in Investments in Joint Ventures and Associates” in the accompanying consolidated balance sheets includes the net amount corresponding to the Group of the undistributed accumulated profit or loss generated in previous years by entities accounted for using the equity method, recognised through the consolidated income statement.

The detail of “Shareholders’ Equity – Other Reserves - Accumulated Retained Earnings” and “Shareholders' Equity - Reserves - Reserves or Accumulated Losses in Investments in Joint Ventures and Associates” in the consolidated balance sheets as at 31 December 2017 and 2016 is as follows:

	Thousand Euros	
	2017	2016
Accumulated earnings:		
Legal reserve of the Bank	579,650	523,382
Unrestricted, voluntary and other reserves	1,894,098	2,064,665
Consolidation reserves attributable to the Bank	161,822	109,860
Reserves of subsidiaries	(460,336)	(810,241)
	2,175,234	**1,887,666**
Reserves or Accumulated losses in Investments in Joint Ventures and Associates:		
Associates and jointly controlled entities	**241,907**	**218,443**

Legal reserve

Under the Consolidated Spanish Limited Liability Companies Law, 10% of net profit for each year must be transferred to the legal reserve. These transfers must be made until the balance of this reserve reaches 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

Reserves of subsidiaries

The detail, by company, of “Reserves of Subsidiaries”, based on the subsidiaries' contribution to the Group (considering the effect of consolidation adjustments), is as follows:

	Thousands Euros	
	2017	2016
Santander Consumer Holding GmbH (Germany)	(1,977,943)	(1,986,450)
Santander Consumer Bank S.p.A. (Italy)	(199,780)	(240,584)
Santander Consumer, E.F.C., S.A. (Spain)	21,116	(71,963)
Banco Santander Consumer Portugal S.A. (Portugal)	53,295	48,324
Santander Consumer Bank Gmbh (Alemania)	76,111	55,941
Compagnie Generale De Credit Aux Particuliers - Credipar S.A. Credipar S.A. (France)	(3,800)	62,295
Santander Consumer Finance Benelux B.V. (Netherlands)	60,019	88,213
Santander Consumer Finance OY (Finland)	99,326	109,926
Andaluza de Inversiones, S.A. (Spain)	64,218	134,041
Santander Consumer Bank A.S. (Norway)	598,569	377,177
Santander Consumer Bank AG (Germany)	450,430	451,612
PSA Banque France (France)	71,213	5,378
Financiera El Corte Ingles, EFC, S.A. (Spain)	53,657	42,367
Other companies	173,233	113,482
	(460,336)	**(810,241)**

26. Other comprehensive income

The balances of “Other comprehensive income” in the accompanying consolidated balance sheets as at 31 December 2017 and 2016 include the amounts, net of any related tax effect, of the adjustments to assets and liabilities recognised temporarily in consolidated equity through the consolidated statement of recognised income and expense until they are extinguished or realised, when they are recognised definitively in the consolidated income statement, with the exception of actuarial gains and losses arising from defined benefit (losses) post-employment obligations, which will not be transferred to the consolidated income statement and registered the amounts of “Items not reclassified to profit or loss” and “Items that may be reclassified to profit or loss”.

a) Items not reclassified to profit or loss

a.1) Actuarial gains or (-) losses on defined benefit pension plans

The balance of “Items not reclassified to profit or loss - Actuarial gains or (-) losses on defined benefit pension plans” includes the actuarial gains and losses and the return on plan assets, less the administrative expenses and taxes inherent to the plan, and any change in the effect of the asset ceiling, excluding amounts included in net interest on the net liability (asset) relating to the defined benefit post-employment obligations of the consolidated companies.

Changes in “Items not reclassified to profit or loss - Actuarial gains or (-) losses on defined benefit pension plans” are recognised in the consolidated statement of recognised income and expense. The most significant changes in 2017 related mainly to the variations in the main actuarial assumptions of the German subsidiary – actuarial gains by experience and increase of interest rates from 1.84% to 1.87% -, as well as actuarial losses, mainly financial, in Nordics (Scandinavia) – decreases in interest rates from 2.75% to 2.50% (2016: changes related mainly to the variations in the main actuarial assumptions of the German subsidiary – decrease in interest rates from 2.20% to 1.84%, as well as a higher turnover of employees).

b) Items that may be reclassified to profit or loss

b.1) Hedge of net investments in foreign operations (Effective portion)

The balance of "Other comprehensive income – Items that may be reclassified to profit or loss - Hedge of net investments in foreign operations (Effective portion)" in consolidated equity includes the net amount of the changes in the derivatives arranged by the Group and designated as hedging instruments considered to be effective in hedges of this type. The changes therein in 2017 and 2016 were as follows:

	Thousand Euros	
	2017	2016
Balance at beginning of year	(30,632)	21,893
Revaluation gains/(losses)	43,680	(52,525)
Amounts transferred to consolidated income statement	-	-
Balance at end of year	**13,048**	**(30,632)**

b.2) Exchange differences

The balance of "Valuation Adjustments - Exchange Differences" includes the net amount of exchange differences arising on non-monetary items whose fair value is adjusted against equity and the differences arising on the translation to euros of the balances of the consolidated entities whose functional currency is not the euro (see Note 2-a).

b.3) Hedging derivatives. Cash flow hedges (Effective portion)

The balance of "Hedging derivatives. Cash flow hedges (Effective portion)" includes the net amount of the changes in value of financial derivatives designated as hedging instruments in cash flow hedges, in respect of the portion of these changes considered to be effective hedges (see Note 11).

The changes in 2017 and 2016 were as follows:

	Thousand Euros	
	2017	2016
Balance at beginning of year	(7,539)	(2,005)
Revaluation gains/(losses)	718	(25,798)
Amounts transferred to consolidated income statement	8,169	18,844
Income tax	(1,544)	1,420
Balance at end of year (Note 29)	**(196)**	**(7,539)**

b.4) Financial assets available-for-sale

The balance of "Financial assets available for sale" includes the net amount of unrealised changes in the fair value of financial assets classified as available for sale.

The changes in 2017 and 2016, disregarding the valuation adjustments attributable to non-controlling interests, were as follows:

	Thousand Euros	
	2017	2016
Balance at beginning of year	2,374	18,270
Revaluation gains/(losses)	186	2,579
Amounts transferred to consolidated income statement	3,831	(19,337)
Income tax	(833)	862
Balance at end of year	**5,558**	**2,374**
Of which:		
Equities	*3,877*	*2,019*
Fixed-income securities	*1,681*	*355*

27. Non-controlling interests

"Non-Controlling Interests" in the accompanying consolidated balance sheets as at 31 December 2017 and 2016 includes the net amount of the equity of subsidiaries attributable to equity instruments that are not held, directly or indirectly, by the Group, including the portion attributed to them of the consolidated profit for the year.

The detail, by Group Company, of “Non-Controlling Interests” in the accompanying consolidated balance sheets as at 31 December 2017 and 2016 is as follows:

	Thousand Euros	
	2017	2016
Santander Consumer Finance Media, S.r.L.	2,522	2,592
Suzuki Servicios Financieros, S.L.	2,134	2,014
PSA Banque France S.A (previously Société Financière de Banque - SOFIB, S.A.)	501,435	463,985
Financiera El Corte Inglés, E.F.C., S.A.	105,538	105,038
PSA Financial Services, Spain, E.F.C., S.A.	188,585	181,280
PSA Finance Belux S.A.	44,638	40,822
PSA Financial Services Nederland B.V.	24,673	23,096
PSA Bank Deutschland GmbH (previously PSA Lion Deutschland GmbH)	216,829	220,939
Banca PSA Italia S.P.A.	130,791	97,014
Transolver Finance E.F.C., S.A.	19,087	19,087
Other companies	16	13
	1,236,248	1,155,880
Profit (loss) for the year attributable to non-controlling interests:		
Santander Consumer Finance Media, S.r.l.	*(39)*	*(69)*
Suzuki Servicios Financieros, S.L.	*331*	*120*
PSA Banque France S.A.	*84,364*	*73,231*
Financiera El Corte Inglés, E.F.C., S.A.	*37,429*	*32,952*
PSA Financial Services, Spain, E.F.C., S.A.	*32,865*	*24,477*
PSA Finance Belux S.A.	*7,562*	*4,998*
PSA Financial Services Nederland B.V.	*5,658*	*6,529*
PSA Bank Deutschland GmbH	*23,866*	*12,553*
Banca PSA Italia S.P.A.	*17,373*	*13,489*
Transolver Finance E.F.C., S.A.	*3,075*	-
Other companies	*8*	*2*
	212,492	168,282
	1,448,740	**1,324,162**

The changes in 2017 and 2016 in "Non-Controlling Interests" in the consolidated balance sheets were as follows:

	Thousand Euros	
	2017	2016
Balance at beginning of year	1,324,162	871,459
Change in percentages of ownership	-	(*) 375,545
Dividends	(113,952)	(101,147)
Exchange differences and other	26,038	10,023
Profit for the year attributable to non-controlling interests	212,492	168,282
Balance at end of year	**1,448,740**	**1,324,162**

(*) Relates to the 51% of the subsidiaries Transolver Finance EFC, S.A., PSA Finance Belux S.A., Banca PSA Italia S.P.A. held by the Banque PSA Finance Group (see Note 3-b)

28. Memorandum items

The detail of the balances recognised under "Memorandum Items" in the consolidated balance sheets as at 31 December 2017 and 2016 is as follows:

	Thousand Euros	
	2017	2016
Guarantees:		
Bank guarantees and other indemnities	771,551	832,951
Of which:		
Credit institutions	*615,147*	*516,050*
Other sectors	*156,404*	*316,901*
Other contingent liabilities		-
	771,551	**832,951**
Contingent commitments:		
Drawable by third parties	22,683,974	20,731,028
Of which:		
Drawable by credit institutions (*)	872,379	916,983
Other sectors	21,811,595	19,814,045
Other contingent commitments	384,594	453,167
	23,068,568	**21,184,195**

(*) Relates mainly to credit facilities granted to Group associates and jointly controlled entities, and to Banco Santander, S.A.

a) Guarantees given

"Contingent Liabilities" in the accompanying consolidated balance sheets as at 31 December 2017 and 2016 includes the amounts that would be payable by the consolidated entities on behalf of third parties as a result of the commitments assumed by those entities in the course of their ordinary business, if the parties who are originally liable to pay failed to do so.

A significant portion of these guarantees will expire without any payment obligation materialising for the consolidated entities and, therefore, the aggregate balance of these commitments cannot be considered as an actual future need for financing or liquidity to be provided by the Group to third parties.

Income from guarantee instruments is recognised under “Fee and Commission Income” in the accompanying consolidated income statements and is calculated by applying the rate established in the related contract to the nominal amount of the guarantee.

b) Contingent commitments

“Contingent Commitments” in the accompanying consolidated balance sheets as at 31 December 2017 and 2016 includes those irrevocable commitments that could give rise to the recognition of financial assets.

29. Notional amounts of trading and hedging derivatives

The detail of the notional and/or contractual amounts and market values of the trading and hedging derivatives held by the Group at 31 December 2017 and 2016 is as follows:

	Thousand Euros			
	2017		2016	
	Notional Amount	Net Market Value: Debit/(Credit) Balance	Notional Amount	Net Market Value: Debit/(Credit) Balance
Trading derivatives:				
Interest rate risk-				
Interest rate swaps	8,726,505	(2,161)	10,000,739	(2,155)
Options and futures	94,001	-	102,430	(1,301)
Foreign currency risk-				
Currency swaps	411,187	6,066	1,132,439	7,561
Foreign currency exchange	285,969	1,308	145,506	(1,347)
	9,517,662	5,213	11,381,114	2,758
Hedging derivatives (*):				
Interest rate risk-				
Interest rate swaps (*)	10,621,445	(90,100)	10,760,109	(41,059)
Options, futures and other derivatives	889,735	(303)	-	-
Foreign currency risk-				
Foreign currency purchases and sales	1,570,983	20,445	2,850,626	(2,600)
Currency swaps	4,828,735	35,557	4,297,138	(81,890)
	17,910,898	(34,401)	17,907,873	(125,549)
	27,428,560	(29,188)	29,288,987	(122,791)

(*) Includes hedging operations and micro-hedging operations (Note 11)

The detail, by residual maturity period, of the notional and/or contractual amounts of the trading and hedging derivatives held by the Group at 31 December 2017 and 2016 is as follows:

Trading derivatives:

	2017				
	Thousand Euros				
	Less than 1 Year	1 to 5 Years	5 to 10 Years	More than 10 Years	Total
Interest rate swaps (IRS's)	3,468,877	4,057,328	136,500	1,157,801	8,820,506
Currency swaps	514,701	182,455	-	-	697,156
Total	**3,983,578**	**4,239,784**	**136,500**	**1,157,800**	**9,517,662**

	2016				
	Thousand Euros				
	Less than 1 Year	1 to 5 Years	5 to 10 Years	More than 10 Years	Total
Interest rate swaps (IRS's)	1,491,430	7,622,583	718,367	270,789	10,103,169
Currency swaps	214,214	1,063,731	-	-	1,277,945
Total	**1,705,644**	**8,686,314**	**718,367**	**270,789**	**11,381,114**

Hedging derivatives:

	2017				
	Thousand Euros				
	Less than 1 Year	1 to 5 Years	5 to 10 Years	More than 10 Years	Total
Interest rate swaps (IRS's)	2,741,048	8,206,738	63,394	500,000	11,511,180
Currency swaps	3,555,065	2,844,653	-	-	6,399,718
Total	**6,296,113**	**11,051,391**	**63,394**	**500,000**	**17,910,898**

	2016				
	Thousand Euros				
	Less than 1 Year	1 to 5 Years	5 to 10 Years	More than 10 Years	Total
Interest rate swaps (IRS's)	3,685,982	6,955,795	-	-	10,641,777
Currency swaps	4,779,775	2,486,321	-	-	7,266,096
Total	**8,465,757**	**9,442,116**	**-**	**-**	**17,907,873**

The notional and/or contractual amounts of the contracts entered into (shown above) do not reflect the actual risk assumed by the Group, since the net position in these financial instruments is the result of offsetting and/or combining them. This net position is used by the Group basically to hedge the interest rate, underlying asset price or foreign currency risk. The results on these financial instruments are recognised under "Gains or losses from hedge accounting, net" in the consolidated income statements or increase or offset, as appropriate, the gains or losses on the investments hedged.

The fair value of the derivatives is taken to be the sum of the future cash flows arising from the instrument, discounted to present value at the date of measurement.

Following is a description of the main hedges (including the results of the hedging instrument and the hedged item attributable to the hedged risk):

i. Fair value hedges

Fair value hedges are used to reduce the changes in the fair value (attributable to interest rate risk) of the hedged items. The overall aim of these hedges is to use interest rate derivatives to convert the fixed interest rate of net hedged assets to a floating interest rate.

At 2017 year-end, the Group held IRS contracts with a nominal amount of EUR 2,904 million (31 December 2016: EUR 4,000 million), the fair value of which represented a gain of EUR 8,815 thousand at that date (31 December 2016: EUR 9,674 thousand), which was offset by the loss of the same amount on the hedged items, which is recognised under “Financial Liabilities at Amortised Cost - Marketable Debt Securities” in the consolidated balance sheet (see Note 19).

In addition, at consolidated level the Group has arranged fair value macrohedges of the interest rate risk of portfolios of financial assets granted. The adjustment to the fair value of the hedged financial assets (long-term, fixed rate loans) was recognised under “Changes in the Fair Value of Hedged Items in Portfolio Hedges of Interest Rate Risk” on the asset side of the accompanying consolidated balance sheets with a charge or credit to “Gains or losses from hedge accounting, net” in the accompanying consolidated income statements. This adjustment is offset by an adjustment of the opposite sign -arising from the measurement of the hedging derivatives (IRSs) associated with the hedged financial assets, the notional amount of which was EUR 11,511 million at 31 December 2017 (2016: EUR 12,700 million)- recognised in “Gains/Losses on Financial Assets and Liabilities (Net)” in the accompanying consolidated income statement.

In 2017, the Group recognised gains amounting to EUR 18,706 thousand under “Gains or losses from hedge accounting, net” in the accompanying consolidated income statement for 2017 (2016: losses amounting to EUR 11,257 thousand), which relate to the ineffective portions of these macrohedges (see Note 35).

ii. Cash flow hedges

Cash flow hedges are used to reduce the variability in the cash flows of the hedged transactions. These hedges use interest rate swaps to convert the variability of the interest rates at which short-term financial liabilities are amortised.

The changes in the fair value of the IRSs associated with the hedged items, discounting the portion already accrued and recognised in the consolidated income statement, amounted to EUR 196 thousand losses at 31 December 2017 (31 December 2016: EUR 7,539 thousand losses). This amount was recognised in the Group’s consolidated equity at 31 December 2017 and 2016 (see Note 26).

iii. Hedges of net investments in foreign operations

As part of its financial strategy, the Group hedges the foreign currency risk arising from its investments in non-euro-zone countries. To this end, it arranges foreign currency derivatives in order to take a long position in euros vis-à-vis the local currency of the investment.

At 31 December 2017, the notional amount of the hedging instruments associated with these investments had a total euro equivalent value of EUR 842 thousand (31 December 2016: EUR 1,117 thousand) which are reflected in the fair value hedging derivatives.

30. Interest income

"Interest Income" in the consolidated income statements for 2017 and 2016 includes the interest accruing in the year on all financial assets whose implicit or explicit return is calculated by applying the effective interest method, irrespective of measurement at fair value, with the exception of trading derivatives; and the rectifications of income as a result of hedge accounting. Interest is recognised gross, without deducting any tax withheld at source.

The detail of the main items of interest income earned by the Group in 2017 and 2016 is as follows:

	Thousand Euros	
	2017	2016
Loans and advances - Central banks	3,356	620
Loans and advances - Credit institutions	19,128	25,980
Debt instruments	9,951	17,579
Loans and advances - Customers	3,713,042	3,700,124
Non-performing assets	8,038	10,447
Rectification of income as a result of hedging transactions and other interest	(64,440)	(124,833)
	3,689,075	**3,629,917**

Most of the interest income was generated by the Group's financial assets that are measured at amortised cost.

31. Interest expense

"Interest Expense" in the consolidated income statements for 2017 and 2016 includes the interest accruing in the year on all financial liabilities with an implicit or explicit return, including remuneration in kind, calculated by applying the effective interest method, irrespective of measurement at fair value, with the exception of trading derivatives; the rectifications of cost as a result of hedge accounting; and the interest cost attributable to provisions for pensions.

The detail of the main items of interest expense and similar charges incurred by the Group in 2017 and 2016 is as follows:

	Thousand Euros	
	2017	2016
Deposits from the Bank of Spain and other central banks	6,169	7,848
Deposits from credit institutions	49,605	65,400
Customer deposits	214,928	246,833
Marketable debt securities	164,388	182,672
Subordinated liabilities	27,534	30,676
Provisions for pensions (Notes 2-q, 2-r and 21) (*)	9,585	11,462
Rectification of expenses as a result of hedging transactions	(7,250)	(4,129)
Other interest	19,274	11,688
	484,233	**552,450**

(*) Includes the interest on post-employment and other long-term benefits of Spanish entities, amounting to EUR 254 thousand and EUR 429 thousand, respectively, in 2017 (2016: EUR 293 thousand and EUR 524 thousand, respectively), and of foreign entities, amounting to EUR 8,902 thousand (2016: EUR 10,645 thousand) (see Note 21).

Most of the interest expense were generated by the Group's financial liabilities that are measured at amortised cost.

32. Share of results of entities accounted for using the equity method

"Share of Results of Entities Accounted for Using the Equity Method" in the consolidated income statements for 2017 and 2016 includes the amount of profit or loss attributable to the Group generated during the year by associates and jointly controlled entities.

The detail of this item at 31 December 2017 and 2016 is as follows (see Note 13):

	Thousand Euros	
	2017	2016
Santander Consumer Bank S.A. (Polonia)	57,999	40,828
Fortune Auto Finance Co., Ltd.	25,311	18,703
PSA Insurance Europe, Ltd	5,609	1,920
Santander Consumer Multirent, S.A.	1,229	2,749
Transolver Finance, E.F.C., S.A. (*)	-	2,463
Bank of Beijing Consumer Finance Company	-	257
Other companies	3,973	1,987
	94,119	**68,907**

(*) Relates to results obtained between el 1/1/2016 and 22/12/2016 – see Note 3.b

33. Commission income

The balance of “Commission Income” in the consolidated income statements for 2017 and 2016 comprises the amount of the fees and commissions earned in the year, except those that form an integral part of the effective interest rate on financial instruments, which are recognised under “Interest Income” in the accompanying consolidated income statements.

The detail of “Commission Income” in the consolidated income statements for 2017 and 2016 is as follows:

	Thousand Euros	
	2017	2016
Collection and payment services:		
Bills	1,268	1,245
Demand accounts	15,009	13,612
Cards	73,208	77,367
Cheques and orders	28,013	25,283
	117,498	117,507
Marketing of non-banking financial products:		
Investment and pension funds	20,742	18,496
Insurance	795,300	789,333
	816,042	807,829
Securities services:		
Securities trading	21,478	19,803
Administration and custody	3,124	3,993
	24,602	23,796
Other:		
Financial guarantees	4,095	4,547
Commitment fees	1,993	1,317
Other fees and commissions	192,780	216,990
	198,868	222,854
	1,157,010	**1,171,986**

34. Commission expense

The balance of “Commission Expense” in the consolidated income statements for 2017 and 2016 comprises the amount of fees and commissions paid or payable by the Group accruing in the year, except those that form an integral part of the effective interest rate on financial instruments, which are recognised under “Interest Expense” in the accompanying consolidated income statements.

The detail of “Commission Expense” in the consolidated income statements for 2017 and 2016 is as follows:

	Thousand Euros	
	2017	2016
Brokerage fees on lending and deposit transactions	30,458	22,304
Fees and commissions assigned in respect of off-balance-sheet risks	293	141
Fees and commissions assigned for collection and return of bills	7,570	7,360
Fees and commissions assigned in other concepts	11,630	11,440
Fees and commissions assigned for cards	24,678	31,482
Fees and commissions assigned for securities	19,150	17,592
Fees and commissions assigned to intermediaries	45,850	57,762
Other fees and commissions for placement of insurance	119,784	124,182
Other fees and commissions	51,786	79,612
	311,199	**351,875**

35. Gains/losses on financial assets and liabilities (net)

The detail, by origin, of “Gains/Losses on Financial Assets and Liabilities (Net)” in the consolidated income statements for 2017 and 2016 is as follows:

	Thousand Euros	
	2017	2016
	Income/(Expenses)	
Gains or losses on financial assets and liabilities held for trading, net	269	(3,677)
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net	(3,372)	19,549
Gains or losses from hedge accounting, net (Note 29)	18,706	(11,257)
	15,603	**4,615**

36. Exchange differences (net)

“Exchange Differences (Net)” in the consolidated income statements for 2017 and 2016 includes basically the gains or losses on currency trading, the differences that arise on translating monetary items in foreign currencies to the functional currency, and those disclosed on non-monetary assets in foreign currency at the time of their disposal.

37. Other operating income

The detail of “Other Operating Income” in the consolidated income statements for 2017 and 2016 is as follows:

	Thousand Euros	
	2017	2016
Sales and income from the provision of non-financial services (*)	70,502	60,857
Other	31,226	58,946
	101,746	**119,803**

(*) Relates mainly to the income from vehicle operating leases in Spain and Germany in 2017 and 2016 from Santander Consumer Renting, S.L. and Santander Consumer Leasing, GmbH, respectively (see note 1.d).

38. Other operating expenses

The detail of “Other Operating Expenses” in the consolidated income statements for 2017 and 2016 is as follows:

	Thousand Euros	
	2017	2016
Contributions to deposit guarantee funds and other national resolution funds (Note 1-g)	53,895	44,697
Changes in inventories (*)	44,006	49,915
Other	35,604	45,209
	133,505	**139,821**

(*) Relates mainly to the expenses associated with the vehicle operating lease business in Spain.

39. Staff costs

“Staff Costs” in the consolidated income statements for 2017 and 2016 includes the remuneration accruing in the year in any respect to permanent or temporary employees on the payroll, regardless of their functions or duties.

The detail of “Staff Costs” at 31 December 2017 and 2016 is as follows:

	Thousand Euros	
	2017	2016
Wages and salaries	525,519	502,135
Social security costs	78,193	75,050
Additions to pension provisions (Note 21) (*)	11,771	14,140
Contributions to defined contribution pension funds (Note 21)	37,495	34,792
Contributions to plans - Spanish entities	*388*	*365*
Contributions to plans - foreign entities	*37,107*	*34,427*
Share-based payment costs	252	254
Other staff costs	67,620	66,902
Termination benefits	2,768	4,549
	723,618	**697,822**

(*) Of which:

- In 2017, EUR 63 thousand relate to "current service cost of defined benefit post-employment obligations - Spanish entities" (2016: EUR 153 thousand) (see Notes 2-q and 21).
- In 2017 EUR 9,516 thousand relate to "current service cost of defined benefit post-employment obligations - Germany" (2016: EUR 10,996 thousand) (see Notes 2-q and 21).
- In 2017, EUR 2,183 thousand relate to "current service cost of defined benefit post-employment obligations – foreign entities without Germany" (2016: EUR 2,980 thousand) (see Notes 2-q and 21).
- In 2016, EUR 9 thousand relate to "current service cost of other long-term defined benefit obligations - Spanish entities" (2016: EUR 11 thousand) (see Notes 2-r and 21).

The average number of employees at the Group in 2017 and 2016, by professional category, was as follows:

	Average Number of Employees	
	2017	2016
The Bank:		
Senior executives	1	1
Middle management	-	-
Clerical staff	5	5
	6	6
Other companies (*)	9,768	9,625
	9,774	**9,631**

The functional breakdown, by gender, of the number of employees at the Group at 31 December 2017 and 2016 is as follows:

	2017			2016		
	Total	Men	Women	Total	Men	Women
Senior executives	82	73	9	66	59	7
Middle management	937	605	332	920	609	311
Clerical staff and other	8,856	4,139	4,717	8,740	4,109	4,631
	9,875	**4,817**	**5,058**	**9,726**	**4,777**	**4,949**

At 31 December 2017 and 2016, the Board of Directors of the Bank had ten members, of whom two were women.

The labour relations between employees and the various Group companies are governed by the related collective agreements or similar regulations.

Al 31 de diciembre de 2017 y 2016, determinados empleados de sociedades filiales del Grupo son beneficiarios de los planes de retribución descritos en la Nota 5.

40. Other administrative expenses

The detail of "Other Administrative Expenses" in the consolidated income statements for 2017 and 2016 is as follows:

	Thousand Euros	
	2017	2016
Property, fixtures and supplies	103,031	110,773
Other administrative expenses	34,152	24,690
Communications	50,878	49,364
Taxes other than income tax	34,177	31,679
Technology and systems	250,082	235,443
Public relations, advertising and publicity	90,667	89,307
Per diems and travel expenses	19,041	18,677
External services	237,411	217,537
Technical reports	66,056	66,415
Insurance premiums	4,362	4,999
Other	4,818	326
	894,675	**849,210**

"Technical reports" in the foregoing table includes the fees paid for the services provided by the auditor of the Bank and of certain Group companies, the detail being as follows:

	Millions of Euros	
	2017	2016
Audit fees	9.2	7.5
Other verification services	1.8	0.6
Tax counselling services	-	-
Other services	0,2	0.7
Total	**11.2**	**8.8**

The heading "Audit fees" includes the fees corresponding to the audit of the individual and consolidated annual accounts of Santander Consumer Finance, SA, as the case may be, of the companies that are part of the Group, the internal control audit (SOx) for the entities of the Group that require so, the audit of the financial statements on June 30 and the mandatory regulatory reports required of the auditor, corresponding to the different locations of the Group.

The main concepts included in "Other verification services" correspond to aspects such as the issuance of letters of conformity or other actions required by the regulations in relation to aspects such as, title of example, Securitization.

The services commissioned from the auditor of the Bank and of the consolidated financial statements meet the independence requirements stipulated in the Spanish Audit Law and in the related implementing regulations, and in the Sarbanes-Oxley Act of 2002, and they did not involve the performance of any work that is incompatible with the audit function.

41. Impairment on non-financial assets

The detail of “Impairment on Non-Financial Assets” in the consolidated income statements for 2017 and 2016 is as follows:

	Thousand Euros	
	2017	2016
Tangible Assets (*)	904	826
Intangible Assets (Note 15)	32,329	652
Other	4,709	622
	37,942	**2,100**

(*) Of which at 31 December 2017, registered an amount of EUR 30 thousands corresponding to losses due to impairment in own-use tangible assets (EUR 9 thousand at 31 December 2016) - see Note 14.

The amount recorded in the "Impairment of value or reversal of impairment of non-financial assets - Intangible assets" caption in December 31, 2017 and 2016 corresponds mainly to impairments due to obsolescence of intangible assets - see Note 15.

42. Gains or losses on non financial assets and investments, net

The detail of "Gains or losses on non financial assets and investments, net" in the consolidated income statements for 2017 and 2016 is as follows:

	Thousand Euros	
	2017	2016
	Income/(Expenses)	
Gains:		
Property, plant and equipment and intangible assets (Note 14)	2,226	477
Investments	150	727
	2,376	1,204
Losses:		
Property, plant and equipment and intangible assets (Note 14)	(2,156)	(7,869)
Investments (Note 3-b)	(4)	(9,726)
	(2,160)	(17,595)
	216	**(16,391)**

43. Gains (losses) on non-current assets held for sale not classified as discontinued operations

The detail of "Gains (Losses) on Non-Current Assets Held for Sale Not Classified as Discontinued Operations" in the consolidated income statements for 2017 and 2016 is as follows:

	Thousand Euros	
	2017	2016
	Income/(Expenses)	
Net gains (losses) on disposals (Note 12):	(1,264)	(1,819)
Tangible assets	*(1,055)*	*(1,010)*
Other	*(209)*	*(809)*
Impairment losses (net) (Note 12)	2,790	(7,259)
	1,526	**(9,078)**

44. Other disclosures

a) Residual maturity periods and average interest rates

The detail, by maturity, of the balances of certain items in the consolidated balance sheets as at 31 December 2017 and 2016 is as follows:

	2017							
	Thousand Euros							
	On demand	Less than 1 month	1 to 3 monts	3 to12 monts	1 to 5 years	More tan 5 years	Total	Average Interest Rate in 2017
Assets:								
Cash,cash balances at central banks and others deposits on demand	4,565,157	-	-	-	-	-	4,565,157	0.73%
Financial assets-available for sale								
Debt instruments (Note 7)	3,650	219,451	281,471	1,908,972	191,179	1,000	2,605,723	0.59%
Loans and receivables – Debt Instruments (Note 7)								
Loans and advances-								
Central banks	-	-	-	-	-	-	-	-
Credit institutions (Note 6)	-	12,566	-	-	-	-	12,566	0.00%
Customers (Note 10)	18,949	99,288	5,045	131,502	28,320	21	283,125	0.32%
	1,321,553	3,950,523	6,492,585	16,940,773	45,244,196	12,685,538	86,635,168	4.59%
	5,909,309	**4,281,828**	**6,779,101**	**18,981,247**	**45,463,695**	**12,686,559**	**94,101,739**	
Liabilities:								
Financial liabilities at amortised cost- Deposits								
Central banks (Note 17)	-	5,119	-	3,168,000	7,071,756	-	10,244,875	0.06%
Credit institutions (Note 17)	134,090	1,871,525	409,668	2,120,732	4,528,244	2,534,639	11,598,898	0.77%
Customer (Note 18)	16,969,344	1,013,531	2,950,043	4,788,841	6,872,057	945,877	33,539,693	0.42%
Marketable debt securities (Note 19)	41,756	1,827,317	1,710,935	7,978,915	13,047,128	3,699,201	28,305,252	0.69%
Other financial liabilities (Note 20)	127,486	699,598	11,814	84,872	18,123	26,485	968,378	
	17,272,676	**5,417,090**	**5,082,460**	**18,141,360**	**31,537,308**	**7,206,202**	**84,657,096**	
Difference (assets less liabilities)	**(11,363,367)**	**(1,135,262)**	**1,696,641**	**839,887**	**13,926,387**	**5,480,357**	**9,444,643**	

	2016							
	Thousand Euros							
	On demand	Less than 1 month	1 to 3 monts	3 to12 monts	1 to 5 years	More tan 5 years	Total	Average Interest Rate in 2016
Assets:								
Cash,cash balances at central banks and others deposits on demand	4,837,901	-	-	-	-	-	4,837,901	0.03%
Financial assets-available for sale								
Debt instruments (Note 7)	84,618	116,416	346,016	2,042,333	568,180	1,000	3,158,563	0.53%
Loans and receivables – Debt Instruments (Note 7)								
Loans and advances-	-	397	-	25,211	77,691	-	103,299	1.34%
Central banks	-	-	-	-	-	-	-	
Credit institutions (Note 6)	10,200	-	-	-	-	-	10,200	0.00%
Customers (Note 10)	62,194	90,203	1,239	422,449	4,273	23	580,381	0.86%
	1,255,177	7,003,022	5,133,152	16,090,522	37,900,277	14,601,018	81,983,168	4.75%
	6,250,090	**7,210,038**	**5,480,407**	**18,580,515**	**38,550,421**	**14,602,041**	**90,673,512**	
Liabilities:								
Financial liabilities at amortised cost-								
Deposits								
Central banks (Note 17)	-	44	-	-	10,001,900	-	10,001,944	0.22%
Credit institutions (Note 17)	510,986	1,958,109	793,272	3,004,455	3,622,548	310,124	10,199,494	1.44%
Customer (Note 18)	16,598,865	1,101,157	2,438,977	6,129,939	5,396,711	1,591,829	33,257,478	0.72%
Marketable debt securities (Note 19)	52,296	1,332,479	1,938,020	7,498,920	14,497,917	2,546,023	27,865,655	1.25%
Other financial liabilities (Note 20)	310,845	905,903	4,839	72,929	17,442	28,812	1,340,770	
	17,472,992	**5,297,692**	**5,175,108**	**16,706,243**	**33,536,518**	**4,476,788**	**82,665,341**	
Difference (assets less liabilities)	**(11,222,902)**	**1,912,346**	**305,299**	**1,874,272**	**5,013,903**	**10,125,253**	**8,008,171**	

For a proper understanding of the information included in the foregoing tables it should be noted that the tables were prepared taking into consideration the contractual maturities of the financial instruments detailed therein and, therefore, they do not take into account the stability of certain liabilities, such as the current accounts of customers, and the potential for renewal which has historically been a feature of the Group's financial liabilities. Since the tables include only financial instruments at year-end, they do not show the Group's investments or the cash flows generated therefrom, or the cash flows relating to the Bank's results.

b) *Equivalent euro value of assets and liabilities*

The detail of the equivalent euro value of the main foreign currency balances in the accompanying consolidated balance sheets as at 31 December 2017 and 2016, based on the nature of the related items, is as follows:

	Equivalent Value in Millions Euros			
	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Cash, cash balances at central banks and others deposits on demand	159	-	260	-
Financial assets/liabilities held for trading	24	-	39	32
Financial assets available-for-sale	587	-	1,02	-
Loans and receivables (*)	12,358	-	11,96	-
Hedging derivatives	27	-	27	10
Non-current assets held for sale	1	-	1	-
Investments	526	-	505	-
Tangible assets	23	-	23	-
Intangible assets	502	-	518	-
Tax assets/liabilities	43	111	26	94
Financial liabilities at amortised cost	-	9,537	-	8,723
Liabilities associated with non-current assets held for sale	-	18	-	-
Provisions	-	30	-	47
Other assets and liabilities	284	149		157
	14,534	**9,845**	**14,574**	**9,063**

(*) Impairment Value adjustment in exchange currency not included

c) *Fair value of financial assets and liabilities not measured at fair value*

The financial assets owned by the Group are carried at fair value in the accompanying consolidated balance sheets, except for items included under cash, cash balances at central banks and others deposits on demand, loans and receivables, equity instruments whose market value, if any, cannot be estimated reliably and derivatives that have these instruments as their underlyings and are settled by delivery thereof, if any.

Similarly, the Group’s financial liabilities -except for financial liabilities held for trading and derivatives-are carried at amortised cost in the accompanying consolidated balance sheets.

i. Financial assets measured at other than fair value

Following is a comparison of the carrying amounts at 31 December 2017 and 2016 of the Group's financial assets measured at other than fair value and their respective fair values at the end of 2017 and 2016:

	Million Euros									
	2017					2016				
Assets	Carrying Amount	Fair Value	Level 1	Level 2	Level 3	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Loans and receivables:										
Central banks	13	13	-	13	-	10	10	-	10	-
Credit institutions	284	284	-	223	61	581	581	-	522	59
Customers	86,634	87,063	-	31,634	55,429	81,983	83,153	-	27,007	56,146
Debt instruments	-	-	-	-	-	103	103	-	103	-
	86,931	**87,360**	**-**	**31,870**	**55,490**	**82,677**	**83,847**	**-**	**27,642**	**56,205**

ii. Financial liabilities measured at other than fair value

Following is a comparison of the carrying amounts of the Group's financial liabilities measured at other than fair value and their respective fair values at year-end:

	Million Euros									
	2017					2016				
Liabilities	Carrying Amount	Fair Value	Level 1	Level 2	Level 3	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial liabilities at amortised cost:										
Deposits:										
Central banks	10,245	10,236	-	-	10,236	10,002	9,995	-	-	9,995
Credit institutions	11,599	11,599	-	10,785	814	10,199	10,149	-	10,149	-
Customer	33,540	33,722	-	1,311	32,411	33,257	33,137	-	-	33,137
Marketable debt securities	28,305	28,406	4,635	21,124	2,647	27,866	27,934	2,914	25,020	-
Other financial liabilities	968	951	-	-	951	1,341	1,341	-	-	1,341
	84,657	**84,914**	**4,635**	**33,220**	**47,059**	**82,665**	**82,556**	**2,914**	**35,169**	**44,473**

iii. Valuation methods and inputs used

The main valuation methods and inputs used in the estimates at 31 December 2017 and 2016 of the fair values of the financial assets and liabilities in the foregoing tables were as follows:

- Loans and receivables: the fair value was estimated using the present value method. The estimates were made considering factors such as the expected maturity of the portfolio, market interest rates, spreads on newly approved transactions or market spreads -when available-.

- Financial liabilities at amortised cost:

  i) The fair value of deposits from central banks was taken to be their carrying amount since they are mainly short-term balances.

  ii) Deposits from credit institutions: the fair value was obtained by the present value method using market interest rates and spreads.

  iii) Customer deposits: the fair value was estimated using the present value method. The estimates were made considering factors such as the expected maturity of the transactions and the Group's current cost of funding in similar transactions.

  iv) Marketable debt securities: the fair value was calculated based on market prices for these instruments -when available- or by the present value method using market interest rates and spreads.

45. Geographical and business segment reporting

a) Geographical segments

This primary level of segmentation, which is based on the Group's management structure, comprises six segments relating to six operating areas. The operating areas, which include all the business activities carried on therein by the Group, are Spain, Italy, Germany, Scandinavia, France and Other.

The financial statements of each operating segment are prepared by aggregating the figures for the Group's various business units. The basic information used for segment reporting comprises the accounting data of the legal units composing each segment and the data available from the management information systems. All segment financial statements have been prepared on a basis consistent with the accounting policies used by the Group. Consequently, the sum of the figures in the income statements of the various segments is equal to those in the consolidated income statements. With regard to the balance sheet, due to the required segregation of the various business units (included in a single consolidated balance sheet), the amounts lent and borrowed between the units are shown as increases in the assets and liabilities of each business. These amounts relating to intra-Group liquidity are eliminated and are shown in the "Intra-Group Eliminations" column in the table below in order to reconcile the amounts contributed by each business unit to the consolidated Group's balance sheet.

Additionally, for segment presentation purposes, the shareholders' equity shown for each geographical unit is that reflected in the related separate financial statements and is offset as a capital endowment made by the Spain area, which acts as the holding unit for the other businesses; thus, the Group's total shareholders' equity is reflected.

The condensed balance sheets and income statements of the various geographical segments are as follows:

Consolidated Balance Sheet (Condensed)	Thousand Euros															
	2017								2016							
	Spain	Italy	Germany	Nordics	France	Other	Intra-Group Eliminations (*)	Total	Spain	Italy	Germany	Nordics	France	Other	Intra-Group Eliminations (*)	Total
Loans and advances to customers	13,288,826	7,774,835	34,005,923	14,307,970	10,382,200	6,534,582	340,832	86,635,168	12,118,380	6,893,263	33,819,202	13,394,604	9,350,172	3,143,781	3,263,766	81,983,168
Financial assets held for trading	3,470	459	1,307	1,208	2,383	-	25,237	34,064	2,515	237	2,972	14,379	4,919	(61,304)	92,317	56,035
Debt instruments	-	-	-	-	-	-	2,605,723	2,605,723	-	-	103,289	-	-	(41,266)	3,199,839	3,261,862
Loans and advances to central banks and credit institutions	1,078,576	429,705	133,314	1,076,970	13,693	1,303	(2,437,870)	295,691	1,989,475	536,917	536,675	1,720,749	504,360	4,066,601	(8,764,196)	590,581
Tangible and intangible assets	120,785	11,772	229,028	84,378	16,323	28,265	1,928,090	2,418,641	129,419	9,454	296,941	81,417	17,158	(198,676)	2,169,323	2,505,036
Other asset accounts	412,565	898,794	2,772,443	1,562,516	1,099,789	474,210	506,708	7,727,025	830,679	857,434	2,854,353	1,657,333	418,553	1,501,750	(275,283)	7,844,819
Total assets	**14,904,222**	**9,115,565**	**37,142,015**	**17,033,042**	**11,514,388**	**7,038,360**	**2,968,720**	**99,716,312**	**15,070,468**	**8,297,305**	**37,613,432**	**16,868,482**	**10,295,162**	**8,410,886**	**(314,234)**	**96,241,501**
Customer deposits	298,733	1,046,437	23,434,933	5,143,857	2,102,103	1,355,445	158,185	33,539,693	304,993	814,665	24,538,162	4,509,048	1,804,379	1,058,426	227,805	33,257,478
Marketable debt securities	4,061,426	863,603	2,118,886	5,208,691	3,335,415	321,614	12,395,617	28,305,252	3,945,118	812,483	1,201,103	4,662,253	1,967,065	3,140,545	12,137,088	27,865,655
Deposits from central banks and credit institutions	8,137,238	5,705,198	6,710,897	4,359,857	3,979,433	4,133,970	(11,182,820)	21,843,773	8,659,948	5,397,545	7,038,362	5,507,103	4,743,799	(265,711)	(10,879,608)	20,201,438
Other liability and equity accounts	1,452,410	713,077	1,361,183	305,551	1,506,725	405,024	(441,190)	5,302,780	1,229,507	542,899	1,259,122	311,368	1,275,311	2,514,880	(1,614,839)	5,518,248
Shareholders' equity	954,414	787,251	3,516,117	2,015,085	590,710	822,308	2,038,929	10,724,814	930,902	729,713	3,576,683	1,878,710	504,608	1,962,746	(184,680)	9,398,682
Total funds under management	**14,904,221**	**9,115,567**	**37,142,015**	**17,033,041**	**11,514,386**	**7,038,361**	**2,968,721**	**99,716,312**	**15,070,468**	**8,297,305**	**37,613,432**	**16,868,482**	**10,295,162**	**8,410,886**	**(314,234)**	**96,241,501**

Consolidated Income Statement (Condensed)	2017							2016						
	Spain	Italy	Germany	Nordics	France	Other (*)	Total	Spain	Italy	Germany	Nordics	France	Other (*)	Total
NET INTEREST INCOME	**540,947**	**302,991**	**1,007,769**	**705,176**	**357,664**	**290,295**	**3,204,842**	**502,098**	**292,615**	**970,090**	**690,109**	**344,839**	**277,716**	**3,077,467**
Share of results of entities accounted for using the equity method	10,288	1,524	17,459	779	4,265	59,804	94,119	9,872	689	14,592	597	714	42,443	68,907
Net fee and commission income	91,709	47,180	491,850	47,430	93,677	73,965	845,811	91,478	44,546	496,974	39,724	83,428	63,961	820,111
Gains/losses on financial assets and liabilities (net)	1,095	619	2,038	(3,564)	5,535	(2,862)	2,861	(1,806)	(3,167)	(3,158)	991	(5,213)	16,968	4,615
Other operating income and expenses	11,138	3,689	(35,985)	(3,017)	(379)	(7,113)	(31,667)	12,852	(2,722)	(32,486)	6,577	(301)	(455)	(16,535)
GROSS INCOME	**655,177**	**356,003**	**1,483,131**	**746,804**	**460,762**	**414,089**	**4,115,966**	**614,494**	**331,961**	**1,446,012**	**737,998**	**423,467**	**400,633**	**3,954,565**
Administrative expenses	(213,987)	(128,978)	(666,906)	(297,466)	(163,806)	(147,150)	(1,618,293)	(217,533)	(120,763)	(648,820)	(263,645)	(169,705)	(126,566)	(1,547,032)
Staff costs	(84,765)	(57,258)	(312,141)	(146,245)	(70,530)	(52,679)	(723,618)	(84,225)	(54,923)	(307,585)	(129,305)	(66,987)	(54,797)	(697,822)
Other general administrative expenses	(129,222)	(71,720)	(354,765)	(151,221)	(93,276)	(94,471)	(894,675)	(133,308)	(65,840)	(341,235)	(134,340)	(102,718)	(71,769)	(849,210)
Depreciation and amortisation charge	(7,057)	(4,360)	(106,588)	(34,560)	(5,315)	(9,607)	(167,487)	(7,311)	(5,201)	(130,685)	(21,439)	(4,256)	(20,389)	(189,281)
Provisions (net)	(6,208)	(1,561)	(20,105)	(56)	(2,461)	(102,771)	(133,162)	(423)	957	-	(1,395)	(928)	(22,557)	(24,346)
Impairment losses on financial assets (net)	11,185	(31,719)	(123,226)	(12,102)	(31,135)	(18,198)	(205,195)	(19,636)	(58,095)	(116,583)	(73,412)	(20,574)	(39,948)	(328,248)
PROFIT OR LOSS FROM OPERATIONS	**439,110**	**189,385**	**566,306**	**402,620**	**258,045**	**136,363**	**1,991,829**	**369,591**	**148,859**	**549,924**	**378,107**	**228,004**	**191,173**	**1,865,658**
Other gains and losses	(17,059)	(20,169)	(91,640)	10,852	(11,210)	33,026	(96,200)	(26,930)	(5,226)	(16,514)	(2,877)	(970)	24,948	(27,569)
PROFIT OR LOSS BEFORE TAX	**422,051**	**169,216**	**474,666**	**413,472**	**246,835**	**169,389**	**1,895,629**	**342,661**	**143,633**	**533,410**	**375,230**	**227,034**	**216,121**	**1,838,089**
Tax expense or income from continuing operations	(116,934)	(55,983)	(153,165)	(95,900)	(87,686)	(94,082)	(603,750)	(87,930)	(44,700)	(173,988)	(94,163)	(93,553)	(120,220)	(614,554)
PROFIT OR LOSS FOR THE YEAR FROM CONTINUING OPERATIONS	**305,117**	**113,233**	**321,501**	**317,572**	**159,149**	**75,307**	**1,291,879**	**254,731**	**98,933**	**359,422**	**281,067**	**133,481**	**95,901**	**1,223,535**
Loss from discontinued operations (net)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CONSOLIDATED PROFIT OR LOSS FOR THE YEAR	**305,117**	**113,233**	**321,501**	**317,572**	**159,149**	**75,307**	**1,291,879**	**254,731**	**98,933**	**359,422**	**281,067**	**133,481**	**95,901**	**1,223,535**
Profit or loss attributable to the Parent	**236,103**	**95,898**	**297,633**	**317,573**	**74,785**	**57,395**	**1,079,387**	**202,160**	**85,514**	**346,869**	**281,067**	**60,250**	**79,393**	**1,055,253**

(*) Includes the reconciliation of the segment information to the consolidated financial statements of the Group and corporate activities.

Also, pursuant to the legislation applicable to the Bank, following is a detail:

1. By the geographical areas indicated in the aforementioned legislation, of the balance of "Interest and Similar Income" recognised in the consolidated income statements for 2017 and 2016:

	Thousand Euros	
	2017	2016
Spain	651,571	552,599
Abroad:		
European Union	2,340,891	2,428,931
OECD countries	696,613	648,387
Other countries	-	-
	3,037,504	3,077,318
Total	**3,689,075**	**3,629,917**

2. Of revenue, by the geographical segments used by the Group. For the purposes of the table below, for 2017 and 2016:

	Revenue (Thousand Euros)					
	Revenue from External Customers		Inter-Segment Revenue		Total Revenue	
	2017	2016	2017	2016	2017	2016
Spain and Portugal	897,927	1,007,824	243,329	300,122	1,141,256	1,307,946
Italy	488,700	484,059	499	300	489,199	484,359
Germany	1,770,090	1,818,348	269,963	284,228	2,040,053	2,102,576
Scandinavia	820,876	793,271	87,367	123,870	908,243	917,141
France	523,942	498,435	353,043	388,906	876,985	887,341
Other	461,989	464,201	87,759	88,690	549,748	552,891
Inter-segment revenue adjustments and eliminations	-	-	(1,041,960)	(1,186,116)	(1,041,960)	(1,186,116)
Total	**4,963,524**	**5,066,138**	**-**	**-**	**4,963,524**	**5,066,138**

b) *Business segments*

At the secondary level of segment reporting, the Group is structured into three businesses, one for each of the main products marketed.

The "Automotive" business segment comprises all the businesses related to the financing of new and used vehicles, including operating and finance lease transactions.

The “Consumer Finance and Cards” business segment reflects the income from the consumer finance business not included in the Direct Finance segment, as well as the card financing, issue and management business.

The “Direct Finance” business segment includes the results from the consumer finance business conducted through own channels, with no dealer intermediation.

“Other Business” includes operations that are not included in any of the aforementioned categories, mainly mortgages and the contribution to consolidated results of all the activities performed by the Group related to secured lending, as well as the inventory credit (“crédito stock”) business, which includes the contribution to the Group of all the transactions related to the “crédito stock” product.

The condensed consolidated income statements for 2017 and 2016, by business, are as follows:

Consolidated Income Statement (Condensed)	Thousand Euros			
	2017			
	Automotive	Consumer	Other (*)	Total
NET INTEREST INCOME	**1,704,500**	**1,096,100**	**404,242**	**3,204,842**
Share of results of entities accounted for using the equity method	25,200	1,300	67,619	94,119
Net fee and commission income	445,900	328,000	71,911	845,811
Gains/losses on financial assets and liabilities (net)	6,800	-	(3,941)	2,859
Other operating income (expenses)	6,100	5,500	(43,265)	(31,665)
GROSS INCOME	**2,188,500**	**1,430,900**	**496,566**	**4,115,966**
Administrative expenses	(699,002)	(515,276)	(404,015)	(1,618,293)
Staff costs	(352,735)	(232,288)	(138,595)	(723,618)
Other general administrative expenses	(346,267)	(282,988)	(265,420)	(894,675)
Depreciation	(44,148)	(37,696)	(85,643)	(167,487)
Provisions	(6,050)	(3,128)	(123,984)	(133,162)
Impairment losses on financial assets (net)	(52,300)	(155,600)	2,705	(205,195)
PROFIT (LOSS) FROM OPERATIONS	**1,387,000**	**719,200**	**(114,371)**	**1,991,829**
Other gains/(losses)	-	-	(96,200)	(96,200)
PROFIT (LOSS) BEFORE TAX	**1,387,000**	**719,200**	**(210,571)**	**1,895,629**
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**990,400**	**521,100**	**(219,621)**	**1,291,879**
Profit/Loss from discontinued operations (net)	-	-	-	-
CONSOLIDATED PROFIT (LOSS) FOR THE YEAR	**990,400**	**521,100**	**(219,621)**	**1,291,879**

Consolidated Income Statement (Condensed)	Thousand Euros			
	2016			
	Automotive	Consumer	Other (*)	Total
NET INTEREST INCOME	**1,571,472**	**1,124,556**	**381,439**	**3,077,467**
Share of results of entities accounted for using the equity method	7,150	980	60,777	68,907
Net fee and commission income	415,241	335,525	69,345	820,111
Gains/losses on financial assets and liabilities (net)	(11,419)	22	16,012	4,615
Other operating income (expenses)	4,950	2,705	(24,190)	(16,535)
GROSS INCOME	**1,987,394**	**1,463,788**	**503,383**	**3,954,565**
Administrative expenses	(670,635)	(492,247)	(384,150)	(1,547,032)
Staff costs	(312,239)	(229,184)	(156,399)	(697,822)
Other general administrative expenses	(358,396)	(263,063)	(227,751)	(849,210)
Depreciation	(73,197)	(53,726)	(62,358)	(189,281)
Provisions	(107,805)	(233,468)	13,025	(328,248)
Impairment losses on financial assets (net)	(757)	(3)	(23,586)	(24,346)
PROFIT (LOSS) FROM OPERATIONS	**1,135,000**	**684,344**	**46,314**	**1,865,658**
Other gains/(losses)	(8,792)	(2,133)	(16,644)	(27,569)
PROFIT (LOSS) BEFORE TAX	**1,126,208**	**682,211**	**29,670**	**1,838,089**
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**763,857**	**488,824**	**(29,146)**	**1,223,535**
Profit/Loss from discontinued operations (net)	-	-	-	-
CONSOLIDATED PROFIT (LOSS) FOR THE YEAR	**763,857**	**488,824**	**(29,146)**	**1,223,535**

(*) “Other Business” includes mainly the results from the deposit and managed asset businesses, which are not individually material for the Group as a whole, and those arising from the Group’s financial management activity.

46. Related parties

Following is a detail of the transactions performed by the Group with its related parties at 31 December 2017 and 2016, distinguishing between associates, Santander Group entities, members of the Bank's Board of Directors and the Bank’s senior managers, and of the income and expenses arising from the transactions with these related parties in 2017 and 2016. Related party transactions were made on terms equivalent to those prevailing in arm's-length transactions.

	Thousand Euros							
	2017				2016			
	Associates	Santander Group Entities (*)	Members of the Board of Directors (**)	Senior Managers (**)	Associates	Santander Group Entities (*)	Members of the Board of Directors (**)	Senior Managers (**)
Assets:								
Cash, cash balances at central banks and others deposits on demand	-	592,650	-	-	-	644,342	-	-
Debt instruments	9,432	-	-	-	5,584	-	-	-
Loans and advances								
Customers	70,125	273,621	-	2	1,983	220,331	-	2
Credit institutions	83,931	29,483			369,512	16,205		
Trading derivatives (Note 9)	-	16,627	-	-	-	30,878	-	-
Hedging derivatives	-	108,421	-	-	-	107,782	-	-
Other assets	3,294	2,189	-	-	1,625	1,608	-	-
Liabilities:								
Financial liabilities at amortised cost								
Deposits from credit institutions (Note 17)	-	9,663,288	-	-	(1,211)	7,123,440	-	-
Customer deposits	58,940	70,268	-	380	64,205	58,863	-	274
Marketable debt securities	-	558,522	-	-	(418,641)	822,547	-	-
Other financial liabilities	12,245	31,875	-	-	5,935	542,013	-	-
Trading derivatives (Note 9)	-	22,174	-	-	-	26,555	-	-
Hedging derivatives	-	144,397	-	-	-	219,446	-	-
Other liabilities	283	8,160	-	-	-	4,835	-	-
Income statement:								
Interest income	2,386	10,969	-	-	5,295	2,097	-	-
Interest expense	(22)	(44,328)	-	4	(14,842)	(53,297)	-	3
Share of results of entities accounted for using the equity method (Note 32)	94,117	-	-	-	68,702	205	-	-
Commission income	528	1,744	-	-	484	79	-	-
Commission expense	-	(1,020)	-	-	(1,094)	(3,131)	-	-
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net	153	44	-	-	28	(28)	-	-
Gains or losses on financial assets and liabilities held for trading, net	-	(16,022)	-	-	-	275	-	-
Gains or losses from hedge accounting, net	-	64,532			-	101,460		
Exchange differences	-	77,949	-	-	(26)	(61,957)	-	-
Other operating income	256	1,105	-	-	144	1,003	-	-
Other administrative expenses	(1,526)	(230,766)	-	-	(250)	(231,314)	-	-
Gains (losses) on disposal of assets not classified as non-current assets held for sale	33	-	-	-	-	-	-	-
Memorandum items:								
Contingent liabilities	398,731	214,153	-	-	330,363	183,424	-	-
Contingent commitments	319,488	555,401	-	-	349,863	569,631	-	-

(*) Excluding those entities belonging to the Santander Group that were classified as associates in these notes to the consolidated financial statements.

(**) See Notes 5-d and 5-e.

47. Risk management

I. Risk management

Corporate principles

Santander Group, which is part Santander Consumer Finance Group, has set itself the strategic objective of achieving excellence in risk management. This has been a focal point of the Santander Group's activities throughout its history spanning more than 150 years.

The pace of change in risk management increased in 2017 in order to anticipate and meet the main challenges presented by a constantly changing economic, social and regulatory environment.

Consequently, the risk function is of greater significance than ever if the Santander Group is to continue to be a solid, safe and sustainable bank, an example for all the financial sector and a reference point for all who aspire to convert leadership in risks into a competitive advantage.

Santander Group aims to build a future based on advance management of all risks and protect its present through a robust control environment. Accordingly, the Group has determined that the risk function should be based on the following cornerstones, which are in line with the Santander Group's strategy and business model and take into account the recommendations of the supervisory and regulatory bodies and the best market practices:

1. The business strategy is defined by the risk appetite. The Santander Group's board determines the amount and type of risk that it considers reasonable to assume in implementing and developing its business strategy, in the form of objective verifiable limits that are consistent with the risk appetite for each significant activity.

2. All risks must be managed by the units that generate them using advanced models and tools that are integrated in the various businesses. The Santander Group is fostering advanced risk management, using innovative models and metrics together with a control, reporting and escalation framework to ensure that risks are identified and managed from different perspectives.

3. A forward-looking vision of all types of risks should be included in the risk identification, assessment and management processes.

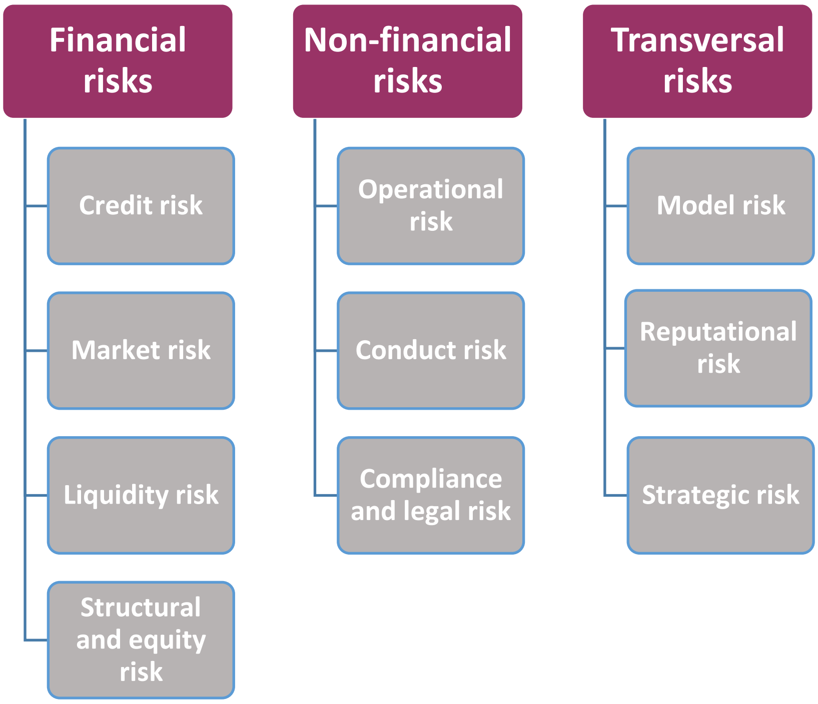
4. The independence of the risk function encompasses all risks and establishes an appropriate separation of the risk generating units from those responsible for risk control. Implies having sufficient authority and direct access to management and governing bodies responsible for setting and supervising risk strategy and policies.

5. The best processes and infrastructure must be used for risk management. The Santander Group aims to be a reference model in the development of infrastructures and processes supporting risk management.

6. A risk culture integrated throughout the organisation, consisting of a series of attitudes, values, skills and guidelines for action vis-à-vis all risks. The Santander Group understands that advanced risk management cannot be achieved without a strong and stable risk culture being present in each of its activities.

Risk map

The identification and assessment of all risks is fundamental to their control and management. The risk map covers the main risk categories in which the Santander Group has its most significant current and/or potential exposures, thus facilitating the identification thereof.



At its top level the risk map includes the following:

Financial risks

- Credit risk: risk that might arise from the failure to meet agreed-upon contractual obligations in financial transactions.
- Market risk: that which is incurred as a result of the possibility of changes in market factors affecting the value of positions in the trading portfolios.
- Liquidity risk: risk of not complying with payment obligations on time or of complying with them at an excessive cost.
- Structural and capital risks: risk caused by the management of the various balance sheet items, including those relating to the adequacy of capital and those arising from the insurance and pensions businesses.

Non-financial risks

- Operational risk: the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

- Conduct risk: the risk caused by inappropriate practices vis-à-vis the Bank's relationship with its customers, the treatment and products offered to customers, and their suitability for each particular customer.

- Compliance and legal risk: risk arising from non-compliance with the legal framework, internal rules or the requirements of regulators and supervisors.

Transversal risks

- Model risk: includes losses arising from decisions based mainly on the results of models, due to errors in the design, application or use of those models.

- Reputational risk: risk of negative perception of the Bank on the part of public opinion, its customers, investors or any other stakeholder.

- Strategic risk: the risk that results may diverge significantly from the entity's strategy or business plan due to changes in general business conditions and risks associated with strategic decisions. This includes the risk of poor implementation of decisions or lack of capacity to respond to changes in the business environment.

In order to manage and control risks and the information relating to them, all risks should be referenced to the basic types of risk established in the risk map.

Corporate governance of risks

Governance of the risk function seeks to ensure that risk decisions are taken appropriately and efficiently and that risks are effectively controlled, and also guarantee that risks are managed in accordance with the risk appetite level defined by senior management of the Group and the units.

For this purpose, the following principles were established:

- Separation of decision-making from risk control.

- Strengthening of the responsibility of the risk generating functions in decision-making.

- Ensuring that all risk decisions have a formal approval process.

- Ensuring an aggregate view of all risks.

- Strengthening of the risk control committees.

- Maintenance of a simple committee structure:

    - Participation and involvement in decisions about risks and risk oversight and control, by governing bodies and senior management.

    - Coordination between the lines of defence that make up risk management and control duties.

    - Alignment of objectives, monitoring compliance and the implementation of corrective measures, if warranted.

    - Existence of an adequate management and control environment for all risks.

In order to attain these objectives, the committee structure under the governance model should ensure an adequate:

- Structure, comprising, at least, multi-layering according to relevance, balanced delegation capacity and incident escalation protocols

- Composition, with members having sufficient dialogue capacity and sufficient powers to represent business and support areas.

- Practicability, i.e. frequency, minimum level of attendance and timely procedures.

Risk Activity governance should be established and facilitate the channels for coordination between units and the Group and the alignment of risk management and control models.

The Group's units' governing bodies should be structured taking into account local regulatory and legal requirements and the size and complexity of each unit.

Roles and responsibilities

The risk function is structured into three lines of defence. The roles and responsibilities of each line are defined in terms of market, structural and liquidity risk management and control as detailed below.

- First line of defence

This is made up of the departments, lines of business or activities that generate exposure to risk. Within this framework, they will be responsible for managing the activities related to the held-for-trading portfolio and balance sheet management portfolio.

They need to always ensure that

- All risks having a material impact are identified.

- A recurring assessment is conducted of existing risks.

- The necessary information is available to assess risks.

- The limits established for their activities are observed and complied with.

- Second line of defence

This is made up of specialist risk control and supervisory teams. Within this framework, they will be responsible for overseeing the status of the entity's portfolio and the development and management of the risks assumed.

The second line of defence is an independent function which, within the risk function, complements the management and control functions of the first line ensuring at all times that:

- There are limits in place and approved by the entities' board of directors or board committees.

- The limits are known and observed by the first line of defence.

- The policies, procedures and limits established in negotiation and balance sheet management activities are met.

- Systematic reviews are conducted of exposures to market, structural and liquidity risks.

- There are robust, reliable and adequate risk assessment mechanisms to carry out activities.

The second line of defence should provide a consolidated view of market, structural and liquidity risks.

- Third line of defence

Internal audit, in its work as the group's final control layer, should regularly check that policies, methods and procedures are appropriate and verifies their effective implementation in management.

Risk committee structure

Responsibility for the control and management of risk rests ultimately with the Board of Directors, which has the powers delegated to the various committees. The Board is supported by the risk, regulation and compliance oversight committee in its role as an independent risk control and supervision committee. In addition, the Group's executive committee pays particular attention to the management of the Group's risks. These bylaw-established bodies constitute the top level of risk governance.

Independent control bodies

- *Risk committee:*

This Committee's mission is to assist the Board of Directors in the oversight and control of risk, the definition of the Group's risk policies, relationships with supervisory bodies and matters of regulation and compliance.

It is composed of external or non-executive Directors, with a majority of independent Directors, and is chaired by an independent Director.

The Risk Committee's functions:

- Support and advise the Board of Directors on defining and assessing the risk policies affecting the Bank and determining the risk appetite and risk strategy.

- Oversee that the customer asset and liability pricing policy fully takes into account the business model and risk strategy.

- Know and assess management tools, improvement initiatives, project development and any other significant activity related to risk control.

- Determine, together with the Board of Directors, the nature, amount, format and frequency of risk information to be received by the Committee and Board of Directors.

- Collaborate to establish rational and practical remuneration policies. For such purposes, the Risk Committee will examine, without prejudice to the functions of the Remuneration Committee, whether the incentive policy envisaged in the remuneration system takes risk, capital, liquidity and probability and timing of profits into account.

- *Executive Risk Control Committee (CECR):*

  This collegiate body is responsible for the oversight and overall control of the Groups's risks in accordance with the powers attributed to it by the Board of Directors of Santander Consumer Finance, S.A.

  The Executive Risk Control Committee results from the integration of 4 corporate committees:

  - Risk Control Committee.

  - Credit Risk Control Committee.

  - Market, Liquidity and Structural Risk Control Committee.

  - Provisions Forum.

  Since these bodies share functions and responsibilities, the Bank has merged them into the CECR and at the same time has built a simple, integrated and efficient structure.

  Therefore its objectives are:

  - To be an effective risk control mechanism, ensuring that the risks are managed according to the Group's appetite approved by the Board of Directors of Santander Consumer Finance, S.A., and permitting an integrated view of all the risks identified in the risk map of the general risk framework. This includes the identification and monitoring of both current and emerging risks and their impact on the risk profile of the Santander Consumer Finance Group.

  - Ensure the best estimate is made of the provision and its adequate reflection.

  This Committee is chaired by the Bank's Chief Risk Officer (CRO) and is made up of Bank executives. Represented among others, are the risk function that acts as the chair together with at least the compliance, financial and management functions. The CROs of local entities may participate on a regular basis in order to report, among other things, on their risk profile.

The Executive Risk Control Committee reports to the Risk Committee and assists it in its function of supporting the Board of Directors

Decision- making bodies

- *Executive Risk Committee (ERC):*

  The Executive Risk Committee is the collegiate decision-making body responsible for overall risk management in accordance with the powers attributed to it by the Board of Directors of Santander Consumer Finance S.A.. Within its scope of action and decision-making, it will monitor all risks identified by the Bank.

  It aims to be the body taking risk assumption decisions at the highest level, ensuring that they fall within the risk appetite limits of the Santander Consumer Finance Group and reporting on its activity to the Board or committees when so required.

  This Committee is chaired by an executive deputy chairman of the Board, comprises the CEO, executive Directors and other executives of the entity, and the risk, financial, and compliance functions, inter alia, are represented. The Group CRO has the right of veto over this committee's decisions.

- *Risk Approval Committee (RAC):*

  The Bank's Risk Approval Committee results from the integration of two corporate committees:

  - The Risk Approval Committee.
  - The Risk Regulation Committee.

  Therefore this Committee is the collegiate decision- making body responsible for both the overall management of credit, market, liquidity and structural risks and the approval and validation of the Bank's regulations, when not reserved to other bodies. All the foregoing is in accordance with the powers delegated by the Executive Risk Committee of Santander Consumer Finance S.A.

  This Committee is chaired by the Bank's CRO and is made up of the Group's executives and the risk, financial, management control and compliance functions are represented, among others.

- *Credit Committee:*

  The Credit Committee is the collegiate decision-making body responsible for recommending and validating credit risk proposals, and ensuring that they are within the risk appetite limits in place. It reports on its activity to the Executive Risk Committee if warranted.

  This Committee is chaired by the Bank's CRO and is made up of Bank Executives. The risk and business functions are represented.

Organisational risk function structure

The Group chief risk officer (GCRO) is the head of the Group's risk function and reports to an executive deputy chairman of the Bank who is a member of the Board of Directors and chairman of the executive risk committee.

The GCRO, whose duties include advising and challenging the executive line, also reports separately to the risk, regulation and compliance oversight committee and to the Board.

Advanced risk management has a holistic forward-looking vision of risks, based on the intensive use of models, aimed at constructing a sound control environment while complying with the requirements of the regulator and supervisor.

The risk management and control model at Santander Consumer Finance Group shares a set of basic Group principles, implemented through a series of corporate frameworks. These emanate from the Group itself and Santander Consumer Finance Group has adhered to them through its respective managing bodies, thus configuring the relationship between the subsidiary and the Group, including the participation of the latter in important decisions through the validation thereof.

In line with Group and corporate governance best practice, the Group-subsidiaries governance model and good governance practice for subsidiaries recommend that each subsidiary have a by-law stipulated risk committee and an executive risk committee chaired by the CEO. Santander Consumer Finance is adhered.

Santander Consumer Finance's managing bodies, in accordance with the internal governance framework in place at the Group, have their own model of (quantitative and qualitative) risk management powers and must adhere to the principles of conduct contained in the benchmark models and frameworks developed at corporate level.

Given its ability to take an aggregate, comprehensive view of all risks, corporate headquarters reserves for itself the powers to validate and question the operations and management policies at the various units, to the extent that they affect the Group’s risk profile.

The identification and assessment of all risks is fundamental to their control and management. Following is an analysis of the main types of risk at Group, which are as follows: credit risk, market risk, operational risk and compliance and reputational risk.

II. Credit Risk

Credit risk is the possibility of loss stemming from the total or partial failure of our customers or counterparties to meet their financial obligations to the Group.

The specialisation of Santander Consumer Finance’s risk function is based on the type of customer and, accordingly, a distinction is made between individualised customers and standardised customers in the risk management process:

- Individualised customers are defined as those to which a risk analyst has been assigned, basically because of the risk assumed. This category includes wholesale banking enterprises and certain retail banking enterprises. Risk management is performed through expert analysis supplemented by decision-making support tools based on internal risk assessment models.

- Standardised customers are those which have not been expressly assigned a risk analyst. This category generally includes exposures to individuals, individual traders, and retail banking enterprises not classified as individualised customers. Management of these exposures is based on internal risk assessment and automatic decision-making models, supplemented subsidiarily, when the model is not comprehensive enough or is not sufficiently accurate, by teams of analysts specialising in this type of risk.

Main aggregates and variations

The profile of the credit risk assumed by Santander Consumer Finance is characterised by a diversified geographical distribution and the prevalence of retail banking operations.

a) Global credit risk map - 2017

The following table details, by borrower geographical area, the Group's global credit risk map:

SCF Group - Gross Credit Risk Exposure			
	2017 (Million Euros)	Change on December 2016	% of Portfolio
Spain and Portugal	15,445	9.07%	17.44%
Italy	7,695	8.72%	8.69%
France	10,429	9.44%	11.78%
Germany and Austria	36,755	0.93%	41.51%
Scandinavia	15,079	9.93%	17.03%
Other	3,133	(3.21)%	3.54%
SCF Group	**88,536**	**5.23%**	**100%**

Credit risk exposure rose by 5.23% in year-on-year terms. This increase is mainly attributable to the growth generated in both SC units (+3.1%) and those that are based on the agreement with the PSA Group (+11.8%). Italy represents the largest portfolio growth due to higher year-on-year growth of JV Italy (+26%). The largest proportion of credit risk exposure continues to be concentrated in Germany, representing 41.51% of the total if Austria and their respective JVs are included. On the other hand, Spain and Portugal represent 17.43% of the Group’s total credit risk, followed very closely by the Nordic countries with 17.03%.

b) Variations in main aggregates in 2017

The changes in non-performing loans and the cost of credit reflect the impact of the deterioration of the economic environment, mitigated by prudent risk management, which has generally enabled the Group to keep these data at levels below those of its competitors in recent years. As a result, the Group maintains an adequate rate to cover the expected loss in the credit risk portfolios it manages.

Throughout 2017, portfolios have shown an adequate performance due to a risk profile controlled by continuous improvements in recovery procedures both in sections of early irregularity and in advanced stages of deterioration, generating lower delinquent entries than expected. This fact has resulted in reaching a default rate of 2.18% at December 2017, decreasing by 20 basis points compared to December 2016 (2.38%).

Regarding the coverage of delinquency, at the end of the year, it stood at 99% compared to 107% in the previous year, explained by higher sales of the failed portfolio to the budgeted ones, which were favored by the purchase conditions in the market and parameter adjustments that resulted in lower provisions than expected, which includes the adaptation of Spain to the standard of IAS 39 for the calculation of provisions.

Following is a detail, by activity, of the loans and advances to customers at 31 December 2017(*):

	Thousand Euros								
				Secured Loans. Loan-to-Value Ratio					
	Unsecured Loans	Property Collateral	Other Collateral	Less than or Equal to 40%	More than 40% and Less than or Equal to 60%	More than 60% and Less than or Equal to 80%	More than 80% and Less than or Equal to 100%	More than 100%	Total
Public sector	*134,738*	-	-	-	-	-	-	-	*134,738*
Other financial institutions	*189,059*	*1,701*	-	*758*	*292*	*651*	-	-	*190,760*
Non-financial companies and individual traders	*21,611,649*	*568,787*	*29,885*	*182,726*	*167,627*	*109,159*	*35,285*	*103,875*	*22,210,321*
Of which:									
Construction and property development	*64,521*	-	*1,119*	*1,119*	-	-	-	-	*65,640*
Civil engineering construction	*14,669*	-	*522*	*522*	-	-	-	-	*15,191*
Large companies	*9,621,595*	*278,181*	*13,591*	*91,576*	*90,775*	*47,575*	*16,721*	*45,125*	*9,913,367*
SMEs and individual traders	*11,910,864*	*290,606*	*14,653*	*89,509*	*76,852*	*61,584*	*18,564*	*58,750*	*12,216,123*
Other households and non-profit institutions serving households	*57,782,003*	*5,822,606*	*46,800*	*1,209,883*	*1,592,644*	*1,866,606*	*466,716*	*733,557*	*63,651,409*
Of which:									
Residential	*9,812*	*5,822,606*	-	*1,163,083*	*1,592,644*	*1,866,606*	*466,716*	*733,557*	*5,832,418*
Consumer loans	*57,644,704*	-	*46,800*	*46,800*	-	-	-	-	*57,691,504*
Other purposes	*127,487*	-	-	-	-	-	-	-	*127,487*
Total	*79,717,449*	*6,393,094*	*76,685*	*1,393,367*	*1,760,563*	*1,976,416*	*502,001*	*837,432*	*86,187,228*
Memorandum item									
Refinancing, refinanced and restructured transactions (**)	*314,519*	*156,563*	*2,501*	*5,876*	*26,182*	*43,313*	*18,573*	*65,120*	*473,583*

(*) The distribution of credit does not include 447,940 thousand euros corresponding to customer advances.
(**) Included net amount accumulated Impairment or accumulate losses at fair value due to credit risk.

Forborne loan portfolio

The term “forborne loan portfolio” refers, for the purposes of the Group's risk management, to those transactions in which the customer has, or might foreseeably have, financial difficulty in meeting its payment obligations under the terms and conditions of the current agreement and, accordingly, the agreement has been modified or cancelled or even a new transaction has been entered into.

The Santander Group has a detailed customer debt forbearance policy that serves as a reference for the various local adaptations made for all the financial institutions forming part of the Group. This policy shares the principles laid down in both Bank of Spain Circular 4/2016 of 27 April 2016, and the technical standards published by the European Banking Authority in 2014, which it develops in greater detail based on the level of customer impairment.

This policy establishes strict prudential criteria for the assessment of these loans:

- The use of this practice is restricted, and any actions that might defer the recognition of impairment must be avoided.
- The main aim must be to recover the amounts owed, and any amounts deemed unrecoverable must be recognised as soon as possible.
- Forbearance must always envisage maintaining the existing guarantees and, if possible, enhance them. Not only can effective guarantees serve to mitigate losses given default, but they might also reduce the probability of default.
- This practice must not give rise to the granting of additional funding, or be used to refinance debt of other entities or as a cross-selling instrument.
- All the alternatives to forbearance and their impacts must be assessed, making sure that the results of this practice will exceed those which would foreseeably be obtained if it were not performed.
- Forborne transactions are classified using more stringent criteria which prudentially ensure that the customer's ability to pay is restored from the date of forbearance and for an adequate period of time thereafter.
- In addition, in the case of customers that have been assigned a risk analyst, it is particularly important to conduct an individual analysis of each specific case, for both the proper identification of the transaction and its subsequent classification, monitoring and adequate provisioning.

The forbearance policy also sets out various criteria for determining the scope of transactions qualifying as forborne exposures by defining a detailed series of objective indicators that permit identification of situations of financial difficulty.

Accordingly, transactions not classified as non-performing at the date of forbearance are generally considered to be experiencing financial difficulty if at that date they were more than one month past due. Where no payments have been missed or there are no payments more than one month past due, other indicators of financial difficulty are taken into account, including most notably the following:

- Transactions with customers who are already experiencing difficulties in other transactions.
- Situations where a transaction has to be modified prematurely, and the Group has not yet had a previous satisfactory experience with the customer.

- Cases in which the necessary modifications entail the grant of special conditions, such as the establishment of a grace period, or where these new conditions are deemed to be more favourable for the customer than those which would have been granted for an ordinary loan approval.

- Where a customer submits successive loan modification requests at unreasonable time intervals.

- In any case, if once the modification has been made any payment irregularity arises during a given probation period (as evidenced by backtesting), even in the absence of any other symptoms, the transaction will be deemed to be within the scope of forborne exposures.

Once it has been determined that the reasons for the modification of the customer’s debt conditions are due to financial difficulties, regardless of whether or not the customer has outstanding payments and the number of days payment has been outstanding, and the customer will be considered to be under monitoring for all purposes and, as such, will be manages in accordance with this policy.

Once forbearance measures have been adopted, transactions that have to remain classified as non-performing because at the date of forbearance they do not meet the regulatory requirements to be reclassified to a different category must comply with a continuous prudential payment schedule in order to assure reasonable certainty as to the recovery of the ability to pay.

If there is any (non-technical) default in payments during that period, the aforementioned payment schedule starts again.

On successful completion of the period, the duration of which depends on the customer's situation and the transaction features (term and guarantees provided), the transaction is no longer considered to be non-performing, although it continues to be subject to a probation period during which it undergoes special monitoring.

This monitoring continues until a series of requirements have been met, including most notably: a minimum observation period of 24 months; repayment of a substantial percentage of the outstanding amounts; and settlement of the amounts that were past due at the time of forbearance.

When forbearance is applied to a transaction classified as non-performing, the original default dates continue to be considered for all purposes, irrespective of whether as a result of forbearance the transaction becomes current in its payments. Also, the forbearance of a transaction classified as non-performing does not give rise to any release of the related provisions.

Set forth below is the quantitative information required by Bank of Spain Circular 4/2016 on the restructured transactions in force at 31 December 2017 and 2016, taking into consideration the above criterials:

Current restructuring balances at 31 December 2017 (a)

Amounts in millions of euros, except number of operations that are in units.	Total							Of which: Non-performing/Doubtful							TOTAL				Of which: Non-performing/Doubtful			
	Without real guarantee (a)		With real guarantee				Impairment of accumulated value or accumulated losses in fair value due to credit risk.	Without real guarantee		With real guarantee				Impairment of accumulated value or accumulated losses in fair value due to credit risk								
	Number of transactions	Gross amount	Number of transactions	Gross amount	Maximum amount of the actual collateral that can be considered.			Number of transactions	Gross amount	Number of transactions	Gross amount	Maximum amount of the actual collateral that can be considered.			Gross Amount	Total Guarantees	Impairment of accumulated value or accumulated losses in fair value due to credit risk	Net Amount	Gross Amount	Total Guarantees	Impairment of accumulated value or accumulated losses in fair value due to credit risk	Net Amount
					Real estate guarantee	Rest of real guarantees						Real estate guarantee	Rest of real guarantees									
Credit entities															-	-	-	-	-	-	-	-
Public sector	9	43	-	-	-	-	-	9	43	-	-	-	-	-	43	-	-	43	43	-	-	43
Other financial institutions and: individual shareholder	6	112	-	-	-	-	31	2	35	-	-	-	-	31	112	-	31	81	35	-	31	4
Non-financial institutions and individual shareholder	11,279	36,041	173	16,653	10,707	30	14,522	2,306	16,574	122	10,931	5,784	-	13,464	52,694	10,737	14,522	38,172	27,505	5,784	13,464	14,041
Of which: Financing for constructions and property development	29	196	-	-	-	-	88	18	112	-	-	-	-	87	196	-	88	108	112	-	87	25
Other warehouses	120,29	465,323	1,241	142,419	119,215	25	172,455	59,238	235,373	540	56,362	44,192	1	153,946	607,742	119,240	172,455	435,287	291,735	44,193	153,946	137,789
Total	**131,584**	**501,519**	**1,414**	**159,072**	**129,922**	**55**	**187,008**	**61,555**	**252,025**	**662**	**67,293**	**49,976**	**1**	**167,441**	**660,591**	**129,977**	**187,008**	**473,583**	**319,318**	**49,977**	**167,441**	**151,877**
Financing classified as non-current assets and disposable groups of items that have been classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-								
Promemory: value of other guarantees received (not real)		2,715							1,311													

Current restructuring balances at 31 December 2016 (a)

Amounts in millions of euros, except number of operations that are in units.	Total							Of which: Non-performing/Doubtful							TOTAL				Of which: Non-performing/Doubtful			
	Without real guarantee (a)		With real guarantee				Impairment of accumulated value or accumulated losses in fair value due to credit risk.	Without real guarantee		With real guarantee				Impairment of accumulated value or accumulated losses in fair value due to credit risk								
					Maximum amount of the actual collateral that can be considered.							Maximum amount of the actual collateral that can be considered.										
	Number of transactions	Gross amount	Number of transactions	Gross amount	Real estate guarantee	Rest of real guarantees		Number of transactions	Gross amount	Number of transactions	Gross amount	Real estate guarantee	Rest of real guarantees		Gross Amount	Total Guarantees	Impairment of accumulated value or accumulated losses in fair value due to credit risk	Net Amount	Gross Amount	Total Guarantees	Impairment of accumulated value or accumulated losses in fair value due to credit risk	Net Amount
Credit entities	-	15	-	47	-	-	-	-	-	-	-	-	-	-	62	-	-	62	-	-	-	-
Public sector	-	4	-	7	-	-	-	-	-	-	-	-	-	-	11	-	-	11	-	-	-	-
Other financial institutions and: individual shareholder	8	148	-	-	-	-	25	3	103	-	-	-	-	24	148	-	25	123	103	-	24	79
Non-financial institutions and individual shareholder	12,863	43,536	228	31,914	13,374	88	18,049	1,637	14,252	158	23,116	6,892	42	16,198	75,450	13,462	18,049	57,401	37,368	6,934	16,198	21,170
Of which: Financing for constructions and property development	45	191	-	-	-	-	74	19	103	-	-	-	-	72	191	-	74	117	103	-	72	31
Other warehouses	132,808	710,794	1,428	162,841	129,719	47	228,482	69,259	307,022	630	61,125	46,720	2	192,999	873,635	129,766	228,482	645,153	368,147	46,722	192,999	175,148
Total	**145,679**	**754,497**	**1,656**	**194,809**	**143,093**	**135**	**246,556**	**70,899**	**321,377**	**788**	**84,241**	**53,612**	**44**	**209,221**	**949,306**	**143,228**	**246,556**	**702,750**	**405,618**	**53,656**	**209,221**	**196,397**
Financing classified as non-current assets and disposable groups of items that have been classified as held for sale																						
Promemory: value of other guarantees received (not real)	-	2,598	-	-	-	-	-	-	1,159	-	-	-	-	-	-	-	-	-	-	-	-	-

The transactions presented in the foregoing table were classified at 31 December 2017 and 2016, by nature, as follows:

- Non-performing:
  - Transactions that are in the process of being returned to performing status, according to Anejo IX, Circular 4/2016.
  - Customer transactions with other impaired transactions at the date on which the customer's status changes.
  - Originated transactions in delinquency that, after being resolved, again enter into financial difficulties that will materialize no later than the non-payment of the second consecutive instalment (30+).
  - Transactions for which advantageous conditions that would not ordinarily be allowed had to be granted.
  - Restructured transactions with payments outstanding for more than 90 days.

- Watch list: those originating from doubtful items which, after restructuring, reflected sustained and consecutive payments of accrued instalments for a period of not less than 12 months, based on the characteristics of the transaction and the type of existing collateral, and those originating from normal items reflecting non-payment for not more than 90 days, which will remain in this category until complete normalization of payments.

The table below shows the changes between 2017 and 2016 in the Spanish forborne loan portfolio:

	Thousand Euros	
	2017	2016
Balance at beginning of year	**702,750**	**918,267**
Refinancing and restructuring of the period	296,744	266,195
Debt repayment	(308,701)	(251,387)
Foreclousure	-	-
Derecognised from the consolidated balance sheet	(28,387)	(33,872)
Others variations	(188,823)	(196,453)
Balance at end of year	**473,583**	**702,750**

c) *Measurement metrics and tools*

Credit rating tools

In keeping with the Santander Group tradition, which has witnessed the use of proprietary rating models since 1993, at Santander Consumer Finance Group the credit quality of customers and transactions is also measured by internal scoring and rating systems. Each credit rating assigned by models relates to a certain probability of default or non-payment, determined on the basis of the Group's historical experience.

Since the Group focuses mainly on the retail business, assessments are based primarily on scoring models or tables which, combined with other credit policy rules, issue an automatic decision on the loan applications received. These tools have the dual advantage of allocating an objective appraisal of the level of risk and speeding up the response time that would be required for a purely manual analysis.

In addition to the scoring models used for the approval and management of portfolios (rating of the transactions composing the portfolios in order to assess their credit quality and estimate their potential losses), other tools are available to assess existing accounts and customers which are used in the defaulted loan recovery process. The intention is to cover the entire "loan cycle" (approval, monitoring and recovery) by means of statistical rating models based on the Bank's internal historical data.

For individualised corporates and institutions, which at the Group include mainly dealers/retailers, the assessment of the level of credit risk is based on expert rating models that combine in the form of variables the most relevant factors to be taken into account in the assessment, in such a way that the rating process generates appraisals that are consistent and comparable among customers and summarise all the relevant information. In 2017 all the units conducted reviews of the aforementioned portfolios, involving the participation of all areas of the Group. The review meetings covered the largest exposures, companies under special surveillance and the main credit indicators of these portfolios.

Ratings assigned to customers are reviewed periodically to include any new financial information available and the experience in the banking relationship. The frequency of the reviews is increased in the case of customers that reach certain levels in the automatic warning systems and of customers classified as requiring special monitoring. The rating tools themselves are also reviewed in order to progressively fine-tune the ratings they provide.

To a lesser extent, certain exposures are also assessed using the global rating tools which cover the global wholesale banking segment. Management of this segment is centralised at the Risk Division of the Santander Group, for both rating calculation and risk monitoring purposes. These tools assign a rating to each customer, which is obtained from a quantitative or automatic module, based on balance sheet ratios or macroeconomic variables, supplemented by the analyst's expert judgement.

The Groups's portfolio of individualised corporates is scarcely representative of the total risks managed, since it relates mainly to vehicle dealer stock financing.

d) Credit risk parameters

The assessment of customers or transactions using rating or scoring systems constitutes a judgement of their credit quality, which is quantified through the probability of default (PD).

In addition to customer assessment, the quantification of credit risk requires the estimation of other parameters, such as exposure at default (EAD) and the percentage of EAD that will not be recovered (loss given default or LGD). Therefore, other relevant aspects are taken into account in estimating the risk involved in transactions, such as the quantification of off-balance-sheet exposures, which depends on the type of product, or the analysis of expected recoveries, which is related to the guarantees provided and other characteristics of the transaction: type of product, term, etc.

These factors are the main credit risk parameters. Their combination facilitates calculation of the probable loss or expected loss (EL). This loss is considered to be an additional cost of the activity which is reflected in the risk premium and must be charged in the transaction price.

These risk parameters also make it possible to calculate regulatory capital in accordance with the regulations deriving from the new Basel Capital Accord (BIS II). Regulatory capital is determined as the difference between unexpected loss and expected loss.

Unexpected loss is the basis for the capital calculation and refers to a very high, albeit scantly probable, level of loss, which is not deemed to be recurring and must be catered for using capital.

For portfolios with scant internal default experience, such as banks, sovereigns or global wholesale banking, risk parameter estimates (PD, LGD and EAD) are based on external sources: market prices or studies conducted by rating agencies gathering the shared experience of a sufficient number of entities. These portfolios are known as low default portfolios.

For all other portfolios, parameter estimates are based on the entity's internal experience. PD is calculated by observing the cases of new arrears in relation to the final rating assigned to the customers or to the scoring assigned to the related transactions.

LGD calculation is based on the observation of the recoveries of defaulted loans, taking into account not only the income and expenses associated with the recovery process, but also the timing thereof and the indirect costs arising from the recovery process.

EAD is estimated by comparing the use of committed facilities at the time of default and their use under normal (performing) circumstances, so as to identify the actual use of the facilities at the time of default.

The parameters estimated for the global portfolios are the same for all the Group's units. Therefore, a financial institution with an 8.5 rating will have the same PD, regardless of the Group unit in which its exposure is accounted for. By contrast, the retail portfolios have specific rating and scoring systems in each of the Group's units, which require separate estimates and specific assignment of parameters in each case.

The parameters are then assigned to the units' on-balance-sheet transactions in order to calculate the expected losses and the capital requirements associated with their exposure.

Observed loss: measurement of cost of credit

To supplement the predictiveness provided by the advanced models described above, other habitual metrics are used to facilitate prudent and effective management of credit risk based on observed loss.

In terms of recognition of losses, the cost of credit risk in Santander Consumer Finance is measured using different approaches: Change in non-perfoming loans (new defaults – recovery of assets written off), net loan-loss provisions (gross provisions - recovery of assests written off), net losses (failures - recovery of losses) and expected loss. In order to obtain a monitoring ratio, the first two indicators (in 12 months) are divided by the average of 12 months of the total portfolio to obtain the risk premium and the cost of credit. These gives the manager ta full insight into the evolution and future prospects of the portfolio.

It should be noted that unlike default, change in non-perfoming loans (dubious end - initial doubtful + failed - recovery of failures) refers to the total of the impaired portfolio in a period, regardless of the situation in which it is found (doubtful and failed). This makes metrics a main driver when it comes to establishing measures for portfolio.

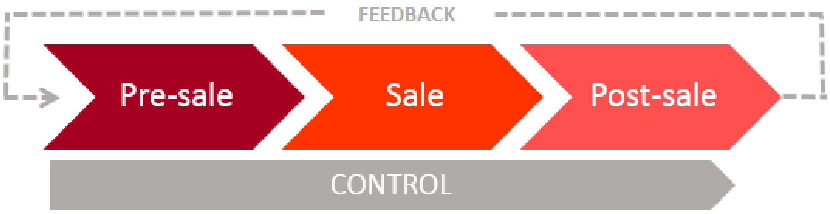
The two approaches measure the same reality and, consequently, converge in the long term although they represent successive moments in credit risk cost measurement: flows of non-performing loans (VMG), coverage of non-performing loans (net credit loss provisions), respectively. Although they converge in the long term within the same economic cycle, the three approaches show differences at certain times, which are particularly significant at the start of a change of cycle, as observed in this period. These differences are explained by the different moment of calculation of losses, which is basically determined by accounting regulations (for example, mortgage loans have a coverage calendar and becomes written off "slower" than consumer portfolios). In addition, the analysis can be clouded by changes in the policy of hedging and default, composition of the portfolio, doubtful of acquired entities, changes in accounting regulations, sale of portfolios, etc.

e) Credit risk cycle

The risk management process consists of identifying, measuring, analysing, controlling, negotiating and deciding on, as appropriate, the risks incurred in the Group's operations. The parties involved in this process are the risk-taking areas, senior management and the risk function.

As Santander Consumer Finance is part of the Santander Group, the process begins at senior management level, through the Board of Directors and the executive risk committee, which establishes the risk policies and procedures, and the limits and delegations of powers, and approves and supervises the scope of action of the risk function.

The risk cycle comprises three different phases: pre-sale, sale and post-sale. The process is being permanently updated, with the findings and conclusions of the post-sale phase being fed back into the risk analysis and planning of the pre-sale phase.



e.1) Pre-sale

- **Risk analysis and credit rating process**

  In general, the risk analysis consists of examining the customer's ability to meet its contractual obligations to the Group and to other creditors. This involves analysing the customer's credit quality, its risk transactions, its solvency and the return to be obtained in view of the risk assumed.

  Since 1993 the Group has used rating models for this purpose. These mechanisms are used in both the wholesale segment (sovereigns, financial institutions and corporate banking) and the other companies and institutions segment.

  The rating is obtained from a quantitative module based on balance sheet ratios or macroeconomic variables and supplemented by the analyst's expert judgement.

Ratings assigned to customers are reviewed periodically to include any new financial information available and the experience in the banking relationship. The frequency of the reviews is increased in the case of customers that reach certain levels in the automatic warning systems and of customers classified as requiring special monitoring. The rating tools themselves are also reviewed in order to progressively fine-tune the ratings they provide.

In contrast to the use of ratings in the wholesale and other companies and institutions segments, in the individuals and SMEs segment scoring techniques predominate; in general, these tools automatically assign a customer a score for decision-making purposes, as detailed in the transaction decision-making section below.

- **Risk limit planning and setting**

The purpose of this phase is to efficiently and comprehensively limit the risk levels that the Group assumes. The credit risk planning process is used to establish the budgets and limits at subsidiary portfolio level. Risk limit planning is instrumented through a balanced scorecard, thus ensuring the coordination of the business plan, the lending policy and the resources required to implement them. Thus, it was created as a joint initiative between the commercial and risk units and is not only a management tool but also a form of teamwork.

An important aspect of the planning phase is the consideration of the volatility of the macroeconomic variables that affect the performance of the portfolios. The Group simulates their performance in various adverse and stress scenarios (stress testing), which enables it to assess the Group's capital adequacy in the event of certain future circumstantial situations.

The scenario analysis enables senior management to gain a clearer understanding of the performance of the portfolio in response to changing market and circumstantial conditions and it is a basic tool for assessing the sufficiency of the provisions recognised to cater for stress scenarios.

The risk limits are planned and set using documents agreed upon by the business areas and risk units and approved by the Group, which contain the expected results of transactions in terms of risk and return, as well as the limits applicable to the activity and the management of the related risk by group/customer.

e.2) Sale

- **Transaction decision-making**

The sale phase comprises the decision-making process, the aim of which is to analyse and resolve upon transactions, since approval by the risk unit is a pre-requisite for the arrangement of any risk transaction. This process must consider the transaction approval policies defined and take into account both the risk appetite and any transaction elements that are important in achieving a balance between risk and return.

In the sphere of standardised customers (lower-revenue individuals, businesses and SMEs), the management of large volumes of loan transactions is facilitated by the use of automatic decision-making models that rate the customer/loan relationship. Thus, loans are classified in homogeneous risk groups using the rating assigned to the transaction by the model on the basis of information on the features of the transaction and the borrower.

e.3) Post-sale

- **Monitoring**

  The Monitoring Function is founded on a process of ongoing observation, which makes it possible to detect early any changes that might arise in customers' credit quality, so that action can be taken to correct any deviations with an adverse impact.

  Monitoring is based on the segmentation of customers, is performed by dedicated local and global risk teams and is complemented by the work performed by internal audit.

  The function involves, inter alia, identifying and monitoring companies under special surveillance, reviewing ratings and the ongoing monitoring of indicators.

  The system called "**companies under special surveillance**" (FEVE) distinguishes four categories based on the degree of concern raised by the circumstances observed (extinguish, secure, reduce and monitor). The inclusion of a position in the FEVE system does not mean that there has been a default, but rather that it is deemed advisable to adopt a specific policy for the position in question, to place a person in charge and to set the policy implementation period. Customers classified as FEVE are reviewed at least every six months, or every three months for those classified in the most severe categories. A company can be classified as FEVE as a result of the monitoring process itself, a review performed by internal audit, a decision made by the sales manager responsible for that company or the triggering of the automatic warning system. For next year, this system will evolve to a new one called SCAN, which proposes a greater policy granality.

  Assigned ratings are reviewed at least annually, but should any weakness be detected, or depending on the rating itself, more frequent reviews are performed.

  For exposures to lower-revenue individuals, businesses and SMEs, the key indicators are monitored in order to detect any variance in the performance of the loan portfolio with respect to the forecasts made in the credit management strategic business programmes – PECs.

f) Measurement and control

In addition to monitoring customers' credit quality, Santander Consumer Finance establishes the control procedures required to analyse the current credit risk portfolio and the changes therein over the various credit risk phases.
The risk control function is performed by assessing risks from various complementary perspectives, the main pillars being control by geographical location, business area, management model, product, etc., thus facilitating the early detection of specific areas requiring attention and the preparation of action plans to correct possible impairment.

Each control pillar can be analysed in two ways:

1.- Quantitative and qualitative analysis of the portfolio

In the analysis of the portfolio, any variances in the Group's risk exposure with respect to budgets, limits and benchmarks are controlled on an ongoing and systematic basis, and the impacts of these variances in certain future situations, both those of an exogenous nature and those arising from strategic decisions, are assessed in order to establish measures aimed at placing the profile and amount of the risk portfolio within the parameters set by the Group.

In addition to the traditional metrics, the following, inter alia, are used in the credit risk control phase:

- **Change in non-performing loans (VMG)**

  VMG measures the change in non-performing loans in the period, discounting the loans written off and taking recoveries into account. It is an aggregate measure at portfolio level that enables action to be taken in the event of deteriorations in the trend of non-performing loans.

- **EL (expected loss) and capital**

  Expected loss is the estimated financial loss that will occur over the next twelve months on the portfolio existing at any given time. It is an additional cost of the activity and must be charged in the transaction price.

2.- Assessment of the control processes

This includes a systematic periodic review of the procedures and methodology, and is performed over the entire credit risk cycle to ensure that they are in force and effective.

In 2006, within the corporate framework established in the Group for compliance with the Sarbanes-Oxley Act, a corporate tool was made available on the Group's intranet for the documentation and certification of all the subprocesses, operational risks and related mitigating controls. In this connection, the risk division assesses the efficiency of the internal control of its activities on an annual basis.

Furthermore, the internal validation function, as part of its mission to supervise the quality of the Group's risk management, guarantees that the systems for the management and control of the risks inherent to its activity comply with the strictest criteria and the best practices observed in the industry and/or required by the regulators. Also, internal audit is responsible for ensuring that the policies, methods and procedures are appropriate, effectively implemented and regularly reviewed.

g) Recovery management

Recovery is a significant function within the sphere of the Group's risk management. This function is performed by the Recovery and Collection Unit, which defines a global strategy and an integral approach to recovery management.

The Group combines a global model with a local implementation, considering the specific features of the business in each area of activity.

The main objective of loan recovery is to recover outstanding obligations through customer management, thereby helping to reduce the need for provisions and the costs associated with risk.

Thus, the specific aims of the recovery process are as follows:

- To seek collection or regularisation of unpaid balances, so that accounts can return to their normal status; if this is not possible, the aim is to fully or partially recover the debts, regardless of their status for accounting or management purposes.

- To maintain and strengthen the relationship with customers, paying attention to their payment behaviour and offering refinancing products to meet their needs in accordance with the corporate approval and control policies carefully established by the risk areas.

In the recovery process, large-scale or standardised customers are segregated or differentiated from individualised customers, using specific integral management models in each case, in accordance with certain basic specialisation criteria.

Recovery management involves the use of a multichannel customer relationship strategy. The telephone channel is aimed at large-scale, standardised management and involves high levels of activity in contacting customers and monitoring their payment agreements, with management actions being prioritised and adapted on the basis of the status of their debts (in arrears, doubtful or non-performing), their balances and their payment commitments.

The commercial recovery management network, which complements the telephone channel, is geared towards establishing close relationships with selected customers. It consists of teams of highly commercially-oriented agents with specific training and excellent negotiating skills who carry out a personalised management of their own portfolios of high impact customers (high balances, special products and specially managed customers).

The recovery activity for advanced stages of default involves both in- and out-of-court management and the continuation of commercial and monitoring activities through the telephone channels and agent networks, applying specific strategies and practices based on the particular stage of default.

The management model favours proactiveness and targeted management, achieved through ongoing recovery campaigns specifically designed for particular groups of customers and stages of default. Predefined objectives are pursued using specific strategies and intensive actions conducted through the appropriate channels within limited time frames.

Adequate local production and analysis of daily and monthly management information, aligned with the Bank's corporate models, were defined as the basis for the business intelligence required in order to take management-oriented decisions on an ongoing basis and to monitor the results thereof.

h) Concentration risk

Concentration risk is a key component of credit risk management. The Santander Group continuously monitors the degree of credit risk concentration, by geographical area/country, economic sector, product and customer group.

The Board of Directors, by reference to the risk appetite, determines the maximum levels of concentration, and the executive risk committee establishes the risk policies and reviews the appropriate exposure limits to ensure the adequate management of credit risk concentration.

The Group is subject to Bank of Spain regulations on large exposures contained in the fourth part of the CRR (Regulation UE No.575 / 2013), according to which the exposure contracted by an entity with respect to a client or related group of clients will be considered 'great exposure' when its value is equal or greater than 10% of its computable capital. Additionally, to limit large exposures, no entity may assume against a client or group of clients linked to each other an exposure whose value exceeds 25% of its eligible capital, after taking into account the effect of credit risk reduction under rule.

The Santander Group's Risk Division works closely with the Finance Division in the active management of credit portfolios, which includes reducing the concentration of exposures through several techniques, such as the arrangement of credit derivatives for hedging purposes or the performance of securitisation transactions, in order to optimise the risk/return ratio of the total portfolio.

The detail, by activity and geographical area of the counterparty, of the concentration of the Group's risk (*) at 31 December 2017 is as follows:

	Thousand Euros				
	Spain	Other EU Countries	Americas	Rest of the World	Total
Credit institutions	1,368,170	5,051,891	-	83,930	6,503,991
Public sector	1,002,757	1,097,327	-	32,317	2,132,401
Of which:					-
Central government	952,315	1,018,401	-	-	1,970,716
Other	50,442	78,926	-	32,317	161,685
Other financial institutions	21,080	224,453	6,182	107,230	358,945
Non-financial companies and individual traders	2,681,608	18,803,397	-	1,288,330	22,773,335
Of which:					-
Construction and property development	-	65,640	-	-	65,640
Civil engineering construction	-	15,191	-	-	15,191
Large companies	1,290,934	8,219,726	-	630,239	10,140,899
SMEs and individual traders	1,390,674	10,502,840	-	658,091	12,551,605
Other households and non-profit institutions serving households	11,081,034	48,381,962	65	4,256,141	63,719,202
Of which:					-
Residential	2,072,710	3,770,304	-	-	5,843,014
Consumer loans	8,880,878	44,606,090	65	4,256,141	57,743,174
Other purposes	127,446	5,568	-	-	133,014
Total					**95,487,874**

(*) For the purposes of this table, the definition of risk includes the following items in the public consolidated balance sheet: “Cash, cash balances at central banks and others deposits on demand”, “Deposits to Credit Institutions”, “Loans and Advances to Customers”, “Debt Instruments”, “Trading Derivatives”, “Hedging Derivatives”, “Investments”, “Equity Instruments” and “Contingent Liabilities”.

Sovereign risk

As a general rule, the Group considers sovereign risk to be the risk assumed in transactions with central banks, the issuer risk of the Treasury or Republic and the risk arising from transactions with public entities (those whose funds are obtained from fiscal income, which are legally recognised as entities included in the government sector and whose activities are of a non-commercial nature). Following is the Group's total risk exposure to the so-called peripheral countries of the euro zone, distinguishing between sovereign risk and private sector exposure based on the country of the issuer or borrower:

Sovereign Risk by Country of Issuer/Borrower at 31 December 2017 (*)								
	Thousand Euros							
	Debt Instruments						Derivatives (***)	
	Financial Assets Held for Trading and Other Financial Assets at FVTPL	Short Positions	Available-for-Sale Financial Assets	Loans and Receivables	Loans and Advances to Customers (**)	Total Net Direct Exposure	Other than CDSs	CDSs
Spain	-	-	1,002,461	-	250	1,002,711	-	-
Portugal	-	-	-	-	376	376	-	-
Italy	-	-	467,055	-	16,448	483,503	-	-
Ireland	-	-	-	-	-	-	-	-

(*) Information prepared under EBA standards. Off-balance sheet exposures other than derivatives-contingent commitments and risks-totalling- amounting to 20 thousand euros (with Spain).

(**) Presented without taking into account the valuation adjustments recognised (2.780 thousand euros).

(***) "Other than CDSs" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. "CDSs" refers to the exposure to CDSs based on the location of the underlying.

Sovereign Risk by Country of Issuer/Borrower at 31 December 2016 (*)								
	Thousand Euros							
	Debt Instruments						Derivatives (***)	
	Financial Assets Held for Trading and Other Financial Assets at FVTPL	Short Positions	Available-for-Sale Financial Assets	Loans and Receivables	Loans and Advances to Customers (**)	Total Net Direct Exposure	Other than CDSs	CDSs
Spain	-	-	1,252,504	-	573	1,253,077	-	-
Portugal	-	-	-	-	359	359	-	-
Italy	-	-	492,395	-	7,097	499,492	-	-
Ireland	-	-	-	-	-	-	-	-

(*) Information prepared under EBA standards. Off-balance sheet exposures other than derivatives-contingent commitments and risks-totalling 4,475 thousand euros (12 thousand euros and 4,463 thousand euros with Spain and Portugal, respectively).

(**) Presented without taking into account the valuation adjustments recognised (4 thousand euros).

(***) "Other than CDSs" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. "CDSs" refers to the exposure to CDSs based on the location of the underlying.

The detail of the Group's other exposure to other counterparties (private sector, central banks and other public entities that are not considered to be sovereign risks) in the aforementioned countries at 31 December 2017 and 2016 is as follows:

Exposure to Other Counterparties by Country of Issuer/Borrower at 31 December 2017 (*)									
	Thousand Euros								
			Debt Instruments					Derivatives (***)	
	Balances with Central Banks	Reverse Repurchase Agreements	Financial Assets Held for Trading and Other Financial Assets at FVTPL	Available-for-Sale Financial Assets	Loans and Receivables	Loans and Advances to Customers (**)	Total Net Direct Exposure	Other than CDSs	CDSs
Spain	77,687	-	-	8,797	-	14,071,580	14,158,064	(346)	-
Portugal	-	-	-	-	-	1,413,874	1,413,874	-	-
Italy	12,335	-	-	-	-	7,931,761	7,944,096	(159)	-
Grecee	-	-	-	-	-	1,276	1,276	-	-
Ireland	-	-	-	-	-	9,086	9,086	-	-

(*) In addition, the Group had off-balance-sheet exposure other than derivatives –contingent liabilities and commitments– amounting to 17,613,738 thousand euros, 351,954 thousand euros and 675,972 thousand euros to counterparties in Spain, Portugal and Italy, respectively.

(**) Presented without taking into account valuation adjustments and impairment losses recognised (588.340 thousand euros).

(***) "Other than CDSs" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. "CDSs" refers to the exposure to CDSs based on the location of the underlying.

Exposure to Other Counterparties by Country of Issuer/Borrower at 31 December 2016 (*)									
	Thousand Euros								
			Debt Instruments					Derivatives (***)	
	Balances with Central Banks	Reverse Repurchase Agreements	Financial Assets Held for Trading and Other Financial Assets at FVTPL	Available-for-Sale Financial Assets	Loans and Receivables	Loans and Advances to Customers (**)	Total Net Direct Exposure	Other than CDSs	CDSs
Spain	16,349	-	-	-	10	12,538,768	12,555,127	(2,423)	-
Portugal	-	-	-	-	-	1,404,103	1,404,103	-	-
Italy	19,927	-	-	-	-	5,023,644	5,043,571	-	-
Ireland	-	-	-	-	-	-	-	-	-

(*) Also, the Group had off-balance-sheet exposure other than derivatives –contingent liabilities and commitments– amounting to 16,714,868 thousand euros, 347,231 thousand euros and 112,961 thousand euros to counterparties in Spain, Portugal and Italy, respectively,

(**) Presented without taking into account valuation adjustments and impairment losses recognised (694,393 thousand euros),

(***) "Other than CDSs" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying, "CDSs" refers to the exposure to CDSs based on the location of the underlying,

At 31 December 2017 and 2016, the Group had not arranged any credit default swaps (CDSs).

III. Market, structural and liquidity risk

1. Scope and definitions

The measurement, control and monitoring scope of the Market Risk function encompasses those operations where an asset risk is assumed because of changes in market factors.

Such risks are generated through two types of basic activities:

- Trading which includes both the rendering of financial services on markets for clients, on which the entity is the counterparty, and sales and purchases and positioning mainly in fixed income, equity and foreign currency products.

  The Group carries out no trading operations and confines its treasury activity to managing the structural risk of its balance sheet and its coverage, managing the necessary liquidity to finance its business.

- Management of the balance sheet or ALM entails managing the risks inherent in the entity's balance sheet, excluding trading books.

The risks generated by these activities are:

- Market: Risk incurred as a result of possible changes in market factors affecting the value of the positions held by the entity in its trading books.

- Structural: Risk caused by the management of different balance sheet items. This risk includes both losses owing to price variations affecting available for sale and held to maturity portfolios (banking book), and losses arising on the management of the Group's assets and liabilities measured at amortised cost.

- Liquidity: Risk of payment obligations not being met on a timely basis or met at an excessive cost. The types of losses that this risk triggers include losses on the forced selling of assets or impacts on the margin because of the mismatch of forecast cash outflows and inflows.

Market and structural risks, depending on the market variable that triggers them, may be classified as:

- Interest rate risk: Identifies the possibility that interest rate variations may have a negative impact on the value of a financial instrument, a portfolio or the Group as a whole.

- Credit risk spread: Identifies the possibility that variations in credit risk curves associated with issues and specific types of debt may have an adverse effect on a financial instrument, a portfolio or the Group as a whole. The spread is a differential between listed financial instruments with a margin over other instruments used as a reference, basically the IRR (Internal Rate of Return) on Government securities and interbank rates.

- Exchange rate risk: Identifies the possibility that variations in the value of a position in a currency other than the base currency can have an adverse effect on the value of a financial instrument, a portfolio or the Group as a whole.

- Inflation risk: Identifies the possibility that variations in the inflation rate may have an adverse effect on the value of a financial instrument, a portfolio or the Group as a whole.

- Volatility risk: Identifies the possibility that variations in the listed volatility of market variables may have an adverse effect on the value of a financial instrument, a portfolio or the Group as a whole.

- Market liquidity risk: Identifies the possibility that an entity or Group as a whole is unable to dispose of or close a position on a timely basis without impacting the market price or transaction cost.

- Risk of early payment or cancellation: Identifies the possibility of early cancellation without negotiation on operations where the contractual relationship so allows explicitly or implicitly, generating cash flows that should be reinvested at a potentially lower interest rate.

There are other variables that only impact the market risk (and not the structural risk), meaning that it can also be classified as follows:

- Equity risk: Identifies the possibility that changes in the value of prices or dividend expectations from equity instruments can have an adverse effect on the value of a financial instrument, a portfolio or the Group as a whole.

- Commodity price risk: Identifies the possibility that changes in the value of commodity prices may have an adverse effect on the value of a financial instrument, a portfolio or the Group as a whole.

- Correlation risk: Identifies the possibility that changes in the correlation between variables, either of the same type or different in nature, listed on the market, may have an adverse effect on the value of a financial instrument, a portfolio or the Group as a whole.

- Underwriting risk: Identifies the possibility that placement targets for securities or other types of debt are not reached when the entity participates in underwriting them.

The liquidity risk may also be classified in the following categories:

- Financing risk: Identifies the possibility that the entity is unable to comply with its obligations as a result of its inability to sell assets or obtaining funding.

- Mismatch risk: Identifies the possibility that differences between asset and liability maturity structures generate additional costs for the entity.

- Contingency risk: Identifies the possibility of not having adequate management elements to obtain liquidity as a result of an extreme event which increases the need for financing or collateral to obtain it.

2. Methodologies

2.1 Structural interest rate risk

The Group analyses the sensitivity of the net interest margin and market value of equity to changes in interest rates. This sensitivity arises from maturity and interest rate repricing gaps in the various balance sheet items.

On the basis of the balance-sheet interest rate position, and considering the market situation and outlook, the necessary financial measures are adopted to align this position with that desired by the Bank. These measures can range from the taking of positions on markets to the definition of the interest rate features of commercial products.

The measures used by the Group to control interest rate risk in these activities are the interest rate gap and the sensitivity of net interest margin and market value of equity to changes in interest rates.

- *Interest rate gap of assets and liabilities*

The interest rate gap analysis focuses on the mismatches between the interest reset periods of on-balance-sheet assets and liabilities and of off-balance-sheet items. This analysis facilitates a basic snapshot of the balance sheet structure and enables concentrations of interest rate risk in the various repricing buckets to be detected. Additionally, it is a useful tool for estimating the possible impact of potential changes in interest rates on the entity's net interest margin and market value of equity.

The flows of all the on- and off-balance-sheet aggregates must be broken down and placed at the point of repricing or maturity. For those aggregates that do not have a contractual maturity date, their duration and sensitivity are analysed and estimated using the Santander Group's internal model.

- *Net interest margin (NIM) sensitivity*

The sensitivity of the net interest margin measures the change in the expected net interest income for a specific period (twelve months) given a shift in the yield curve.

- *Market value of equity (MVE) sensitivity*

It measures the implicit interest rate risk with respect to equity value which for the purposes of interest rate risk is defined as the difference between the net present of assets less the net present value of liabilities due, based on the impact of a variation in interest rates on such present values.

2.2 Liquidity risk

Structural liquidation management aims to finance the recurring activities of the Santander Consumer Finance Group in optimal conditions in terms of time and cost, and avoids undesired liquidity risk exposures.

The measures used to control liquidity risk are the liquidity gap, liquidity ratios, the statement of structural liquidity and regulatory reporting.

- *Liquidity gap*

The liquidity gap provides information on contractual and expected cash inflows and outflows for a given period for each currency in which the Santander Consumer Finance Group operates. The gap measures the net cash requirement or surplus at a given date and reflects the liquidity level maintained under normal market conditions.

In the contractual liquidity gap, all cash-flow generating balance sheet items are analysed and placed at the point of contractual maturity. For assets and liabilities without contractual maturities, the Santander Group's internal analysis model is used, based on a statistical study of the time series of the products, and the so-called stable or unstable balance for liquidity purposes is determined.

- *Liquidity ratios*

The minimum liquidity ratio compares the liquid assets available for sale or transfer (after the relevant discounts and adjustments have been applied) and the assets maturing in less than twelve months with the liabilities maturing in twelve months or less.

The Structural Financing Ratio measures the extent to which assets requiring structural financing are being financed through structural liabilities.

- *Structural liquidity table*

The aim of this analysis is to determine the structural liquidity position on the basis of the liquidity profile (more or less stable) of the various asset and liability instruments.

- *Liquidity stress tests*

The purpose of the liquidity stress tests conducted by the Santander Consumer Finance Group is to determine the impact of a severe, but plausible, liquidity crisis. In these stress scenarios, internal factors that might affect the Group's liquidity are simulated, such as a fall in the institutional credit rating or the value of on-balance-sheet assets, restrictions on transfers between Group entities or factors external to the SCF Group such as, inter alia, a scarcity of liquidity in the banking system, banking crises, regulatory factors, changes in consumption trends and/or a loss of depositor confidence.

Every month, four liquidity stress scenarios (banking crisis in Spain, idiosyncratic crisis at the Santander Consumer Finance Group and global crisis and a combined scenario) are simulated by stressing these factors, and the results are used to establish early warning levels.

- Financial Plan

Each year, a liquidity plan is prepared on the basis of the funding needs arising from the business budgets of all the Group’s subsidiaries. Based on these liquidity requirements, an analysis is made of the limits on new securitisations, considering the eligible assets available, and of the potential growth in customer deposits. This information is used to establish an issue and securitisation plan for the year. Throughout the year the Group periodically monitors the actual changes in financing requirements and updates this plan accordingly.

- Liquidity Contingency Plan

The purpose of the Liquidity Contingency Plan is to set out the processes (governance structure) to be followed in the event of a potential or real liquidity crisis, as well as the analysis of contingency actions or levers available to Management should such a situation arise.

The Liquidity Contingency Plan is underpinned by, and must be designed in line with, two key elements: liquidity stress tests and the early warning indicator (EWI) system. Stress tests and the different testing scenarios serve as a basis for analysing the contingency actions that could be taken and for determining whether these actions are sufficient. The EWI system is used to monitor and potentially trigger the escalation mechanism in order to activate the plan and subsequently monitor the situation.

- *Regulatory reporting*

Santander Consumer Finance prepares the consolidated subgroup's liquidity coverage ratio (LCR) as foreseen by the European Banking Authority (EBA) on a monthly basis and the net stable funding ratio (NSFR) quarterly.

In addition, Santander Consumer Finance has published the annual Internal Liquidity Adequacy and Assessment Process (ILAAP) report as part of the Santander Group's consolidated reporting documents, even though the supervisory authorities do not require this report at subgroup level.

2.3. Structural change risk

Structural change risk is managed centrally, as part of the general corporate procedures at Santander Group level.

3. Limits

Within the framework of the annual limits plan, limits are established for structural balance sheet risks, based on the Santander Consumer Finance Group's risk appetite.

The limits structure requires a process to be performed that pursues, inter alia, the following objectives:

- To identify and delimit, in an efficient and comprehensive manner, the main types of market risk incurred, so that they are consistent with business management and the defined strategy.

- To quantify and communicate to the business areas the risk levels and profile deemed acceptable by senior management so as to avoid undesired risks.

- To give flexibility to the business areas for the efficient and timely assumption of financial risks, depending on market changes, and for the implementation of the business strategies, provided that the acceptable levels of risk are not exceeded.

- To allow business makers to assume risks which, although prudent, are sufficient to obtain the budgeted results.

- To delimit the range of products and underlyings with which each Treasury unit can operate, taking into account features such as valuation model and systems, liquidity of the instruments involved, etc.

If any of these limits, or their sub-limits, are breached, risk management managers must explain the corresponding reasons and facilitate the corresponding corrective action plan.

The main management limits, regarding structural risk, at the Santander Consumer Consolidated level are:

- One-year financial margin sensitivity limit

- Equity value sensitivity limit

The limits are compared with the sensitivity that supposes a greater loss between those calculated for eight different scenarios (parallel rise and fall of the interest rate curve of 25, 50, 75 and 100 basis points). Using several scenarios allows improving the control of interest rate risk. In the descent scenarios, negative interest rates are considered up to a certain floor.

1. Management

Balance sheet management entails the analysis, projection and simulation of structural risks, along with the design, proposal and performance of transactions and strategies to manage this risk. The Finance Management area is entrusted with carrying out this process, applying a projection method whenever applicable and feasible.

A high-level description of the main processes and/or responsibilities in managing structural risks is as follows:

- Analysis of the balance sheet and its structural risks.

- Monitoring of movements in the most relevant markets for asset and liabilities management (ALM) within the Group.

- Planning. Design, maintenance and monitoring of certain planning instruments. The Financial Management area is responsible for preparing, following and maintaining the Finance Plan, the Financing Plan and the Liquidity Contingency Plan.

- Strategy proposals. Design of strategies aimed at financing the SCF subgroup's business by securing the best market conditions or by managing the balance sheet and its exposure to structural risks, thereby avoiding the assumption of unnecessary risks, preserving net interest income and safeguarding the market value of equity and capital.

- Execution. In order to achieve an adequate ALM position, the Financial Management area uses different tools, particularly market issues of debt/capital, securitisations, deposits and interest rate and/or currency hedges, as well as management of ALCO portfolios.

- Compliance with limits and with risk appetite

IV. Operational risk

a) Definition and objectives

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

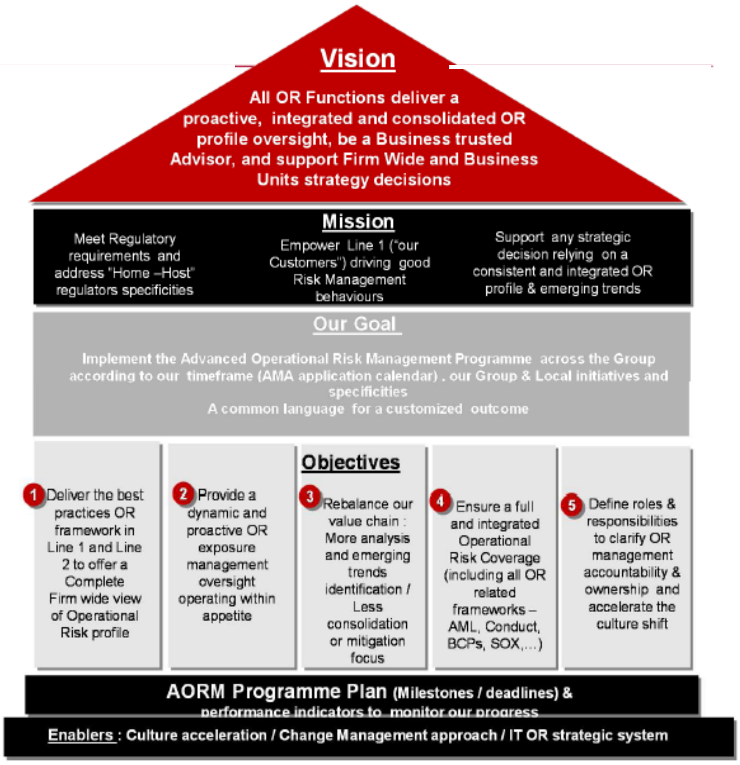
Operational risk is inherent in all products, activities, processes and systems, and is generated in all the business and support areas. Accordingly, all employees are responsible for managing and controlling the operational risks generated in their area of activity.

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

The Group's priority, therefore, is to identify and mitigate any clusters of operational risk, irrespective of whether or not they have given rise to any losses. Measurement of this risk also contributes to the establishment of priorities in operational risk management.

For the purpose of calculating regulatory capital for operational risk, the Group has been applying the Standardised Approach provided for under Basel II standards.

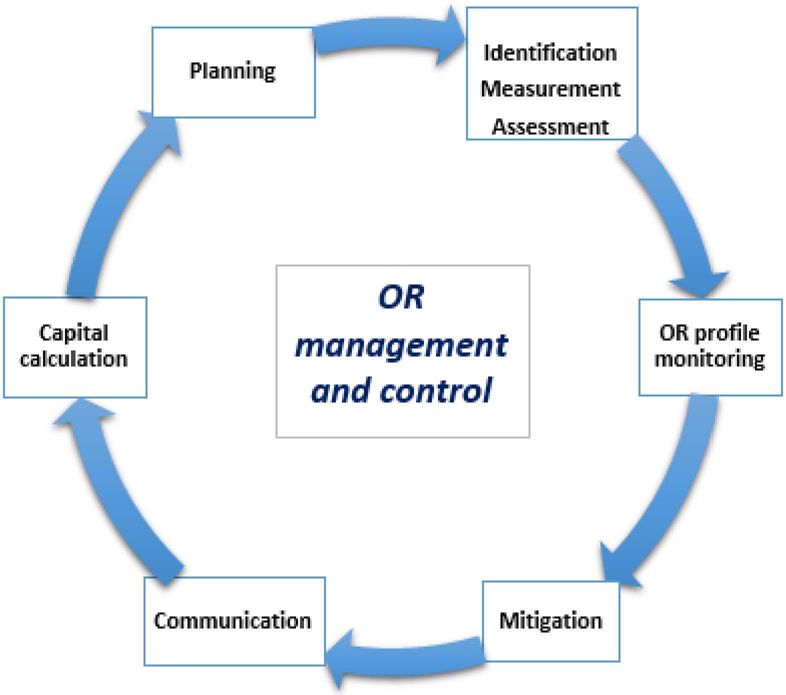
However, in 2017 the Group commenced a project aimed at shifting to an advanced operational risk management (AORM) approach in its main geographies.


Vision
All OR Functions deliver a proactive, integrated and consolidated OR profile oversight, be a Business trusted Advisor, and support Firm Wide and Business Units strategy decisions
Mission
Meet Regulatory requirements and address "Home –Host" regulators specificities
Empower Line 1 ("our Customers") driving good Risk Management behaviours
Support any strategic decision relying on a consistent and integrated OR profile & emerging trends
Our Goal
Implement the Advanced Operational Risk Management Programme across the Group according to our timeframe (AMA application calendar) . our Group & Local initiatives and specificities
A common language for a customized outcome
Objectives
1 Deliver the best practices OR framework in Line 1 and Line 2 to offer a Complete Firm wide view of Operational Risk profile
2 Provide a dynamic and proactive OR exposure management oversight operating within appetite
3 Rebalance our value chain : More analysis and emerging trends identification / Less consolidation or mitigation focus
4 Ensure a full and integrated Operational Risk Coverage (including all OR related frameworks – AML, Conduct, BCPs, SOX,…)
5 Define roles & responsibilities to clarify OR management accountability & ownership and accelerate the culture shift
AORM Programme Plan (Milestones / deadlines) & performance indicators to monitor our progress
Enablers : Culture acceleration / Change Management approach / IT OR strategic system

b) Operational risk management and control model

Operational risk management cycle

The components of operational risk management at the Group are as follows:



The various phases of the operational risk management and control model involve:

- Identification of the operational risk inherent in all Group's activities, products, processes and systems. This process is carried out through a Risk and Control Self-Assessment (RCSA).
- Definition of the target operational risk profile, specifying the strategies by unit and time horizon, through the establishment of the operational risk appetite and tolerance, the budget and the related monitoring.
- Encouragement of the involvement of all employees in the operational risk culture, through appropriate training for all areas and levels of the organisation.
- Objective and ongoing measurement and assessment of operational risk, consistent with industry and regulatory standards (Basel, Bank of Spain, etc.) in the area.
- Continuous monitoring of operational risk exposures, implementation of control procedures, improvement of internal awareness and mitigation of losses.

- Establishment of mitigation measures to eliminate or minimise operational risk.
- Preparation of periodic reports on the exposure to operational risk and its level of control for Group's senior management and its areas/units, and reporting to the market and the regulatory authorities.
- Definition and implementation of the methodology required for calculating capital in terms of expected and unexpected loss.

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

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

  The Group has implemented a single tool (Heracles) for managing and controlling operational risk, compliance and internal control.

- The internal regulations setting out operational risk management and control principles have been defined and approved in accordance with the established governance system and in line with both prevailing regulations and best practices.

  In 2015, the Group adhered to the corresponding corporate framework and, subsequently, the model, policies and procedures were approved and implemented, along with the Operational Risk Committee Regulations.

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

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

c) Risk identification, measurement and assessment model

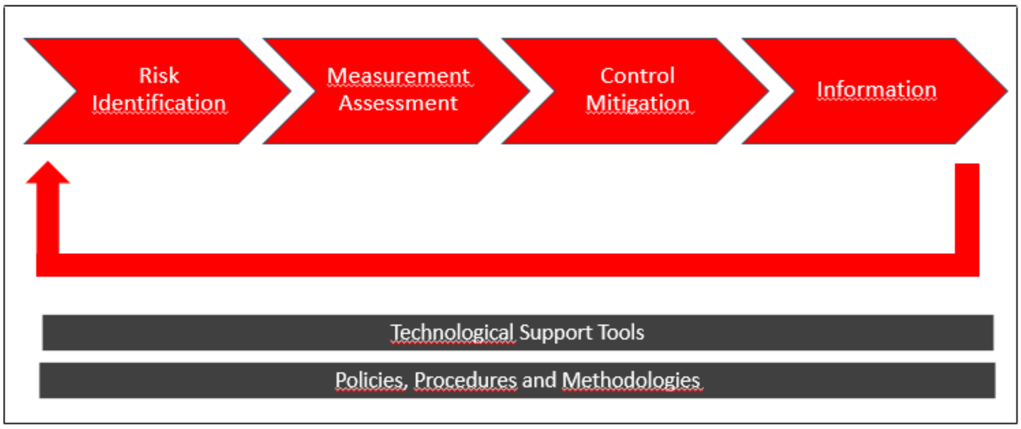
Since November 2014 Santander Consumer Finance has adopted the new Santander Group management system in which three lines of defence were defined:

- 1st line of defence: integrated in the business or support areas. Its tasks are to identify, measure or assess, control (primary control), mitigate and report the risks inherent to the activity or function for which it is responsible

- 2nd line of defence: performed by the non-financial risks unit, reporting to the CRO. Its functions are to design, maintain and develop the local adaptation of the Operational Risk Management Framework (BIS), and to control and challenge the actions of the first line of defence against operational risk.

- 3rd line of defence: performed by internal audit, which assesses the compliance of all the entity's activities and units with its policies and procedures.

The components of risk management at Santander Consumer Finance are as follows:



In order to identify, measure and assess operational risk, the Group defined a set of quantitative and qualitative corporate techniques/tools that are combined to perform a diagnosis based on the identified risks and obtain a valuation through the measurement/assessment of the area/unit.

The quantitative analysis of this risk is carried out mainly using tools that record and quantify the level of losses associated with operational risk events.

- An internal event database, to capture all operational risk events at the Group. The capture of operational risk-related events is not limited by the establishment of thresholds, i.e. events are not excluded because of their amount, and the database contains both events with an accounting impact (including positive impacts) and those without.

  There are accounting reconciliation procedures that ensure the quality of the information entered in the database. The most significant events of the Group and of each of the Group's operational risk units are especially documented and reviewed.

- An external event database, since the Group participates, through the Santander Group, in international consortia such as ORX (the Operational Riskdata Exchange Association). In 2016 greater use was made of external databases, which provide quantitative and qualitative information and permit a more detailed and structured analysis of major events that have occurred in the sector.

- OR scenario analysis. Expert opinion is obtained from the business lines and the risk and control managers with the aim of identifying potential events which, although very unlikely to occur, could result in a very high loss for the institution. Their possible effect on the institution is evaluated and additional controls and mitigating measures are identified that reduce the possibility of a high economic impact.

  This feature has also been included in the HERACLES tool.

- Calculation of capital using the Standardised Approach.

The tools defined for the qualitative analysis aim to assess aspects (coverage/exposure) linked to the risk profile, thereby making it possible to capture the control environment in place. These tools include primarily:

- Risk and Control Self-Assessment (RCSA): This new methodology designed to improve risk assessment, based on the expert judgement of the managers, provides a qualitative view of the main clusters of risk at Santander Consumer Finance, irrespective of whether or not they have occurred previously.

  Improvements of the RCSA:

  a. To motivate the assumption of responsibility by the first lines of defence: it establishes the first-line figures of the risk owner and the control owner.

  b. To favour the identification of the most significant risks: not pre-defined risks, but rather risks that arise from the risk-generating areas.

  c. To improve the integration of the OR tools: it includes a root cause analysis.

  d. To improve the validation of the exercise. it is conducted in the form of workshops, rather than questionnaires.

  e. To render the exercises more forward-looking in their approach*:* the financial impact resulting from risk exposure is assessed.

- A continuously-evolving corporate system of operational risk indicators that is coordinated with the corresponding corporate area. The indicators are statistics or parameters of various kinds that provide information on an entity's risk exposure. They are revised periodically in order to warn of any changes that could reveal problems vis-à-vis operational risk.

- Audit recommendations. These provide relevant information on the inherent risk owing to internal and external factors and make it possible to identify weaknesses in the controls

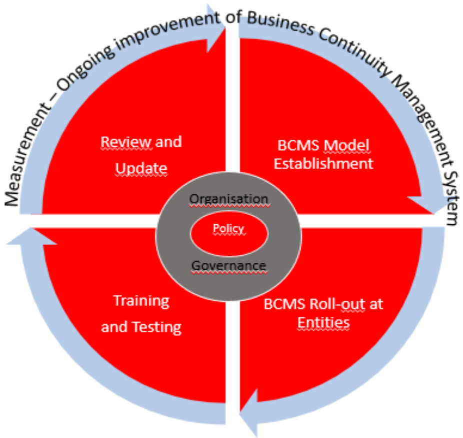
- Other specific instruments that permit a more detailed analysis of technology risk, such as the control of critical incidents in the systems and cyber-security events.

d) Operating rik information system

HERACLES is the corporate operating risk information system. This system has modules for the self-assessment of risks, event logs, risk maps and evaluation, indicators of both operating risk and internal control, mitigation and reporting systems as well as the analysis of scenarios. And it is applicable to all Group entities.

e) Business continuity plan

The Santander Group and, therefore, Santander Consumer Finance, has a business continuity management system (BCMS) to ensure the continuity of the business processes of its entities in the event of a disaster or serious incident.



This basic objective consists of the following:

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

f) Corporate information

The Santander Group's corporate operational risk control area has an operational risk management information system that provides data on the Group's main risk elements. The information available from each country/unit in the operational risk sphere is consolidated to obtain a global view with the following features:

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

More specifically, information is prepared on the following aspects:

- The operational risk management model in place at the Santander Group and its main units and geographical areas.
- The scope of operational risk management.
- Monitoring of appetite metrics.
- Analysis of the internal event database and of significant external events.
- Analysis of the most significant risks, detected using various sources of information, such as the internal operational and technology risk assessment exercises.
- Evaluation and analysis of risk indicators.
- Mitigating measures/active management.
- Business continuity plans and contingency plans.

This information serves as the basis for meeting reporting requirements vis-à-vis the Executive Risk Committee, the Risk, Regulation and Compliance Oversight Committee, the Operational Risk Committee, senior management, regulators, rating agencies, etc.

The role of insurance in operational risk management

The Group considers insurance as a key factor in operational risk management. In 2014 common guidelines were established for coordinating the various functions involved in the management cycle for operational risk-mitigating insurance, mainly the areas of proprietary insurance and operational risk control, but also the various front-line risk management areas.

These guidelines include the following activities:

- Identification of all risks at the Group which could be covered by insurance, as well as new insurance cover for risks already identified in the market.
- Establishment and implementation of methods for quantifying insurable risk, based on loss analysis and loss scenarios that make it possible to determine Group's level of exposure to each risk.
- Analysis of the cover available in the insurance market, as well as preliminary design of the terms and conditions that best suit the requirements previously identified and evaluated.
- Technical assessment of the level of protection provided by a policy, and of the cost and retention levels that the Group will assume (excesses and other items to be borne by the insured), for the purpose of deciding whether to arrange it.
- Negotiation with insurance providers and award of policies in accordance with the relevant procedures established by the Group.
- Monitoring of claims reported under the policies, as well as those not reported or not recovered due to incorrect reporting.
- Analysis of the appropriateness of the Group's policies for the risks covered, taking the necessary measures to correct any shortcomings detected.

- Close cooperation between local operational risk officers and local insurance coordinators in order to enhance operational risk mitigation.
- Regular meetings to report on specific activities, statements of position and projects in the two areas.

Compliance and conduct risk

The compliance function includes all matters related to regulatory compliance, the prevention of money laundering and the financing of terrorism, the governance of products and consumer protection, and reputational risk.

The compliance function promotes the accession of Santander Consumer Finance, S.A. (hereinafter "SCF") to the standards, the requirements of supervision, and the principles and values of good conduct by establishing standards, debating, advising and reporting, in the interest of employees, customers, shareholders and the community in general. According to the current corporate configuration of the three lines of defense of the Santander Group, the compliance function is configured as an independent control function of the second line and with a direct report to the board of directors and its committees through the CCO. This configuration is aligned with the requirements of banking regulation and with the expectations of supervisors.

SCF's objective in terms of compliance and conduct risk is to minimize the probability of non-compliance and irregularities, and in the event that they occur, they are identified, valued, reported and resolved quickly.

SCF continues to transform the Compliance function with the objective of achieving by the end of 2018 the maximum alignment with Grupo Santander's standards in terms of policies, procedures and management methodologies in all its units.

g) Compliance with the new regulatory framework

The regulations known as Basel III, which establish new global capital, liquidity and leverage standards for financial institutions, came into force in 2014.

From the capital standpoint, Basel III redefines what is considered to be available capital at financial institutions (including new deductions and raising the requirements for eligible equity instruments), increases the minimum capital requirements, requires financial institutions to operate permanently with capital buffers, and adds new requirements in relation to the risks considered.

In Europe, the new standards were implemented through Directive 2013/36/EU, known as the Capital Requirements Directive (“CRD IV”), and the related Capital Requirements Regulation 575/2013 (“CRR”), which is directly applicable in all EU Member States (as part of the Single Rulebook). In addition, these standards are subject to Implementing Technical Standards commissioned from the European Banking Authority (EBA).

CRD IV was transposed into Spanish legislation through Law 10/2014 on the regulation, supervision and capital adequacy of credit institutions, and its subsequent implementing regulations contained in Royal Decree 84/2015. The CRR is directly applicable in EU Member States as from 1 January 2014 and repeals all lower-ranking rules providing for additional capital requirements.

The CRR establishes a phase-in that will permit a progressive adaptation to the new requirements in the European Union. The phase-in arrangements were incorporated into Spanish regulations through Bank of Spain Circular 2/2014. They affect both the new deductions and the issues and items of own funds which cease to be eligible as such under this new regulation. The capital buffers provided for in CRD IV are also subject to phase-in; they are applicable for the first time in 2016 and must be fully implemented by 2019.

In late 2017, the European Central Bank (ECB) informed each institution of the minimum prudential capital requirements for the following year. In 2018, the Santander Consumer Finance Group must maintain a minimum phase-in CET1 of 8.12%[2] on a consolidated basis (Pillar I requirement of 4.5%, Pillar 2 requirement of 1.5%, a capital conservation buffer of 1.875% and a countercyclical capital buffer of 0.24%). Santander Consumer Finance must also maintain a minimum phase-in Tier 1 capital of 9.62% and a minimum phase-in Total Tier ratio of 11.62%.

At 2017 year-end, the Bank surpasses the prudential requirement defined by the ECB, with a ratio CET1 (Fully Loaded) of 12.04% (ratio phase-in of 12.95%) and ratio capital of 15.04% (fully loaded) and 15.24% (phase-in).

With regard to credit risk, the Group is continuing to adopt its plan to implement the Basel advanced internal ratings-based (AIRB) approach. Progress in this connection is conditioned both by the acquisitions of new entities and the need for coordination among supervisors of the validation processes for the internal approaches.

The Santander Consumer Finance Group is present mainly in geographical areas where there is a common legal framework among supervisors, as is the case in Europe through the Capital Requirements Directive.

To date the Group has obtained authorisation from the supervisory authorities to use AIRB approaches for the calculation of regulatory capital requirements for credit risk for its main portfolios in Spain, Germany, the Nordic countries and France.

With regard to operational risk, the Santander Consumer Finance Group currently uses the standardised approach for regulatory capital calculation provided for in the European Capital Directive.

Using the standardised approach and in comparison with the other risks explicitly referred to in Basel Pillar 1, market risk is not significant at Santander Consumer Finance, since its business object does not include market transactions.

Leverage ratio

The leverage ratio was established within the Basel III regulatory framework as a non-risk-sensitive measure of the capital that financial institutions are required to hold. CRD IV was amended on 17 January 2015 through the modification of Regulation (EU) No 575/2013 to harmonise the calculation criteria with those specified in the Basel Committee's document entitled "Basel III leverage ratio framework and disclosure requirements". This ratio is calculated as Tier 1 capital divided by leverage exposure.

The leverage ratio is still in the calibration phase and there is no obligation to comply with it until 2018. The reference ratio was set at 3,5% and at December 2017 Santander Consumer Finance had a fully-loaded leverage ratio of 8.77% at sub-consolidated level (8.91% Phase-inn).

Economic capital

With regard to capital adequacy, in the context of Pillar 2 of the Basel Capital Accord, the Santander Consumer Finance Group conducts the internal capital adequacy assessment process (ICAAP) using its economic capital model. To this end, it plans the evolution of the business and the capital requirements under a central scenario and under alternative stress scenarios. With this planning the Group ensures that it will continue to meet its capital adequacy targets, even in adverse economic scenarios.

[2] This requirement includes: (i) minimum Common Equity Tier 1 requirement that must be maintained at all times under Article 92 (1) (a) of regulation (EU) No 575/2013 (ii) the Common Equity Tier 1 required to keep in excess at all times in accordance with article 16 (2) (a) of regulation (EU) No 1024/2013; and (iii) the capital conservation buffer under article 129 of directive 2013/36 / EU.

Economic capital is the capital required, based on an internally-developed model, to support all the risks of the Group's business activity with a given solvency level. In the Group's case, the solvency level is determined by the A long-term target rating (two notches above the rating for Spain), which results in the application of a 99.95% confidence level (higher than the regulatory 99.90%) for the purpose of calculating the required capital.

The Group's economic capital model includes in its measurement all the significant risks incurred by it in its operations. Accordingly, it considers risks such as concentration risk, structural interest rate risk, business risk, pension risk and other risks outside the scope of regulatory Pillar 1 capital requirements. Economic capital also includes the diversification effect, which in the Group's case, owing to the multinational, multibusiness nature of its operations, is of key importance in determining its overall risk and solvency profile.

In its risk management, the Santander Consumer Finance Group uses the RORAC methodology for the calculation of the economic capital requirements and of the return thereon for the Group's business units, segments, portfolios and customers, with a view to regularly analysing value creation and facilitating an optimal allocation of capital.

The RORAC methodology permits the comparison, on a like-for-like basis, of the performance of transactions, customers, portfolios and businesses, and identifies those which achieve a risk-adjusted return higher than the Group's cost of capital, thus aligning risk management and business management with the aim of maximising value creation, which is the ultimate objective of Santander Consumer Finance's senior management.

48. Explanation added for translation to English

These consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group in Spain (see Note 1-b). Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

Appendix I

Subsidiaries

Company	Registered Office	Country	Percentage of Ownership Interest Held by the Bank		Percentage of Voting Power (c)		Line of Business	Millions of Euros		
			Direct	Indirect	2017	2016		Capital and Reserves (a)	Net Profit (Loss) (a)	Amount of Ownership Interest (b)
Andaluza de Inversiones, S.A.	Ciudad Grupo Santander, Av. Cantabria, 28660, Boadilla del Monte - Madrid	Spain	100%	-	100%	100%	Holding company	92	0	27
Auto ABS DFP Master Compartment France 2013 (d)	-	France	-	(d)	-	-	Securitisation	-	-	-
Auto ABS French Lease Master Compartiment 2016 (d)	-	France	-	(d)	-	-	Securitisation	-	-	-
Auto ABS French Loans Master (d)	-	France	-	(d)	-	-	Securitisation	-	-	-
Auto ABS French LT Leases Master		France	-	(d)	-	-	Securitisation	-	-	-
Auto ABS2 FCT Compartiment 2013-A (d)	-	France	-	(d)	-	-	Securitisation	-	-	-
Banca PSA Italia S.p.a.	Via Gallarate 199, 20151 Milano	Italy	-	50%	50%	50%	Banking	262	35	123
Banco Santander Consumer Portugal, S.A.	Rua Castilho 2/4 1269-073, Lisboa	Portugal	80%	20%	100%	100%	Banking	151	28	128
BCLF 2013-1 B.V. (d)	-	Nederland	-	(d)	-	-	Securitisation	-	-	-
Bilkreditt 4 Designated Activity Company (d)	-	Ireland	-	(d)	-	-	Securitisation	-	-	-
Bilkreditt 5 Designated Activity Company (d)	-	Ireland	-	(d)	-	-	Securitisation	-	-	-
Bilkreditt 6 Designated Activity Company (d)	-	Ireland	-	(d)	-	-	Securitisation	-	-	-
Bilkreditt 7 Designated Activity Company (d)	-	Ireland	-	(d)	-	-	Securitisation	-	-	-
Compagnie Generale de Credit Aux Particuliers - Credipar S.A.	12 av. André Malraux 92300 Levallois-Perret	France	-	50%	50%	50%	Banking	363	115	428
Compagnie Pour la Location de Vehicules – CLV	12 av. André Malraux 92300 Levallois-Perret	France	-	50%	50%	50%	Finance	33	13	26
Finance Professional Services, S.A.S.	26 quai michelet, 92300 Levallois-Perret	France	100%	-	100%	100%	Services	2	-	2

Company	Registered Office	Country	Percentage of Ownership Interest Held by the Bank		Percentage of Voting Power (c)		Line of Business	Millions of Euros		
			Direct	Indirect	2017	2016		Capital and Reserves (a)	Net Profit (Loss) (a)	Amount of Ownership Interest (b)
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Av. António Augusto Aguiar, 31 1069-413 Lisboa	Portugal	-	51%	51%	51%	Finance	8	1	4
Financiera El Corte Inglés, E.F.C., S.A.	C/ Hermosilla 112, 28009, Madrid	Spain	51%	-	51%	51%	Finance	214	76	140
Guaranty Car, S.A. Unipersonal	-	Spain	-	100%	100%	100%	Automotive	2	-	2
Hispamer Renting, S.A. Unipersonal	Nacional II, Km 16,500 San Fernando de Henares, Madrid	Spain	-	100%	100%	100%	Renting	1	-	1
PSA Bank Deutschland GmbH	Siemensstraße 10, 63263 Neu-Isenburg, Hesse	Germany	-	50%	50%	50%	Banking	401	47	219
PSA Banque France	29 rue Ernest Cognacq 92300 Levallois-Perret	France	-	50%	50%	50%	Banking	1,001	184	463
PSA Finance Belux S.A.	8 boîte 2, Braine-l'Alleud, Avenue de Finlande, 1420 Braine-l'Alleud	Belgium	-	50%	50%	50%	Finance	94	14	42
Santander Consumer Finance Global Services, S.L	Ciudad Grupo Santander, Av Cantabria, 28660, Boadilla del Monte - Madrid	Spain	99%	-	99	-	Other Services	5	-	5
PSA Finance Suisse, S.A.	Brandstrasse 24, 8952 Schlieren	Switzerland	-	50%	50%	50%	Leasing	25	8	15
PSA Financial Services Nederland B.V.	Hoofdweg 256, 3067 GJ Rotterdam	Netherland	-	50%	50%	50%	Finance	50	10	20
PSA Financial Services Spain, E.F.C., S.A.	C/ Eduardo Barreiros Nº 110. 28041, Madrid	Spain	50%	-	50%	50%	Finance	361	64	174
Santander Consumer Bank AG	Santander Platz I, 41061 (Mönchengladbach)	Germany	-	100%	100%	100%	Banking	3,063	392	4,820
Santander Consumer Bank AS	Strandveien 18, 1366 Lysaker, 0219 (Baerum)	Norway	100%	-	100%	100%	Finances	1,740	286	1,770
Santander Consumer Bank GmbH	Andromeda Tower, Donan City. Strów-Wien	Austria	-	100%	100%	100%	Banking	334	41	363
Santander Consumer Bank S.p.A.	Vía Nizza 262, I-10126 (Turín)	Italy	100%	-	100%	100%	Banking	663	80	603
Santander Consumer Banque S.A.	26 Quai Michelet Levallois Perret Levallois Perret, 92300	France	100%	-	100%	100%	Banking	487	20	490
Santander Consumer Finance Benelux B.V.	Guldensporenpark 81, 9820 (Merelbeke)	Netherland	100%	-	100%	100%	Finance	109	31	190
Santander Consumer Bank GmbH	Andromeda Tower, Donan City. Strów-Wien	Austria	-	100%	100%	100%	Banking	326	33	363

Company	Registered Office	Country	Percentage of Ownership Interest Held by the Bank		Percentage of Voting Power (c)		Line of Business	Millions of Euros		
			Direct	Indirect	2017	2016		Capital and Reserves (a)	Net Profit (Loss) (a)	Amount of Ownership Interest (b)
Santander Consumer Bank S.p.A.	Vía Nizza 262, I-10126 (Turín)	Italy	100%	-	100%	100%	Banking	613	67	603
Santander Consumer Banque S.A.	26 Quai Michelet Levallois Perret Levallois Perret, 92300	France	100%	-	100%	100%	Banking	432	57	490
Santander Consumer Finance Benelux B.V.	Guldensporenpark 81, 9820 (Merelbeke)	Nederland	100%	-	100%	100%	Finance	98	22	190
Santander Consumer Finance Media S.r.l. - in liquidazione (e)	Vía Nizza 262, I-10126 (Turín)	Italy	-	65%	65%	65%	Finance	7	-	5
Santander Consumer Finance Oy	Hermannin Rantatie 10, 00580 (Helsinki)	Finland	-	100%	100%	100%	Finance	143	44	130
Santander Consumer Holding Austria GmbH	Rennweg 17, A 1030 (Wien)	Austria	100%	-	100%	100%	Holding company	364	25	518
Santander Consumer Holding GmbH	Santander Platz I, 41061 (Mönchengladbach)	Germany	100%	-	100%	100%	Holding company	4,476	307	5,677
Santander Consumer Leasing GmbH	Santander Platz I, 41061 (Mönchengladbach)	Germany	-	100%	100%	100%	Leasing	20	46	101
Santander Consumer Mediación Operador de Banca-Seguros Vinculado, S.L.	Ciudad grupo Santander, Av Cantabria, 28660, Boadilla del Monte - Madrid	Spain	78%	17%	100%	100%	Insurance	-	-	-
Santander Consumer Renting, S.L.	Santa Bárbara 1, 28180, Torrelaguna - Madrid	Spain	-	100%	100%	100%	Leasing	30	5	39
Santander Consumer Services GmbH	Thomas Alva Edison Str. I, Eisendstadt	Austria	-	100%	100%	100%	Services	-	-	-
Santander Consumer Services, S.A.	Rua Castilho nº 2, 1269-073 Lisboa, Portugal	Portugal	80%	20%	100%	100%	Finance	1	4	11
Santander Consumer, EFC, S.A.	Ciudad Grupo Santander, Av Cantabria, 28660, Boadilla del Monte - Madrid	Spain	100%	-	100%	100%	Finance	416	102	505
SC Austria Finance 2013-1 S.A. (d)	-	Luxemburg	-	(d)	-	-	Securitisation	-	-	-
SC Germany Auto 2013-2 UG (haftungsbeschränkt) (d)	-	Germany	-	(d)	-	-	Securitisation	-	-	-
SC Germany Auto 2014-1 UG (haftungsbeschränkt) (d)	-	Germany	-	(d)	-	-	Securitisation	-	-	-
SC Germany Auto 2014-2 UG (haftungsbeschränkt) (d)	-	Germany	-	(d)	-	-	Securitisation	-	-	-
SC Germany Auto 2016-1 UG (haftungsbeschränkt) (d)	-	Germany	-	(d)	-	-	Securitisation	-	-	-

Company	Registered Office	Country	Percentage of Ownership Interest Held by the Bank		Percentage of Voting Power (c)		Line of Business	Millions of Euros		
			Direct	Indirect	2017	2016		Capital and Reserves (a)	Net Profit (Loss) (a)	Amount of Ownership Interest (b)
SC Germany Auto 2016-2 UG (haftungsbeschränkt) (d)	-	Germany	-	(d)	-	-	Securitisation	-	-	-
SC Germany Consumer 2014-1 UG (haftungsbeschränkt) (d)	-	Germany	-	(d)	-	-	Securitisation	-	-	-
SC Germany Consumer 2015-1 UG (haftungsbeschränkt) (d)	-	Germany	-	(d)	-	-	Securitisation	-	-	-
SC Germany Consumer 2016-1 UG (haftungsbeschränkt) (d)	-	Germany	-	(d)	-	-	Securitisation	-	-	-
SC Germany Vehicles 2013-1 UG (haftungsbeschränkt) (d)	-	Germany	-	(d)	-	-	Securitisation	-	-	-
SC Germany Vehicles 2015-1 UG (haftungsbeschränkt) (d)	-	Germany	-	(d)	-	-	Securitisation	-	-	-
SCF Ajoneuvohallinto KIMI VI Limited (d)	-	Ireland	-	(d)	-	-	Securitisation	-	-	-
SCF Ajoneuvohallinto I Limited (d)	-	Ireland	-	(d)	-	-	Securitisation	-	-	-
SCF Ajoneuvohallinto II Ltd (d)	-	Ireland	-	(d)	-	-	Securitisation	-	-	-
SCFI Ajoneuvohallinto Limited (d) (e)	-	Ireland	-	(d)	-	-	Securitisation	-	-	-
SCF Rahoituspalvelut 2013 Designated Activity Company (d) ni en el perímetro ni en el diaridat	-	Ireland	-	(d)	-	-	Securitisation	-	-	-
SCF Rahoituspalvelut I Designated Activity Company (d) (e)	-	Ireland	-	(d)	-	-	Securitisation	-	-	-
SCF Rahoituspalvelut II DAC (d)	-	Ireland	-	(d)	-	-	Securitisation	-	-	-
SCFI Rahoituspalvelut Limited (d) (e)	-	Ireland	-	(d)	-	-	Securitisation	-	-	-
SCFI Ajoneuvohallinto Limited (d)	-	Ireland	-	(d)	-	-	Securitisation	-	-	-
SCF Rahoituspalvelut KIMI VI DAC (d)	-	Ireland	-	(d)	-	-	Securitisation	-	-	-
Secucor Finance 2013-I Designated Activity Company (q) (d)	-	Irlanda	-	(d)	-	-	Titulización	-	-	-
Silk Finance No. 4 (d)	-	Portugal	-	(d)	-	-	Titulización	-	-	-

Company	Registered Office	Country	Percentage of Ownership Interest Held by the Bank		Percentage of Voting Power (c)		Line of Business	Millions of Euros		
			Direct	Indirect	2016	2015		Capital and Reserves (a)	Net Profit (Loss) (a)	Amount of Ownership Interest (b)
Fondo de Titulización de Activos Santander Consumer Spain Auto 2013-1 (d)	-	Spain	0%	100%		-	Securitisation	-	-	-
Fondo de Titulización de Activos Santander Consumer Spain Auto 2014-1 (d)	-	Spain	0%	100%		-	Securitisation	-	-	-
Golden Bar Stand Alone 2014-1 (d)	-	Italy	-	(d)		-	Securitisation	-	-	-
Golden Bar Stand Alone 2015-1 (d)	-	Italy	-	(d)		-	Securitisation	-	-	-
Golden Bar Stand Alone 2016-1 (d)	-	Italy	-	(d)		-	Securitisation	-	-	-
Golden Bar Whole Loan Note VFN 2013-1 (d)	-	Italy	-	(d)		-	Securitisation	-	-	-
Suzuki Servicios Financieros, S.L.	C/Carlos Sainz 35, Pol. Ciudad del Automóvil, Leganés - Madrid	Spain	-	51%	51%	51%	Intermediation	4	1	-
Svensk Autofinans 1 Limited (d)	-	Ireland	-	(d)		-	Securitisation	-	-	-
Svensk Autofinans WH 1 Designated Activity Company (d)	-	Ireland	-	(d)		-	Securitisation	-	-	-
Transolver Finance EFC, S.A.	Av. Aragón 402, Madrid	Spain	51%	-	51%	51%	Leasing	39	6	17

(a) Data obtained from the financial statements of each subsidiary for 2017. These financial statements have not yet been approved by the respective governing bodies. However, the Bank's directors consider that they will be ratified without any changes.

(b) Carrying amount of the investments in each subsidiary per the books of the holding company, net of the related impairment allowance, if any.

(c) Pursuant to Article 3 of Royal Decree 1159/2010, of 17 September, approving the rules for the preparation of consolidated financial statements, in order to determine voting power, the voting power relating to subsidiaries or to other parties acting in their own name but on behalf of Group companies was added to the voting power directly held by the Parent. Accordingly, the number of votes corresponding to the Parent in relation to companies in which it has an indirect interest is the number corresponding to the subsidiary holding a direct ownership interest in such companies.

(d) Vehicles over which effective control is exercised.

Appendix II

Associates and jointly controlled entities

Company	Entity	Name	Percentage of Ownership Interest Held by the Bank		Percentage of Voting Power (b)		Line of Business	Millions of Euros (a)		
			Direct	Indirect	2017	2016		Assets	Capital and Reserves	Profit (Loss)
Bank of Beijing Consumer Finance Company	Jointly controlled entity	China	-	40%	40%	40%	Marketing	6	6	0
Fortune Auto Finance Co., Ltd	Asociada	China	20%	-	20%	20%	Financiera	2,166	301	1
PSA Insurance Europe Limited	Jointly controlled entity	Malta	50%	-	50%	50%	Financiera	1,771	142	42
PSA Life Insurance Europe Limited	Jointly controlled entity	Malta	-	50%	50%	50%	Servicios	5	2	0
Santander Consumer Bank S.A.	Jointly controlled entity	Poland	50%	-	50%	50%	Seguros	80	47	4
Santander Consumer Finanse Sp. z o.o.	Jointly controlled entity	Poland	50%	-	50%	50%	Seguros	23	9	3
Santander Consumer Multirent Sp. z o.o.	Jointly controlled entity	Poland	40%	-	40%	40%	Banca	4,335	511	102
VCFS Germany GmbH	Jointly controlled entity	Germany	-	40%	40%	40%	Servicios	18	15	1
PSA Finance Polsja sp.z o.o	Jointly controlled entity	Polonia	-	20%	20%	-	Financiera	223	28	1
Payever Gmbh	Jointly controlled entity	Alemania	-	20%	20%	-	Financiera	4	-	-
PSA Consumer Finance Polska sp.zo.o.	Jointly controlled entity	Polonia	-	40%	40%	40%	Leasing	193	14	6

(a) Data obtained from the financial statements of each associate and/or jointly controlled entity for 2017. These financial statements have not yet been approved by the respective governing bodies. However, the Bank's directors consider that they will be ratified without any changes.

(b) Pursuant to Article 3 of Royal Decree 1159/2010, of 17 September, approving the rules for the preparation of consolidated financial statements, in order to determine voting power, the voting power relating to subsidiaries or to other parties acting in their own name but on behalf of Group companies was added to the voting power directly held by the Parent. Accordingly, the number of votes corresponding to the Parent in relation to companies in which it has an indirect interest is the number corresponding to the company holding a direct ownership interest in such companies.

Appendix III

Changes and notifications of acquisitions and disposals of investments in 2017

(Article 155 of the Consolidated Spanish Limited Liability Companies Law and Article 125 of Legislative Royal Decree 4/2015, of 23 October, approving the Consolidated Spanish Securities Market Law).

Investee	Line of Business	Percentage of Net Ownership Interest		Effective Date of the Transaction (or the Date of Notification as appropriate)
		Acquired/Sold in the Year	At Year-End	
Acquisitions in 2017:				
Payever Gmbh. (Germany)	Finance	10%	10%	05-10-2017
Santander Consumer Finance Global Services, S.L (Spain)	Other Services	99%	99%	21-11-2017

Appendix IV

List of agents as required by Article 21 of Royal Decree 84/2015, of 13 February, implementing Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions, at 31 December 2017

Name	Registered Office	Postal Code	Employer/National Identification Number	Date of Granting of Powers	Expiry Date of Mandate	Geographical Area of Activity	Scope of Representation
Álvarez y Garrúes Dos, S.L.	Av. de Vigo, 65 - Pontevedra	27003	B027380799	01/08/08	31/07/13	Pontevedra, Villagarcía de Arosa, O Grove, Sanxenxo, Cambados, Lalín, La Estrada, Silleda and Caldas de Rey	Mortgage loans, consumer loans, insurance, finance leases and automotive financing, leasing and full-service leasing.
Álvarez y Garrúes, S.L.	Av. A Coruña, 439 - Lugo	27003	B27274216	01/12/03	-	Lugo and its province	Mortgage loans, consumer loans, finance leases.
Álvarez y Garrúes Tres, S.L.	C/ Salvador Dalí, 12 - Ourense	27003	B27412816	01/11/10	31/10/16	Ourense and its province	Consumer loans and automotive financing, leasing and full-service leasing
Antonio García Fernández Servicios Financieros, S.L.	Av. Argentina 1, Pozoblanco	14400	B14771554	01/10/06	-	Alcaracejos, Añora, Belalcazar, Belmez, Los Blázquez, Cardenas, Conquista, Dos Torres, Espiel, Fuente La Mancha, Fuenteovejuna, Elguido, Hinojosa del Duque, Pedroche, Peñarroya-Pueblonuevo, Pozoblanco, Santa Eufemia, Torrecampo, Valsequillo, Villamaría, Villanueva de Córdoba, Villanueva del Duque and Villanueva del Rey, Villarralto, Villa Viciosa de Córdoba and El Viso.	Mortgage loans, consumer loans, finance leases.
Asedime Servicios Financieros, S.L.	Doctor Dorronsoro 2 - Valverde del Camino	21600	B21380746	01/04/08	31/03/13 (*)	Alajar, Almonaster la Real, Aracena, Aroche, Arroyo Molinos de León, Beas, Berrocal, Cala, Calañas, El Campillo, Campofrío, Cañaveral de León, Castaño de Robledo, Corteconcepción, Cortegana, Cortelazor, Cumbre de En Medio, Cumbres de San Bartolomé, Cumbres Mayores, Encinasola, Fuenteheridos, Galaroza, La Granada de Ríotinto, La Nava, Nerva, Puerto del Moral, Rosal de la Frontera, Santa Ana la Real, Santa Olalla del Cala, Trigueros, Valdelarco, Valverde del Camino, Zalamea la Real and Zufre.	Mortgage loans, consumer loans, insurance, finance leases and automotive financing, leasing and full-service leasing.
Asesoramiento Financiero Toledano Cortés, S.L.	Agustín Rodríguez Sahagún, 30 Local 3 - Ávila	5003	B05182563	01/12/03	-	Province of Ávila	Mortgage loans, consumer loans, finance leases
Asesoramiento Financiero Zafra, S.L.	Andrés Pro, 18 - Zafra	6300	B06433973	03/01/05	-	Zafra	Mortgage loans, consumer loans, finance leases

Name	Registered Office	Postal Code	Employer/National Identification Number	Date of Granting of Powers	Expiry Date of Mandate	Geographical Area of Activity	Scope of Representation
Berga Gestió, S.L.	C/ Gran Vía, 46 - Berga (Barcelona)	08600	B64396476	02/01/10	01/01/16	Berguedá, Solsonès, Alt Urguell, Navàs, Cardona	Consumer loans and automotive financing, leasing and full-service leasing
Canovaca Agentes Financieros S.L.	Ancha, 2 - Palma del Río	14700	B14539290	01/04/00	-	Almodovar del Rio, Fuente Palmera, Palma del Rio, Posadas, Lora del Rio, Peñaflor, Carmona, La Campana, La Puebla de los Infantes, Mairena del Alcor, El Viso del Alcor	Loans and credits, finance leases
Carrasco Agentes, S.L.	Calle Avenida, 41 - Linares	23700	B23478704	02/01/04	-	Linares	Mortgage loans, consumer loans, finance leases
Centro Asesor de Teruel Financiera, S.L. (*)	Carretera de Alcañiz 3, Bajo - Teruel	44003	B44224947	02/06/08	01/06/13	Teruel and its entire province	Mortgage loans, consumer loans, insurance, finance leases and automotive financing, leasing and full-service leasing
Centro Financiero de Benidorm, S.L. (*)	Av. Constitución 113 - Valencia	46009	B98050305	10/06/08	09/06/13	Alfaz del Pi, Altea, Beniarres, Benidorm, Callosa d'en Sarria, Finestrat, Guadalest, La Nucia, Polop and Villajoyosa	Mortgage loans, consumer loans, insurance, finance leases and automotive financing, leasing and full-service leasing
Consultoría Financiera de la Mancha, S.L.	Ramiro Ledesma - Socuéllamos	13630	B13354303	15/12/03	-	Socuéllamos, Tomelloso, Argamasilla de Alba, Pedro Muñoz, Campo de Criptana, Alcázar de San Juan, Las Pedroñeras, Monta del Cuervo, Villanueva de los Infantes	Mortgage loans, consumer loans, finance leases
Donat Finance Service, S.L. (*)	Plaza Velázquez, 11 - Melilla	52004	B52015435	01/02/07	01/02/12	Melilla	Mortgage loans, consumer loans, finance leases

Name	Registered Office	Postal Code	Employer/National Identification Number	Date of Granting of Powers	Expiry Date of Mandate	Geographical Area of Activity	Scope of Representation
Estudios y Análisis de Riesgos, S.L. (*)	Avda. del Mediterráneo, sn - Cuenca	16004	B16156598	30/06/07	02/11/08	Cuenca	Mortgage loans, consumer loans, finance leases
Financiaceuta, S.L.U.	C/ General Aranda, 3 - Ceuta	51001	B51017101	01/07/06	-	Ceuta	Mortgage loans, consumer loans, finance leases
Finanduero 2007, S.L.U. (*)	Avda Castilla 47 - Aranda de Duero	9400	B09480013	02/11/07	02/11/12	Aranda de Duero, Lerma, Huerta del Rey, Salas de los Infantes and Roa.	Mortgage loans, consumer loans, insurance and automotive financing, leasing and full-service leasing
Finangi. Cat, S.L.	Avda. de la Rápita, 33 1º Amposta (Tarragona)	43870	B43571660	01/06/99	-	Amposta	Loans and credits, finance leases
Fromán Consultores, S.L.U.	Badia Polesina, 6 - Estepa	41560	B41969767	01/06/04	-	Aguadulce, Badolatosa, Casariche, Los Corrales, Estepa, Gilena, Herrera, La Lentejuela, Lora de Estepa, Marinaleda, Martin de la Jara, Osuna, Pedrea, La Roda de Andalucía, El Rubio, El Saucejo.	Mortgage loans, consumer loans, finance leases
García y Trinidad Asesoramiento y Financiación, S.L.	Rosario, 9 - Albox	4800	B04577383	01/10/06	-	Albox, Alcontar, Almanzorra, Armuña de Almanzorra, Bacares, Bayarque, Benitagla, Bezalon, Cantoria, Cobrar, Fines, Laroya, Lijar, Lubrin, Lucar, Macael, Olula del Rio, Partaloa, Purchena, Seron, Sierro, Somontin, Tahall, Tijola, Uleila del Campo, Urracal and Zurgena.	Mortgage loans, consumer loans, finance leases
Gestió de Financament I Inversions de Ponent	Av. De la Pau, 49 - Mollerusa	25230	B25539123	01/10/06	-	The districts of Pla d'Urgell, la Noguera, L´Urgell and La Segarra. Y Lérida, Balafia; Les Basses D'Alpicat, La Bordeta, Camps D'Escorts, Cap Pont, Castel De Gardeny, Clot-Princep de Viana, Gualda; Llivia, Magraners, Mariola, Pardinyes, Raimat, Seca Sant Pere, Sucs, Suquets; Les Torres de Sanui, Abella de la Conca Les Alamus, L'Albages, Albatarrec, L'Albi, Alanco, Alcarras, Alcoletge, Alfes, Alguaire, Almatret, Almenar, Alpicat, Artessa de Lleida, Aspa, Aitona, Benavent de Segria, Bovera, Les Borges, Blanquets, Castelldans, Cervia de Garrigues, Corbins, L'Espluga Calba, La Floresta, Fulleda, La Granja D'Escarp, Gimenells i Pla de la Font, Granyera de les Garrigues, Juncosa, Juneda, Llardecans, Masalcoreig, Maials de Lleida, Els Omellons, La Pobla de Cervoles, Bellaguarda, La Portella, Puiggros, Puigverd de Lleida; Roselló, Seros, El Soleras, Soses, Tarres, Els Torms, Torrebesses, Torrefarrera, Torres de Segre, Torre Serona, Vilanova de Segria, El Vilosell, Vilanova de la Barca and Vinaixa.	Mortgage loans, consumer loans, finance leases

Name	Registered Office	Postal Code	Employer/National Identification Number	Date of Granting of Powers	Expiry Date of Mandate	Geographical Area of Activity	Scope of Representation
Gestión de Servicios Financieros Artimar, S.L.	Avda. de Canarias 344 - Sta. Lucia de Tirajana	35110	B35496777	01/01/98	-	Santa Lucía de Tirajana, San Bartolomé de Tirajana	Loans and credits, finance leases
Gestión Financiera Villalba S.L.	General Luque Arenas, 16 - Ubrique (Cádiz)	11600	B11517620	01/08/01	-	Ubrique, Alcalá del Valle, Algodonales, Arcos de la Frontera, Benaocaz, Bornos, El Bosque, El Gastor, Espera, Grazalema, Olivera, Prado del Rey, Setenil, Torre Alhaquine, Villanueva del Rosario, Villa Martín, Puerto Serrano	Loans and credits, finance leases
GEYBA Servicios Financieros, S.L.	Antonio Machado, 10 - La Algaba	41980	B91385377	01/09/04	-	Arevalillo de Cega, Alacala del Rio, Alcolea del Rio, La Algaba, Almaden de la Plata, Brenes, Burguillos, Cantillana, Castilblanco de los Arroyos, El Castillo de las Guardas, Cazalla de la Sierra, Constantina, El Garrobo, Gerena, El Madroño, Las Navas de la Concepción, El Pedroso, La Roda de Andalucía, La Rinconada	Mortgage loans, consumer loans, finance leases
Graciano Vega Vidal, S.L.	C/ Del Agua, 2 - Gijón (Asturias)	33206	B33957580	02/01/10	01/01/16	Gijón, Cabrales, Cangas de Onís, Caravía, Caso, Colunga, Llanes, Nava, Onís, Parrés, Peñamerella Alta, Peñamellera Baja, Pesoz, Pilonga, Ponga, Rivadedeva, Rivadesella, Villaviciosa	Consumer loans and automotive financing, leasing and full-service leasing
Indastec Asociados, S.L.	Madrid, 20 - Ibiza	7800	B57150310	01/01/04	-	Eivissa, Sant Antoni de Portmany, Santa Eulalia del Rio, San Jose, Formentera	Mortgage loans, consumer loans, finance leases
Insema Inversiones, S.L.	Av. Andalucía 11 - Planta 1- Puente Genil (Córdoba)	14500	B14499909	19/12/08	-	Aguilar, Castro del Río, Espejo, Fernan Nuñez, Montalbal de Córdoba, Montemayor, Montilla, Monturque, Moriles, Palenciana, Puente Genil, La Rambla and Santaella	Mortgage loans, consumer loans, finance leases
Intermediación y Servicios Junval, S.L.	Bebricio 54, Calahorra	26500	B26319178	01/12/03	-	Calahorra	Mortgage loans, consumer loans, finance leases
Jordi Masso Riera (*)	C/ Bruc 52 - Igualada	8700	35036266K	01/03/08	28/02/13	Argençola, Bellprat, Bruc, Cabrera d'Igualada, Calaf, Calonge de Segarra, Capellades, Carme, Castellfollit de Riubregós, Castellolí, Capons, Hostalets de Pierola, Igualada, Jorba, Llanuca, Masquefa, Montmaneu, Òdena, Orpí, Piera, Pobla de Claramunt, Prats de Rei, Pujalt, Rubió, Sant Martí de Tous, Sant Martí Sesgueioles, Sant Pere Sallavinera, Santa Margarida de Montbui, Santa María de Miralles, Torre de Claramunt, Vallbona d'Anoia, Veciana, Vilanova del Camí, Castellví de Rosanes, Collbató, Esparreguera, Martorell and Olesa de Montserrat.	Mortgage loans, consumer loans, insurance, finance leases and automotive financing, leasing and full-service leasing

Name	Registered Office	Postal Code	Employer/National Identification Number	Date of Granting of Powers	Expiry Date of Mandate	Geographical Area of Activity	Scope of Representation
Juan Jimenez Gestión Financiera, S.L.	C/ Capitán Vigueras, local 18 - Seville	41004	B91167973	01/02/02	-	Bormujos, Coria del Río, Gelves, Gines, Pilas, Sanlucar la Mayor, Umbrete, Villamanrique de la Condesa, Villanueva del Ariscal.	Loans and credits, finance leases
L'Eliana Finance, S.L.	Av. Cortes Valencianes 35 - L'Eliana	46183	B9739462	01/10/05	-	Riba-roja de Turia, Lliria, Betera, Buñol, Requena, Utiel, L'Eliana, La Pobla de Vallbona	Mortgage loans, consumer loans, finance leases
Martin & Castilla Servicios Financieros, S.L.	Fray Diego de Cádiz, 163 - Morón de la Frontera	41530	B91369231	01/06/04	-	Algamitas, Arahal, Caripe, El Coronil, Marchena, Montellano, Morón de la Frontera, Paradas, Pruna, La Puebla de Cazalla, Villanueva de San Juan	Mortgage loans, consumer loans, finance leases
Medifirent, S.L.	Vitoria, 2 - Miranda de Ebro	9200	B09410572	01/03/04	-	Miranda de Ebro	Mortgage loans, consumer loans, finance leases
Noguer Bau, S.L. (*)	Sant Fidel, 5. Vic	8500	B64018179	31/08/07	31/08/07	Aiguafreda, Alpens, El Brull, Calldetenes, Centelles, Collsuspina, Espinelves, Folgueroles, Gurb, Els Hostalets De Balenya, Lluça, Perafita, Prats De Lluçanes, Roda De Ter, Rupit-Pruit, Santa Cecilia De Voltrega, Santa Eugenia De Berga, Santa Eulalia De Riuprimer, Sant Agusti Del Lluçanes, Santa Maria De Corco L'Asquirol, Sant Bartomeu Del Grau, Sant Boi De Lluçanes, Sant Hipolit De Voltrega	Mortgage loans, consumer loans, finance leases
Ramsa Servicios Financieros y Empresariales, S.L.	Blas Infante, 7 - Lepe	21440	B21347190	02/01/04	-	Punta Umbría, Cartaya, Lepe, Isla Cristina and Ayamonte	Mortgage loans, consumer loans, finance leases
Santex Financial Services, S.L. (*)	C/ Sancho El Sabio, 29-1º Vitoria (Álava)	1008	B01445923	02/07/08	01/07/13	Vitoria	Mortgage loans, consumer loans, insurance, finance leases and automotive financing, leasing and full-service leasing
European Finantial Consumer, S.L.	C/ Sexmo del Espinar, 3 1º C Segovia	40006	B86080280	03/01/11	03/01/16	Segovia and its province	Automotive financing, automotive leasing, full-service leasing, consumer lending, co-branded cards, general-purpose cards, proprietary cards
Servicios Financieros Quintanar, S.L.	General López Brea, 5 - Quintanar de la Orden (Toledo)	45800	B45545167	01/12/03	-	Quintanar de la Orden, Madridejos	Mortgage loans, consumer loans, finance leases
Servicios Financieros Sorianos, S.L.	Plaza del Salvador, 1- Soria	42002	B42180927	02/01/06	-	Soria	Mortgage loans, consumer loans, finance leases
Servital Asesores S.L.	Nuestro Padre Jesús 3 - La Palma del Condado	14500	B2161177	02/11/05	-	Almonte, Bollullos Par del Condado, Bonares, Chucena, Escacena del Campo, Hinojos, Lucena del Puerto, Manzanilla, Niebla, La Palma del Condado, Paterna del Campo, Rociana del Condado, Villalba del Alcor, Villarrasa	Mortgage loans, consumer loans, finance leases

Name	Registered Office	Postal Code	Employer/National Identification Number	Date of Granting of Powers	Expiry Date of Mandate	Geographical Area of Activity	Scope of Representation
Soluciones Financieras del Este S.L.	C/ Mariano Barbacid Rivas Vaciamadrid	28521	B84418904	02/11/05	-	Arganda del Rey, Rivas - Vaciamadrid	Mortgage loans, consumer loans, finance leases
Hermanos P.Q. Servicios Financieros S.L.	Calle Armonía 14 - Vélez Rubio, Vela (Almería)	4820	B04678348	01/09/09	31/07/13	Vera	Mortgage loans, consumer loans
Tudegues Tudela, S.L.	Sancho el Fuerte, 1-1º - Tudela - Navarre	31500	B31618325	23/02/10	22/02/16	Tudela	Consumer loans and automotive financing, leasing and full-service leasing
Finanroda Servicios Financieros S.L. (*)	Calle Molino 82 - Ronda	29400	B92963388	02/01/09	01/01/15	Agatocin, Alpendeire, Arriate, Atajate, Benalid, Benalauria, Benaojan, Benarraba, El Burgo, Cañete La Real, Cartajima, Cortes de la Frontera, Cuevas del Becerro, Faraja, Gaucin, Genalquacil, Igualeja, Jimera de Libas, Jubrique, Juzcar, Montecorto, Montejaque, Parauta, Pujerra, Ronda and Yunquera.	Mortgage loans, consumer loans, insurance, finance leases and automotive financing, leasing and full-service leasing
Praga Services, s.l.	C/ Patrimonio Mundial, 7 2º A		B85464402	01/01/15	01/01/20	Aranjuez	Automotive financing, automotive leasing, full-service leasing, consumer lending, co-branded cards, general-purpose cards, proprietary cards
Gestiones Sanchez Triay, S.L.U.	Calle Beal Joseph Castellcamps, 9 bajo Ciutadella	07760	B57394769	01/01/11	01/01/16	Alalor, Castell, Ciutadella de Menorca, Fornells, Ferreries, Mahón, Mercadal, Migjorn Gran, Sant Lluis.	Mortgage loans, consumer loans, insurance, finance leases and automotive financing, leasing and full-service leasing
M&G Figueres Associats S.L.	C/ Col·legi, 54 Bajo - Figueres	17600	B17673823	01/01/11	01/01/16	Agullana, Albanya, Arrentera, Bascara, Biure, Boadella i les Escaudes, Cebanes, Cantallaps, Capmany, Cistella, Escada, Empolla, Figueres, Garniguelia, Jenguera, Lladó, Masarac, Mollet de Peralado, Pont de Mollins and Crespia.	Mortgage loans, consumer loans, finance leases
Financiaciones Costa Sol Oriental, S.C.A.	C/ del mar, 27 1º C Torre del Mar	29740	B93195477	29/11/12	-	Alcaucin, Alfarnate, Algarrobo, Almachar, Archez, Arenas, Benamargosa, El Boger, Canillas de Aceituno, Canillas de Albaida, Comares, Competa, Macharaviaya, Moclinejo, Frigiliana, Nerja, Periana, Riogordo, Salares, Sayalonga, Torre del Mar, Torrox, Velez Málaga, Viñuela.	Loans and credits, finance leases
Servicios Financieros Jienenses, S.L. (*)	Plaza del Camping, 4 Local 10 - Andújar	23740	B86340767	29/11/12	01/12/15	Aldeaquemada, Andújar, Arjona, Arjonilla, Bailén, Baños de Quemada, Carboneros, La Carolina, Cazalilla, Espeluy, Higuera de Arjona, Lopera, Marmolejo, Santa Elena, Villanueva de la Reina, Villardonpardo and Villa del Río	Automotive financing, automotive leasing, full-service leasing, consumer lending, co-branded cards, general-purpose cards, proprietary cards, consumer loans (Crediyá) and direct customer lending

Name	Registered Office	Postal Code	Employer/National Identification Number	Date of Granting of Powers	Expiry Date of Mandate	Geographical Area of Activity	Scope of Representation
Inversiones Financieras Bilegui, S.L. (*)	C/ Artiz Bidea, 48 - Mungía	48100	B95659579	30/11/12	01/10/16	Eibar, Mondragón, Gernika and its catchment area.	Automotive financing, automotive leasing, full-service leasing, consumer lending, co-branded cards, general-purpose cards, proprietary cards, consumer loans (Crediyá) and direct customer lending
Asfinza Badajoz, S.L. (*)	C/ Andrés Pro, 3 - Zafra	06300	B06580708	14/12/12	01/07/16	Badajoz capital and its catchment area	Automotive financing, automotive leasing, full-service leasing, consumer lending, co-branded cards, general-purpose cards, proprietary cards, consumer loans (Crediyá) and direct customer lending
Fincar Gestiones Financieras, S.L. (*)	Av. Buenos Aires, 32- Guadix	18500	B21507751	14/12/12	01/02/16	Guadix, Baza, Huescar, Cullar, Cuevas del Campo, Iznalloz and Guadahortuna.	Automotive financing, automotive leasing, full-service leasing, consumer lending, co-branded cards, general-purpose cards, proprietary cards, consumer loans (Crediyá) and direct customer lending
Servicios Financieros Palentinos, S.L.U. (*)	Av. Castilla, 47-6º A- Aranda de Duero	34005	B09525973	14/12/12	01/07/16	Palencia and the municipalities within its province.	Automotive financing, automotive leasing, full-service leasing, consumer lending, co-branded cards, general-purpose cards, proprietary cards, consumer loans (Crediyá) and direct customer lending
128Innova24H, S.L. (*)	C/ Oasis, 17 - El Ejido (Almería)	04700	B92999846	14/12/12	01/03/16	El Ejido, Adta and Berja	Automotive financing, automotive leasing, full-service leasing, consumer lending, co-branded cards, general-purpose cards, proprietary cards, consumer loans (Crediyá) and direct customer lending
Efincar Fleet Services, S.L. (*)	C/ Dr. Fleming, 1 Local. Ecija (Seville)	41940	B91958363	14/12/12	01/01/16	Écija, Fuentes de Andalucía, La Luisina, Cañada Rosal, La Carlota.	Automotive financing, automotive leasing, full-service leasing, consumer lending, co-branded cards, general-purpose cards, proprietary cards, consumer loans (Crediyá) and direct customer lending

Name	Registered Office	Postal Code	Employer/National Identification Number	Date of Granting of Powers	Expiry Date of Mandate	Geographical Area of Activity	Scope of Representation
Finanzamora Services, S.L.	Ctra de la Estación 2 1º E Zamora	49009	B49282403	01/01/16	01/01/20	Zamora and its province	Automotive financing, automotive leasing, full-service leasing, consumer lending, co-branded cards, general-purpose cards, proprietary cards
Gestión financiera y diversas, S.L.	C/Molina de Segura, nº5, bloque 6º, 4ºA Murcia	30007	B30512446	21/10/16	01/02/21	Levante	Automotive financing, automotive leasing, full-service leasing, consumer lending, co-branded cards, general-purpose cards, proprietary cards

(*) Contract tacitly renewable for successive periods of one year.

Appendix V

Annual Banking Report

This Annual Banking Report was prepared in compliance with Article 87 of Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions.

Pursuant to the aforementioned Article, from 1 January 2015, credit institutions must send the Bank of Spain and publish annually a report as an appendix to the financial statements audited in accordance with the legislation regulating audits of financial statements, which specifies, by country in which they are established, the following information on a consolidated basis for each year:

a) Name(s), nature of activities and geographical location.

b) Turnover.

c) Number of employees on a full time equivalent basis.

d) Gross profit or loss before tax.

e) Tax on profit or loss.

f) Public subsidies received.

Following is a detail of the criteria used to prepare the annual banking report for 2016:

a) Name(s), nature of activities and geographical location

The aforementioned information is available in Appendices I and II to the Group's consolidated financial statements, which contain details of the companies operating in each jurisdiction, including, among other information, their name(s), geographical location and the nature of their activities.

As can be seen in the aforementioned Appendices, the main activity carried on by the Group in the various jurisdictions in which it operates is commercial banking. The Group operates mainly in ten markets through a model of subsidiaries that are autonomous in capital and liquidity terms, which has clear strategic and regulatory advantages, since it limits the risk of contagion between Group units, imposes a double layer of global and local oversight and facilitates crisis management and resolution. The Group has 385 branches in total, which provide its customers with all their basic financial requirements.

b) Turnover

For the purposes of this report, turnover is considered to be gross income, as defined and presented in the consolidated income statement that forms part of the Group's consolidated financial statements.

The data on turnover by country were obtained from the statutory accounting records of the Group companies with the corresponding geographical location and translated to euros. Accordingly, this is aggregate information from the separate financial statements of the companies that operate in each jurisdiction, reconciliation of which with the information from the Group's consolidated financial statements requires a series of unifying adjustments and the elimination of transactions between the various Group companies, such as those relating to the distribution of dividends by subsidiaries to their respective parents.

c) Number of employees on a full time equivalent basis

The data on employees on a full time equivalent basis were obtained from the average headcount of each jurisdiction.

d) Gross profit or loss before tax

For the purposes of this report, gross profit or loss before tax is considered to be profit or loss before tax, as defined and presented in the consolidated income statement that forms part of the Group's consolidated financial statements.

As with the information relating to turnover, the data included were obtained from the statutory accounting records of the Group companies with the corresponding geographical location and translated to euros. Accordingly, this is aggregate information from the separate financial statements of the companies that operate in each jurisdiction, reconciliation of which with the information from the Group's consolidated financial statements requires a series of unifying adjustments and the elimination of transactions between the various Group companies, such as those relating to the distribution of dividends by subsidiaries to their respective parents.

e) Tax on profit or loss

In the absence of specific criteria, this is the amount of tax effectively paid in respect of the taxes the effect of which is recognised in Income tax in the consolidated income statement.

Taxes effectively paid in the year by each of the companies in each jurisdiction include:

- supplementary payments relating to income tax returns, normally for prior years.
- advances, prepayments, withholdings made or borne in respect of tax on profit or loss for the year. Given their scantly representative amount, it was decided that taxes borne abroad would be included in the jurisdiction of the company that bore them.
- refunds collected in the year with respect to returns for prior years that resulted in a refund.
- where appropriate, the tax payable arising from tax assessments and litigation relating to these taxes.

The foregoing amounts are part of the statement of cash flows and, therefore, differ from the income tax expense recognised in the consolidated income statement. Such is the case because the tax legislation of each country establishes:

- the time at which taxes must be paid and, normally, there is a timing mismatch between the dates of payment and the date of generation of the income bearing the tax. its own criteria for calculating the tax and establishes temporary or permanent restrictions on expense deduction, exemptions, relief or deferrals of certain income, etc., thereby generating the related differences between the accounting profit (or loss) and taxable profit (or tax loss) which is ultimately taxed; tax loss carryforwards from prior years, tax credits and/or relief, etc. must also be added to this. Also, in certain cases special regimes are established, such as the tax consolidation of companies in the same jurisdiction, etc.

f) Public subsidies received

In the context of the disclosures required by current legislation, this term was interpreted to mean any aid or subsidy in line with the European Commission's State Aid Guide and, in such context, the Group companies did not receive public subsidies in 2017.

The detail of the information for 2017 is as follows:

Jurisdiction (Millions of Euros)	Turnover	Number of Employees on a Full Time Equivalent Basis	Gross Profit or Loss before Tax	Tax on Profit or Loss
Germany	1,419	3,367	451	95
Austria	156	348	76	19
Belgium	106	205	58	5
China	25	-	25	-
Spain	631	1,511	291	32
Denmark	164	216	93	17
Finland	99	147	65	13
France	457	853	244	106
Hungary	-	-	-	-
Ireland	-	-	(5)	-
Italy	352	609	170	46
Luxemburg	-	-	-	-
Malta	9	-	9	-
Norway	296	481	180	56
The Netherlands	86	287	49	11
Poland	60	-	60	-
Portugal	65	193	43	9
United Kingdom	-	-	-	-
Sweden	169	299	75	10
Switzerland	21	46	11	2
Total	**4,116**	**8,564**	**1,896**	**422**

At 31 December 2017, the return on assets (ROA) of the Group was estimated to be 1.30%.

Appendix VI

Disclosures required pursuant to Mortgage Market Law 2/1981, of 25 March, and to Royal Decree 716/2009, of 24 April, implementing certain provisions of the aforementioned Law

Disclosures relating to mortgage-backed bond issues

The detail of the nominal value of the Bank's mortgage-backed bond issues outstanding at 31 December 2017 and 2016, indicating the annual interest rate and the maturity date of each issue, is as follows:

Currency of Issue	Thousand Euros(*) 2017	Thousand Euros(*) 2016	Annual Interest Rate (%)	Maturity Date
Euro:				
July 2007 issue	500,000	150,000	5.135	July 2022
May 2016 issue	150,000	500,000	0.125	May 2019
Balance at end of year	**650,000**	**650,000**		

(*) Nominal value.

At 31 December 2017 and 2016, the detail of the mortgage loans and credits, indicating their eligibility and computability for mortgage market regulatory purposes, was as follows:

	Thousand Euros	
	Nominal Value	
	2017	2016
Total mortgage loans and credits	2,033,189	2,212,522
Mortgage participation certificates issued	-	-
Mortgage transfer certificates issued	-	-
Mortgage loans securing borrowings	-	-
Mortgage loans backing mortgage and mortgage-backed bond issues (*)	2,033,189	2,212,522
i) Non-eligible mortgage loans and credits	808,816	908,782
- Which comply with the requirements to become eligible, except for the limit established in Article 5.1 of Royal Decree 716/2009	78	-
- Other	808,738	908,782
ii) Eligible mortgage loans and credits	1,224,373	1,303,740
- Non-computable amounts		-
- Computable amounts	1,224,373	1,303,740
a) Mortgage loans and credits covering mortgage bond issues	-	-
b) Mortgage loans and credits eligible to cover mortgage-backed bond issues	1,224,373	1,303,740

(*) At 31 December 2017 and 2016, the Bank had not issued mortgage bonds and, therefore, all the loans and credits back the mortgage-backed bond issues.

Following is a detail of the nominal value of the outstanding mortgage loans and credits and of the nominal value of the loans and credits that are eligible pursuant to Royal Decree 716/2009, without considering the calculation limits established under Article 12 of Royal Decree 716/2009, by origin, currency, payment status, average residual term to maturity, interest rate, holders and type of collateral:

	Thousand Euros			
	2017		2016	
	Mortgage Loans and Credits Backing Mortgage and Mortgage-Backed Bond Issues	Of which: Eligible Loans	Mortgage Loans and Credits Backing Mortgage and Mortgage-Backed Bond Issues	Of which: Eligible Loans
Origin of transactions				
Originated by the Bank	2,033,189	1,224,373	2,212,522	1,303,740
Subrogations from other entities	-	-	-	-
Other	-	-	-	-
Currency				
Euro	2,033,189	1,224,373	2,212,522	1,303,740
Other currencies	-	-	-	-
Payment status				
Current	1,949,147	1,192,139	2,115,766	1,263,519
Past due	84,042	32,234	96,756	40,221
Average term to maturity				
Less than 10 years	153,838	149,333	146,941	143,519
10 to 20 years	759,897	592,120	794,312	609,535
20 to 30 years	937,228	417,979	876,954	424,384
More than 30 years	182,226	64,941	394,315	126,302
Interest rate				
Fixed	25	25	30	30
Floating	2,033,164	1,224,348	2,212,492	1,303,710
Hybrid	-	-	-	-

(*) Including EUR 557,971 thousand at 31 December 2017 (2016: EUR 616,609 thousand) relating to mortgage participation certificates acquired from Banco Santander, S.A.

	Thousand Euros			
	2017		2016	
	Mortgage Loans and Credits Backing Mortgage and Mortgage-Backed Bond Issues	Of which: Eligible Loans	Mortgage Loans and Credits Backing Mortgage and Mortgage-Backed Bond Issues	Of which: Eligible Loans
Borrowers				
Legal entities and individual businessmen	123,759	78,602	123,043	80,525
Of which: Property developments	-	-	-	-
Other individuals and non-profit institutions serving households (NPISHs)	1,909,430	1,145,771	2,089,479	1,223,215
Type of guarantee				
Completed buildings				
- Residential	1,988,209	1,199,136	2,156,162	1,270,547
Of which: Officially sponsored housing	-	-	-	-
- Commercial	44,980	25,237	56,360	33,193
- Other	-	-	-	-
Buildings under construction				
- Residential	-	-	-	-
Of which: Officially sponsored housing	-	-	-	-
- Commercial	-	-	-	-
- Other	-	-	-	-
Land	-	-		
- Developed	-	-	-	-
- Other	-	-	-	-
	2,033,189	**1,224,373**	**2,212,522**	**1,303,740**

As regards the disclosures on guarantees associated with mortgage loans and those loans eligible in accordance with the aforementioned regulations, following is a detail of the nominal value of these mortgage loans and eligible loans, based on the related loan-to-value ratio.

	LTV Ranges				
	2017				
	Millions of Euros				
	Up to 40%	>40%, <= 60%	>60%, <= 80%	>80%	Total
Mortgage loans and credits eligible for mortgage and mortgage-backed bond issues					
- *Home mortgages*	*283*	*393*	*523*	-	*1,199*
- *Other mortgages*	*6*	*19*	-	-	*25*

	LTV Ranges				
	2016				
	Millions of Euros				
	Up to 40%	>40%, <= 60%	>60%, <= 80%	>80%	Total
Mortgage loans and credits eligible for mortgage and mortgage-backed bond issues					
- *Home mortgages*	*282*	*393*	*596*	-	*1,271*
- *Other mortgages*	*9*	*21*	-	-	*33*

Following is a detail of the changes in 2017 and 2016 in the nominal value of eligible and non-eligible mortgage loans and credits pursuant to Royal Decree 716/2009:

	Thousand Euros	
	Eligible Mortgage Loans and Credits	Non-Eligible Mortgage Loans and Credits
Balance at 1 January 2016	**1,441,291**	**962,326**
Disposals in the year	(204,709)	(123,347)
Repaid on maturity	-	-
Early repayment	*(136,762)*	*(57,688)*
Subrogations by other entities	-	-
Other	*(67,947)*	*(65,659)*
Additions in the year	67,158	69,803
Originated by the Bank	*1,498*	*1,857*
Subrogations from other entities	-	-
Other	*65,660*	*67,946*
Balance at 31 December 2016	**1,303,740**	**908,782**
Disposals in the year	(81,495)	**(107,444)**
Repaid on maturity	-	**-**
Early repayment	*(60,316)*	**(26,336)**
Subrogations by other entities	-	**-**
Other	*(21,179)*	**(81,108)**
Additions in the year	2,128	**7,478**
Originated by the Bank	*2,128*	**7,478**
Subrogations from other entities	-	**-**
Other	-	**-**
Balance at 31 December 2017	**1,224,373**	**808,816**

The detail of the nominal value of the Bank's mortgage securities outstanding at 31 December 2017 and 2016 is as follows:

	Millions of Euros		Average Term to Maturity
	Nominal Value		
	2017	2016	
Mortgage bonds outstanding	-	-	-
Mortgage-backed bonds	650	650	-
Of which: Not recognised in liabilities		-	-
i) Debt instruments. Issued through a public offering	650	650	-
- Term to maturity of up to 1 year	-	-	-
- Term to maturity of 1 to 2 years	500	-	-
- Term to maturity of 2 to 3 years	-	-	-
- Term to maturity of 3 to 5 years	150	500	-
- Term to maturity of 5 to 10 years	-	150	-
- Term to maturity of more than 10 years	-	-	-
ii) Debt instruments. Other issues	-	-	-
- Term to maturity of up to 1 year	-	-	-
- Term to maturity of 1 to 2 years	-	-	-
- Term to maturity of 2 to 3 years	-	-	-
- Term to maturity of 3 to 5 years	-	-	-
- Term to maturity of 5 to 10 years	-	-	-
- Term to maturity of more than 10 years	-	-	-
iii) Deposits	-	-	-
- Term to maturity of up to 1 year	-	-	-
- Term to maturity of 1 to 2 years	-	-	-
- Term to maturity of 2 to 3 years	-	-	-
- Term to maturity of 3 to 5 years	-	-	-
- Term to maturity of 5 to 10 years	-	-	-
- Term to maturity of more than 10 years	-	-	-
Mortgage participation certificates issued	-	-	-
i) Issued through a public offering	-	-	-
ii) Other issues	-	-	-
Mortgage transfer certificates issued	-	-	-
i) Issued through a public offering	-	-	-
ii) Other issues	-	-	-

Mortgage-backed bond issuers have an early redemption option solely for the purpose of complying with the limits on the volume of outstanding mortgage-backed bonds stipulated by mortgage market regulations.

None of the mortgage-backed bonds issued by the Bank had replacement assets assigned to them.

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

Santander Consumer Finance, S.A. and Companies composing the Santander Consumer Finance Group (Consolidated)

2017 Consolidated Directors' Report

Economic, banking and regulatory backdrop

Growth picked up in the world economy in 2017, at a time of improving global confidence that was reflected in international markets. 2017 saw the completion of the review of Basel III, and the first case of banking resolution in the Euro area.

International economic backdrop

The global economy grew more rapidly in 2017 than the previous year (3.6% vs 3.2%), at a time of improving global confidence, with falling uncertainty, particularly in Europe, favourable funding conditions and more robust international trade. Both advanced and emerging economies benefitted from this economic upturn.

- **UK:** While the economy has largely withstood the uncertainty surrounding Brexit, it has shown a certain slowdown in growth and the pound has lost ground on the euro. The country boasted full employment in 2017 and inflation, at around 3%, exceeded the target of 2%. The Bank of England hiked its official interest rate by 25 basis points in November, marking its first increase in over ten years and reversing its move to lower rates following the referendum. At year-end, the official interest rate was 0.5%.
- **Euro area:** The economy rallied strongly during the year on the back of numerous support factors (internal demand and exports) and with most countries faring well. The unemployment rate fell to 8.8%, but is still higher than the levels seen pre-crisis. Inflation remained low (1.5%), with European Central Bank interest rates therefore remaining unchanged.
- **Spain:** GDP growth exceeded 3% for the third straight year. Healthy job growth resulted in the unemployment rate falling (16.4%). Growth is currently well-balanced, with no inflationary pressures.
- **Portugal:** Notable pick-up in growth in 2017 on the back of internal demand. Employment growth surpassing 3% and sharp reduction in unemployment (8.5%). Inflation remained moderate. The debt of the private sector continued to drop and the public deficit ended the year at 1.5% of GDP.
- **Poland:** Strong growth in 2017 on the back of private consumption and the external sector. Unemployment at an all-time low (4.7%) and inflation at 2.5%. The central bank held its official rate stable at 1.5%.

Financial markets and exchange rates

The year was a relatively placid affair for the financial markets. The lack of any major upheavals encouraged risk taking, supporting rising stock markets, price increases for commodities and improved funding conditions in the corporate debt market.

The main focus of attention in the US was the capacity of the new administration to pursue its economic agenda. The S&P index hit new highs in response to the strong performance of the economy and expectations of more expansionary fiscal policy.

All eyes were also on the normalisation of monetary policy in the US. The Federal Reserve increased its interest rates three times and started to run down its balance sheet in October, a process that will take several years to complete. The market welcomed the Fed's gradual and anticipated actions. Rates on long-term public debt remained stable, and below the levels immediately following the Trump victory.

High political risk continued to weigh on the markets at the start of the year in the Euro area, mainly due to fears of the advance of the extreme right in France. This led to widening of risk premiums for public debt, even in the traditionally most stable countries. However, political risk fell back after Emmanuel Macron's victory in the French elections, returning risk premiums to more normal levels. The upgrades to the ratings of Portugal and Italy fostered an additional reduction in their risk premiums.

In the monetary policy field, the ECB's message was that there would be no increase in its rates until it had completed its bond-buying programme, which will continue until at least September 2018. Despite this message, unexpectedly high growth coupled with lower levels of political risk caused the euro to gain on the dollar.

In the UK, the pound remained weak against the backdrop of the slow progress in the Brexit negotiations. The Bank of England increased its interest rates in November - the first increase in more than a decade. This adjustment reversed the cut following the Brexit referendum.

Latin American currencies saw a mixed bag of results over the course of the year. They appreciated in the first half of the year in response to the expected recovery of the main economies on the continent. But they depreciated in the latter part of the year in response to uncertainty over the effects the Fed's normalisation of monetary policy would have on their economies.

The banking sector environment

Bank balance sheets continued to improve across the globe following gains in capital adequacy, liquidity position and unproductive assets. More benign economic conditions also enabled entities to improve their profitability. This led to a generalised upswing in the valuation of banks by the markets.

Even so, banks operating in developed countries, especially Europe, still have major challenges ahead when it comes to increasing their profitability. Although monetary normalisation is now under way across certain regions, interest rates and levels of business remain low. Moreover, competitive pressure continues to increase in most markets, both between the banks themselves and between the banks and the new market players and their new approaches to lending.

Bank profitability remained higher in emerging economies, with higher interest rates and wider spreads, even given the less favourable economic conditions. This was due to a substantial increase in financial inclusion. For example, the percentage of the population with a current account has increased by 12 percentage points in just three years, although this remains well below levels in developed countries (51% vs. 94%).

Most banks are adapting to the digital revolution currently transforming the way they relate to their customers, the level and variety of services they offer and the efficiency of their processes.

Banks are confronting diverging socio-demographic trends, with ageing populations in developed economies and burgeoning middle classes in emerging economies, which will require different strategies depending on the market.

Regulatory changes

2017 saw: completion of the review of Basel III, after almost three years of negotiation; a debate starting about the activity of technological financial-services companies *(FinTech)* and sustainability; and the first case of banking resolution in Europe, where negotiations about the review of the capital and resolution framework continue to progress.

Completion of the Basel III review

On 7 December, the Group of Central Bank Governors (GHOS) approved the final Basel III framework, having agreed limitations on the use of internal approaches to calculating capital requirements. The review sought to reduce unjustified differences in the risk weighting of bank assets.

The final agreement will come into effect from 1 January 2022, with gradual implementation to 2027 of the capital floors established to limit the capital savings generated by applying internal approaches.

The Basel Committee also announced that implementation of the market risk framework (FRTB) was being put back to 1 January 2022, having initially been planned for 2019.

The planned final framework will feature significant improvements compared to the Basel Committee's initial proposals. The Basel Committee and the EBA have published their analysis of the aggregate impact of the final Basel III framework at the global and European levels, respectively, with information for December 2015, showing the limited impact the reform would have.

Completion of this framework offers certainty about the requirements for the banking system, and helps to burnish the credibility of the valuation models for the entities' banking assets.

The Basel Committee also published a consultation launching debate on its review of the treatment of sovereign debt and additional disclosure requirements about banks' exposure to this debt.

The 'FinTech' debate begins

The Basel Committee has issued a consultation with recommendations for control and analysis of the activity of FinTechs, focusing on the risks these might pose to banks, and the economic opportunities that their emergence offers.

These recommendations are being combined with those of international bodies, such as the International Monetary Fund and the Financial Stability Board *(*FSB), and European bodies, such as the European Banking Authority.

These authorities are seeking to understand and monitor digital transformation to assess its potential effects on banking business models, financial stability, consumer protection, and risks such as cybersecurity and terrorist financing.

Cooperation between these authorities and intensive dialogue with the industry are essential to complete this analysis quickly and efficiently.

The sustainable economy

The objective of the Financial Stability Board (FSB) is to foster a financial system that is resilient to all types of risks, including those related to climate change. The FSB has set up a Task Force on Climate-related Financial Disclosures (TCFD), fostered by the Financial Stability Committee (FSC), which in June 2017 published its recommendations on disclosure of financial reporting in a form that most efficiently reflects risks related to climate change. The Task Force has now set up a workgroup to facilitate implementation of these recommendations, of which Banco Santander is a member.

In January 2018, the High-Level Expert Group on Sustainable Finance (HLEG) published its definitive recommendations on the overall strategy for sustainable finance in the EU, bringing together social, environmental and corporate-governance aspects.

Based on these recommendations, the European Commission will present an action plan focusing on three core areas:

• Integrating sustainability factors into investment criteria.
• Creating a standard language and classification to help investors understand what is green and sustainable.
• Incentivising the role of banks in funding the sustainable economy.

Banco Santander is a keen advocate of building a financial system that supports the growth of a sustainable economy.

Banking union

In October, the European Commission published a communication seeking to foster the negotiations to complete the Banking Union.

These measures included the need for progress on reviewing the capital and resolution framework, the single European guarantee fund, a backstop to the European resolution fund, and the treatment of sovereign debt.

Strategy

The Santander Consumer Finance Group is the market leader in consumer finance in Europe. It is active in 15 countries, with more than 130,000 associated points of sale (motor dealers and businesses). In addition, SCF has entered into a significant number of financing agreements with car and motorcycle manufacturers and with retail distribution groups.

In 2017, it continued to gain market share, underpinned by its solid business model: geographic diversification with a solid presence in key products; a better cost-to-income ratio than its peers; and a risk control and recovery system that has enabled it to maintain a strong credit rating.

Management focused on:

- Improving the efficiency of capital, in a competitive environment characterised by the emergence of new competitors, excessive liquidity swilling around the markets, and slow GDP growth.
- Managing the 2016 agreements with Banque PSA Finance (BPF) to create joint ventures in 11 countries.
- Increasing vehicle financing and consumer financing and extending agreements with the main dealers/retailers.
- Strengthening digital channels.

Line of business

Continuing progress has been made in completing and developing new agreements with retailers and manufacturers, seeking to help them in their commercial transformation and, as a result, enhance their value proposition for customers.

Lending rose by 5.23% during the year, with new loans 9% higher than in 2016, greatly bolstered by the vehicle business, which was 11% up on the previous year. There was general growth across most countries, with over 70% of lending in countries with the strongest ratings, and Germany and the Scandinavian countries accounting for over 50% of the portfolio.

SCF has enhanced its conduct-risk control processes, where fee and commission income on insurance business has been affected by greater regulatory pressure in much of the sector.

On the liability side, customer deposits rose 2%, setting us apart from our peers. A total of EUR 13,624 million in wholesale funding was secured in the year, through senior issuances, securitisations and other long-term issues.

As of December, customer deposits and medium and long-term securitisations and issuances placed in the market covered 70% of net lending.

Earnings

In 2017, attributable profit stood at EUR 1,079.4 million, up 2.2% on 2016. The increase was driven by two main factors:

- Currently low interest rates, which were very positive for the consumer financing business, both in terms of income and allowances.
- The low cost of lending.

Analysing the income statement by line item:

Income was up primarily due to net interest income (74% of ordinary revenues arise from interest income), which was up 4.1% on the previous year.

Costs also rose (+4%) in line with rising levels of business, while the cost-to-income ratio was around 44%, a slight improvement on 2016.

Provisions fell by 32%, accompanied by a strong improvement in the cost of lending (0.30% vs. 0.47% in 2016), which is now very low for the consumer financing business. This was made possible by the strong performance of credit risk and the impact of portfolio sales in the year. The non-performing loans ratio fell by 20 basis points, to 2.18%. Meanwhile, the coverage ratio stood at 99%.

Attributable profit for the year was impacted by a EUR 66 million charge, net of tax, mainly due to integration costs for the main commercial networks in Germany.

Ordinary attributable profit was especially strong in Poland (+38%), Spain (+19%) and Italy (+12%).

In summary, this was a strong organic performance, with agreements being implemented successfully. This offers excellent potential for continued growth in 2018, further increasing market share and maintaining high profitability and efficiency.

I. Risk management

Corporate principles

The Santander Group, to which the Santander Consumer Finance Group belongs, has set itself the strategic objective of excellence in risk management. Throughout its 150 year history, risk management has always been a priority for the Group.

In 2017, it accelerated its development to anticipate and respond to the major challenges of the constantly changing economic, social and regulatory environment.

This means that the risk function is now more crucial than ever for the Santander Group, as it enables it to be a solid, secure and sustainable bank, and a role model for the financial sector and for any company seeking to turn leadership in risks into a competitive advantage.

The Santander Group is focused on building the future through forward-looking management of all risks, protecting the present through a robust control environment. It therefore bases its risk function on the following pillars, which are aligned with the Santander Group's strategy and business model, and incorporate the recommendations of supervisory bodies, regulators and best practices in the market:

1. The business strategy is defined by the risk appetite. The Santander Group’s Board of Directors calculates the amount and type of risk that it considers reasonable to assume in implementing its business strategy and deploys this through objective, verifiable limits consistent with the risk appetite for each significant activity.

2. All risks have to be managed by the units that generate them, using advanced approaches and tools that are integrated into the businesses. The Santander Group is fostering advanced risk management, using innovative models and metrics together with a control, reporting and escalation framework to ensure that risks are identified and managed from multiple angles.

3. A forward-looking approach for all risk types must be part of all risk identification, assessment and management processes.

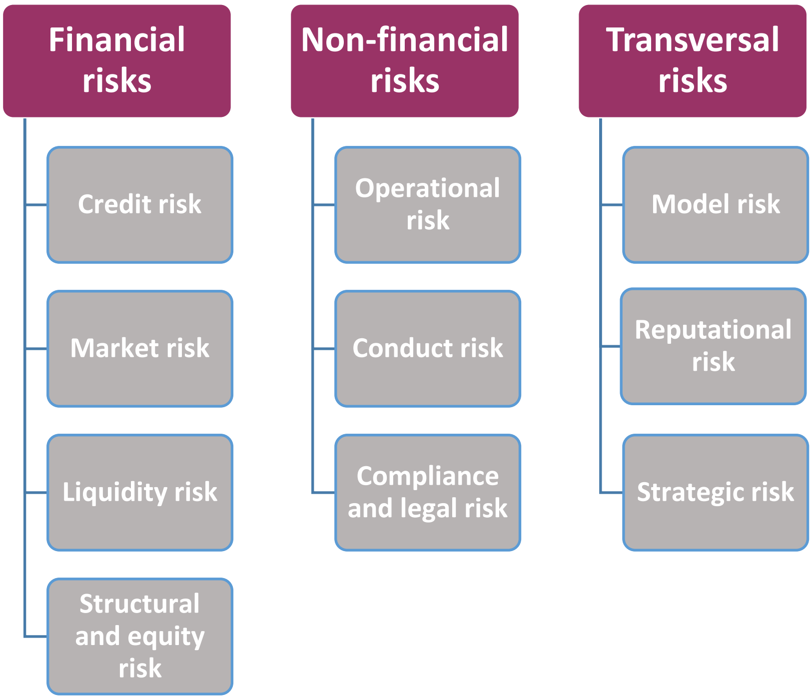
4. The independence of the risk function encompasses all risks and provides appropriate separation between the risk generating units and units responsible for controlling these risks. This involves having sufficient authority and direct access to management and the governing bodies responsible for setting and supervising risk strategy and policies.

5. Risk management has to employ the best processes and infrastructure. The Santander Group aims to set the benchmark for the development of infrastructure and processes to support risk management.

6. A risk culture integrated throughout the organisation, consisting of a series of attitudes, values, skills and guidelines for action vis-à-vis all risks. The Santander Group understands that advanced risk management cannot be attained without a strong, constant risk culture that is present in each and every one of its activities.

Risk map

Identifying and evaluating risks is a cornerstone of risk control and management. The risk map covers the main risk categories in which Banco Santander has its most significant actual and/or potential exposure, facilitating their identification.



The first level includes the following risks:

Financial risks

- Credit risk: risk of losses from non-compliance with contractual obligations agreed in financial transactions.
- Market risk: resulting from the possibility of changes in market factors affecting the value of trading book positions.
- Liquidity risk: risk of not complying with payment obligations in due time, or doing so at excessive cost.
- Structural and capital risks: arising from management of different balance sheet items, including capital adequacy and insurance and pension activities.

Non-financial risks

- Operational risk: risk of losses due to inadequacies or failures in processes, people and internal systems, or external events.

- Conduct risk: arising from inadequate practices in the Bank’s relationship with, treatment of, and product offer to its customers, and their suitability for each specific customer.

- Compliance risk: risk of not complying with the legal framework, internal rules or requirements of regulators and supervisors.

Transversal risks

- Model risk: losses arising from decisions based mainly on the results of models, due to errors in their concept, application or use.

- Reputational risk: risk of damage to the perception of the Bank among customers, investors, public opinion and other stakeholders.

- Strategic risk: risk that results will diverge significantly from the entity's business plan or strategy due to changes in general business conditions and risks associated with strategic decisions. This includes the risk of poor implementation of decisions and lack of capacity to react to changes in the business environment.

All risks must be referenced to the basic risk categories established in the Risk Map, in order to organise their management, control and related information.

Corporate Risk Governance

The objective of the governance of the risk function is to ensure adequate and efficient decision making and effective risk control, and ensure that these are managed in accordance with the risk appetite defined by the Group's senior management and its units.

The following principles have been established for this purpose:

- Segregation between risk decisions and control.

- Enhancing the responsibility of risk generating functions in the decision-making process.

- Ensuring that all risk decisions have a formal approval process.

- Ensuring an aggregate overview of all risk types.

- Bolstering risk control committees.

- Maintaining a responsive and efficient committee structure, ensuring:

  - Participation and involvement of the governance bodies and senior management in all risk decisions, and supervision and control.

  - Coordination between the lines of defence in risk-management and control functions.

  - Alignment of objectives, monitoring to ensure they are being achieved and implementing corrective measures when necessary.

  - The existence of an adequate management and control environment for all risks.

To achieve these objectives, the Committee structure in the management model must ensure an adequate:

- Structure, with stratification by levels of relevance, balanced delegation capacity and protocols for escalating incidents.

- Composition, with members of sufficient rank and representation of business and support areas.

- Operations, i.e. frequency, minimum attendance levels and appropriate procedures.

The governance of risk activity must establish and facilitate coordination channels between the units and the Group, together with alignment of management models and risk control.

The governance bodies of the Group's units are set up in accordance with local legal and regulatory requirements, considering the complexity of each unit.

Roles and responsibilities

The risk function is built around three lines of defence. The roles and responsibilities of these lines form an integral part of the management and control of market, structural and liquidity risk, as explained below.

- First line of defence

This comprises the departments, business lines and activities that generate risk exposure. In the scope of this framework, this involves those responsible for management of the trading and balance sheet management portfolios.

This line of defence must ensure at all times:

- That all risks that might have a material impact are identified.

- Recurrent assessment of existing risks.

- The information needed to assess risks is available.

- The limits established for their activities are observed and respected.

- Second line of defence

This involves the specialist teams involved in risk control and monitoring. In the scope of this framework, this involves those responsible for monitoring activities involving the entity's portfolios and the performance and management of the risks assumed.

The second line of defence is an independent function within the risk function that complements the management and control functions of the first line of defence, ensuring at all times that:

- Limits are established and approved by the entity's governance bodies or their delegated bodies.

- The first line of defence understands and complies with these limits.

- The policies, procedures and limits established for trading activities and balance sheet management are respected.

- Systematic reviews are carried out of exposure to market, structural and liquidity risks.

- Robust, reliable and adequate mechanisms are in place for these activities.

The second line of defence must provide a consolidated overview of market, structural and liquidity risks.

- Third line of defence

As the final layer of control in the Group, Internal Audit regularly checks that policies, methods and procedures are adequate and applied effectively in management.

Structure of Risk Committees

The board of directors is ultimately responsible for risk control and management, delegating these powers to committees. In the Bank, the Board is supported by the Risk Committees, which is an independent risk control and monitoring committee. In addition, the Executive Committee pays specific attention to risk management. These bylaw-mandated bodies form the highest level of risk governance:

Independent control bodies

- *Risk Committee:*

  This Committee's role is to assist the Board of Directors in the monitoring and control or risks, defining and assessing risk policies, and determining the risk propensity and strategy.

  It is made up of external non-executive directors (mostly independent) and is chaired by an independent director.

  The main duties of the Risk Committee are:

  - To support and advise the Board of Directors in defining and assessing the Group's risk policies and determining its risk propensity and risk strategy.

  - To ensure that the pricing policy for assets and liabilities offered to customers fully respects the business model and risk strategy.

- To understand and assess the management tools, ideas for improvement, progress with projects and any other relevant activity relating to risk control.

- To determine with the Board of Directors the nature, amount, format and frequency of the risk information to be received by the Committee and the Board.

- To help establish rational and practical remuneration policies. For this purpose, without prejudice to the duties of the Remunerations Committee, the Risk Committee examines whether the incentives policy planned for the remuneration scheme considers risk, capital, liquidity and the likelihood and suitability of profits.

- *Executive Risk Control Committee (ERCC):*

This collegiate body is responsible for overall monitoring and control of the Bank's risks, pursuant to the powers delegated to it by the Board of Directors of Santander Consumer Finance, S.A.

The Executive Risk Control Committee was created through the integration of 4 corporate bodies:

- The Risk Control Committee
- The Credit Risk Control Committee
- The Market, Liquidity and Structural Risk Control Committee
- Provisions forum

These bodies have been merged into the ERCC in the Bank, as they share functions and responsibilities, creating a simpler control structure that is more comprehensive and efficient.

Its objectives are:

- To provide a tool for effective risk control, ensuring that risks are managed in accordance with the Bank's risk appetite, as approved by the Board of Directors of Santander Consumer Finance, S.A., providing an overview of all of the risks identified in the risk map in the general risk framework, including identification and monitoring of actual and emerging risks and their impact on the risk profile of the Santander Consumer Finance Group.

- To ensure the best estimate of provisions and that they are recognised correctly.

This Committee is chaired by the Bank's Chief Risk Officer (CRO) and is made up of members of its senior management. In addition to the risk function, which chairs the Committee, the compliance, finance and management control functions are also represented. The CROs of local entities can take part on a regular basis to report on the risk profile of the entities and other tasks.

The Executive Risk Control Committee reports to the Risk Committee, which it assists in its function of supporting the Board.

Decision-making bodies

- *Executive Risk Committee (ERC):*

  The Executive Risk Committee is the collegiate body responsible for overall risk management pursuant to the powers delegated to it by the Board of Directors of Santander Consumer Finance S.A., monitoring all of the risks identified in the Bank that fall within its remit.

  Its objective is to provide a tool for decisions on accepting risks at the highest level, ensuring that risk decisions are within the limits set by the Santander Consumer Finance Group's risk appetite. It reports on its activity to the Board or its committees, as required.

  This Committee is chaired by an executive vice president of the Board of Directors, and comprises the Bank's Chief Executive Officer (as an invitee), executive directors and other senior managers. The risk, financial, management control and compliance function are also represented, among others. The Bank's CRO is entitled to veto the Committee's decisions.

- *Risk Approval Committee (RAC):*

  The Bank's Risk Approval Committee was created by the merger of two corporate committees:

  - The Risk Approval Committee
  - The Risk Regulation Committee

  This Committee is therefore the collegiate body responsible for overall management of credit, market, liquidity and structural risk; and for approval and validation of the Bank's regulations that are not reserved for other bodies, under the powers delegated to it by the Executive Risk Committee of Santander Consumer Finance S.A.

  This Committee is chaired by the Bank's CRO and its members are its senior managers. The risk, financial, management control and compliance function are also represented, among others.

- *Credit Committee:*

  The Credit Committee is the collegiate decision-making body responsible for recommending and validating credit risk proposals, ensuring that these respect the limits set in the risk appetite, reporting to the Executive Risk Committee, as required.

  This Committee is chaired by the Bank's CRO and its members are its senior managers. The risk and business function are also represented.

Structural organisation of the risk function

The Group Chief Risk Officer (GCRO) is responsible for the risk function and reports to the Bank's executive vice-chairman, who is a member of the Board of Directors and chairman of the Executive Risk Committee.
The GCRO advises and challenges the executive line and also reports independently to the Risk, Regulatory and Compliance Committee and to the Board.

Advanced risk management is based on a holistic, forward-looking approach to risks, based on intensive use of models, to foster a robust control environment that meets the requirements of the regulator and the supervisor.

The Santander Consumer Finance Group's risk management and control model shares certain core principles via its corporate frameworks. These frameworks are established by the Group. The Santander Consumer Finance Group adheres to them through its management bodies. They shape the relationship between the subsidiaries and the Group, including the role played by the latter in validating important decisions.

The Group-Subsidiaries Governance Model and good governance practices for subsidiaries recommend that each subsidiary should have a bylaw-mandated risk committee and an executive risk committee chaired by the Chief Executive Officer (CEO). This is in line with best corporate governance practices and consistent with those already in place in the Group, as set out in the corporate framework, to which Santander Consumer Finance has signed up.

Under the Group's internal governance framework, the management bodies of Santander Consumer Finance have their own model of risk powers (both quantitative and qualitative), which must follow the principles set out in the benchmark models and frameworks developed at the corporate level.

Given its capacity for comprehensive and aggregated oversight of all risks, the corporation exercises a validation and questioning role with regard to the operations and management policies of the units, insofar as they affect the Group’s risk profile.

Identifying and evaluating risks is a cornerstone for controlling and managing risk. The main risk types to which the Group is exposed are credit risk, market risk, operational risk and compliance and conduct risk.

IV. Credit risk

Credit risk stems from the possibility of losses arising from the failure of clients or counterparties to meet their financial obligations with the Group, in full or in part.

The risk function in the Group is organised by customer type, distinguishing between individualised and standard customers throughout the risk-management process:

- individualised customers are those assigned to a risk analyst, mainly because of the risk they entail. This category includes Wholesale Banking companies and some Retail Banking companies. Risk management involves expert analysis, complemented by decision-making support tools based on internal risk-assessment models.

- Standard risks are those customers to whom no risk analyst is expressly assigned. They generally include risk with individuals, individual businesspeople and non-individualised retail banking companies. Management of these risks is based on internal-assessment and automatic-decision models, complemented by teams of analysts specialising in specific risk types when the model does not cover the risk or is not sufficiently accurate.

Key figures and change over time

Santander Consumer Finance's credit risk portfolio is characterised by its diversified geographic distribution and predominance of retail banking activity.

a) Global credit risk map 2017

Details of the Group's global credit risk map by the geographic location of the borrower are shown in the following table:

SCF Group - Gross credit risk exposure			
	2017 (Million euros)	Change on December 2016	% portfolio
Spain and Portugal	15,445	9.07%	17.44%
Italy	7,695	8.72%	8.69%
France	10,429	9.44%	11.78%
Germany and Austria	36,755	0.93%	41.51%
Scandinavia	15,079	9.93%	17.03%
Other	3,133	(3.21)%	3.54%
Total SCF	**88,536**	**5.23%**	**100.00%**

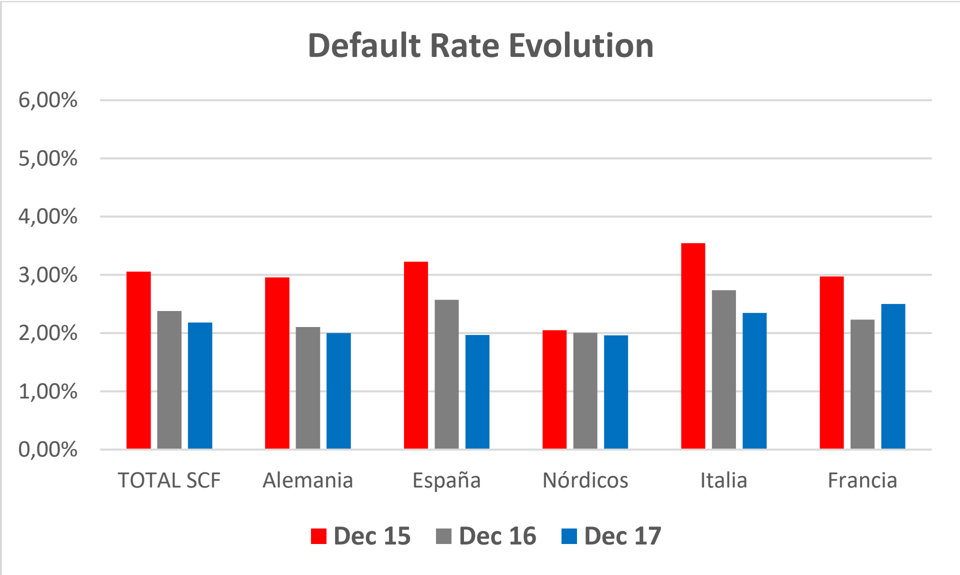
Credit risk exposure increased by 5.23% year-on-year. This was due to the growth generated in SC units (+3.1%) and units subject to the PSA Group agreement (+11.8%). The largest portfolio growth was in Italy, due to higher year-on-year growth in the Italy JV (+26%)

Germany continued to account for the largest share of the portfolio, 41.51%, together with Austria and their respective JVs. Spain and Portugal accounted for 17.43% of the Group's total credit risk, closely followed by the Scandinavian countries, on 17.03%.

b) Changes in 2017

The performance of non-performing assets and the cost of credit reflects the impact of deterioration in the economic backdrop, offset by prudent risk management that has, in general, enabled us to keep these figures below those of our peers over recent years. This has resulted in the Group maintaining adequate coverage to handle the expected loss on its credit risk portfolios.

The portfolios performed adequately in 2017, due to the risk profile being kept in check by continuous improvement in recovery procedures, both in early stages of irregularity and advanced stages of impairment, resulting in fewer than expected new non-performing loans. This resulted in a non-performing loans ratio of 2.18% in December 2017, down 20 basis points compared to December 2016 (2.38%). The non-performing loans ratio performed positively in all of the main units, as shown in the table below.



The NPL coverage ratio stood at 99% vs. 107% in the previous year, due to sales of the write-off portfolio exceeding budget, fostered by purchasing conditions in the market and parameter adjustments that resulted in lower than expected provisions, including Spain's adaptation to the IAS 39 standard for calculating provisions.

Distribution of lending

The Group is geographically diversified, with a presence in fifteen countries, concentrated in our core markets. The Group's profile is mainly retail (89% consumer credit and 11% dealer stock finance), with the main activity being funding vehicle purchases.

Concentration risk

Concentration risk is a fundamental element in credit risk management. The Santander Group continuously tracks the degree of concentration in its credit risk portfolios from a range of perspectives: geographic areas and countries, economic sectors, products and groups of customers.

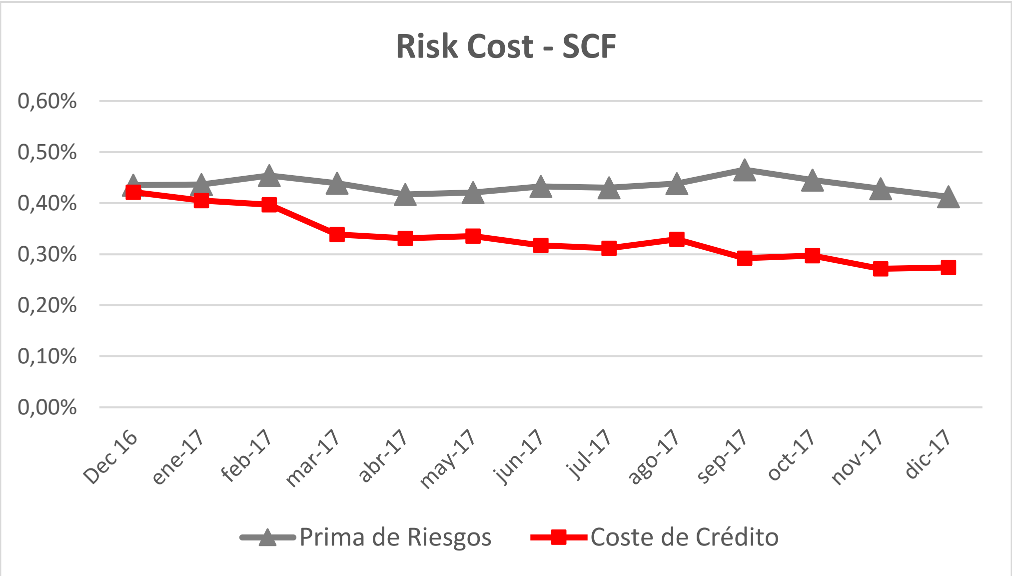
The board of directors sets maximum risk concentrations through the risk appetite, and the executive risk committee establishes the risk policies and reviews the exposure levels appropriate for adequate management of the degree of concentration of credit risk portfolios.

Management metrics

Santander Consumer Finance uses various approaches to measure the cost of credit risk for loss recognition purposes: CMN - Change in Managed NPLs (new NPLs - cures - recovery of write-offs); NIP – net insolvency provision (gross provisions – recovery of write-offs); net write-offs (new write-offs – recovery of write-offs); and expected loss. The first two of these ratios (over 12 months) are divided by the 12-month average for the total portfolio to give the **risk premium** and **cost of credit**, which are used as monitoring ratios. These enable risk managers to form a complete picture of how the portfolio is developing and its future outlook.

It should be noted that unlike non-performing loans, CMN (final doubtful - initial doubtful + write-offs - recovery of write-offs) refers to the total impaired portfolio over a period of time, regardless of the current situation (doubtful and write-off). This makes this metric a core driver when it comes to establishing measures to manage the portfolio.

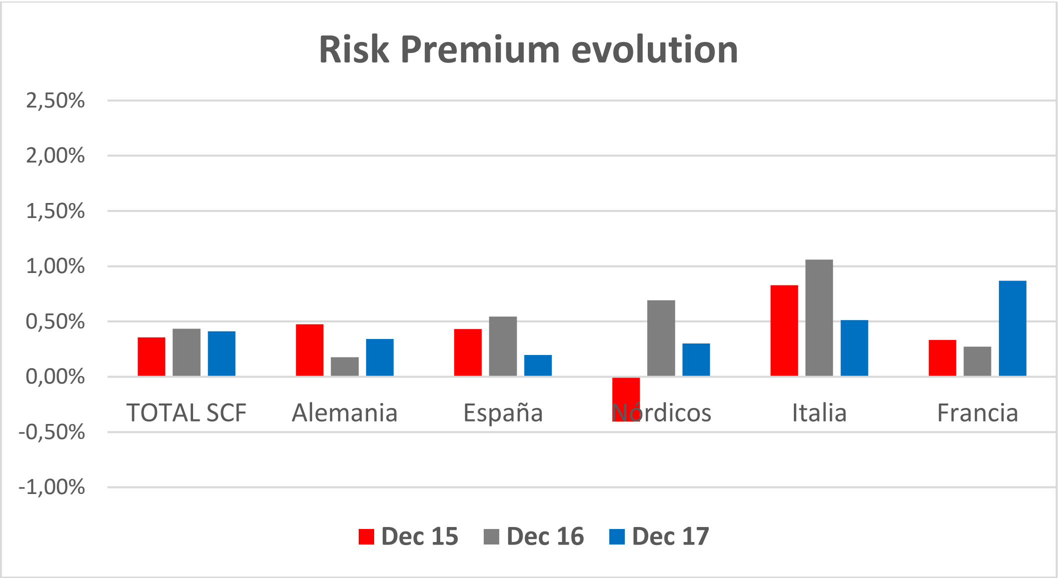
The behaviour of the risk premium and cost of credit in 2017 are shown in the following chart:

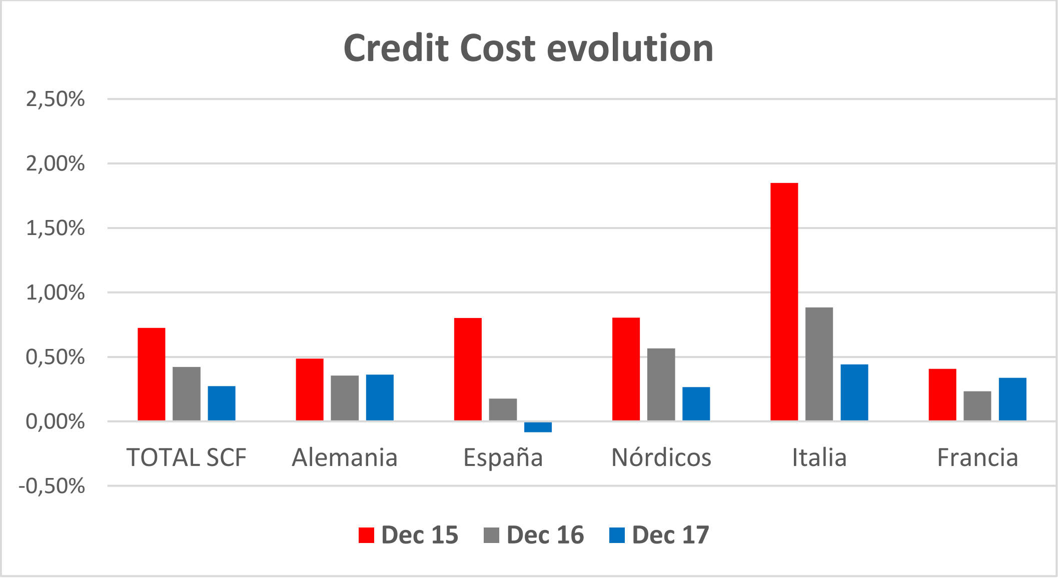


These two approaches measure the same reality and, therefore, approximate each other over the longer term, even though they represent successive moments in the measurement of the cost of credit risk: flows of non-performing loans (CMN) and coverage of doubtful loans (NIPs), respectively. While these measurements converge over the longer term in the same economic cycle, there can be differences at particular times, as was seen in this period. These differences are explained by the different times at which the losses are calculated, which are basically determined by accounting standards (for example, there is a coverage schedule for mortgages, which become write-offs much more “slowly” that consumer portfolios). Moreover, the analysis can be complicated by changes in: coverage and write-off policies, the composition of the portfolio, doubtful loans of acquired entities, accounting regulations, portfolio sales, etc.

While the trend in the risk premium was stable in 2017, based on good performance and higher than expected portfolio sales, the cost of credit was positively impacted by extraordinary events, in addition to higher portfolio sales, including adjustments to parameters and refinement of accounting standards for calculating provisions.

The following charts show the cost of credit risk in Santander Consumer Finance (risk premium and cost of credit) and its main areas of activity in 2017 and previous years. These show that the general trend over recent years has seen the cost of risk in Santander Consumer Finance falling to low.



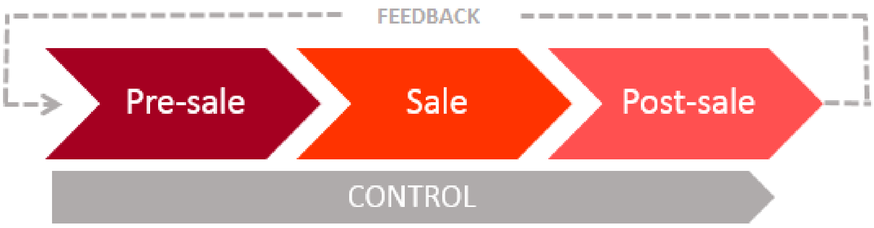


e) Credit risk cycle

The credit risk management process consists of identifying, measuring analysing, controlling, negotiating and deciding on the risks incurred in the Group's operations. This process involves the areas that take risks, senior management and the Risk function.

As the Group is a member of the Santander Group, the process starts with senior management, through the board of directors and the executive risk committee, which set the risk policies and procedures, the limits and delegation of powers, and approve and supervise the framework for action by the risk function.

The risk cycle has three phases: pre-sale, sale and post-sale. The process is constantly revised, incorporating the results and conclusions of the after-sale phase into the study of risk and pre-sale planning.



e.1) ***Pre-sale***

- **Study of risk and credit rating process**

  Generally speaking, risk study consists of analysing a customer's capacity to meet their contractual commitments with the Group and other creditors. This entails analysing the customer's credit quality, risk operations, solvency and profitability on the basis of the risk assumed.

  With this objective, the Group has used rating models for classifying customer solvency since 1993. These mechanisms are applied in the wholesale segment (sovereign, financial entities, corporate banking) and to SMEs and individuals.

  The rating results from a quantitative model based on balance sheet ratios or macroeconomic variables, complemented by the expert judgement of analysts.

  The ratings given to customers are regularly reviewed, incorporating the latest available financial information and experience in the development of the banking relationship. The regularity of the reviews increases in the case of customers who trigger certain levels in the automatic warning systems and who are classified as special watch. The rating tools are also reviewed in order to adjust the accuracy of the rating.

While ratings are used in the wholesale sector and for companies and institutions, scoring techniques predominate for individuals and smaller companies. In general, these techniques automatically assign a score to the customer for decision-making purposes, as explained in the Decisions on operations section.

- **Planning and setting limits**

The purpose of this phase is to limit the levels of risk assumed by the Group, efficiently and comprehensively. The credit risk planning process serves to set the budgets and limits at the portfolio level for subsidiaries. Planning is carried out through a dashboard that ensures that the business plan and lending policy are achieved, and that the resources needed to achieve these are available. This arose as a joint initiative between the Sales area and the Risk function, providing a management tool and a way of working as a team.

Incorporating the volatility of macroeconomic variables that affect portfolio performance is a key aspect in planning. The Group simulates this performance under a range of adverse and stressed scenarios (stress testing), enabling assessment of the Group's solvency in specific situations.

Scenario analysis enables senior management to understand the portfolio's evolution in the face of market conditions and changes in the environment. It is a key tool for assessing the sufficiency of provisions in stress scenarios.

Limits are planned and established using documents agreed between the Business and Risk areas and approved by the Group, setting out the expected business results in terms of risk and return, the limits to which this activity is subject and management of the associated risks, by group or customer.

e.2) Sales

- **Decisions on operations**

The sales phase consists of the decision-making process, analysing and deciding on operations. Approval by the risk area is a prior requirement before the contracting of any risk. This process must take into account the policies defined for approving operations, the risk appetite and the elements of the operation that are relevant to the search for the right balance between risk and profitability.

In the sphere of standardised customers (individuals and businesses and SMEs with low turnover), large volumes of credit operations can be managed more easily by using automatic decision models for classifying the customer/transaction pair. The ratings these models give to transactions enable lending to be classified consistently into homogeneous risk groups, based on information on the characteristics of the transaction and its owner.

e.3) After-sales

- **Monitoring**

The Monitoring function is based on a continuous process of ongoing observation, enabling early detection of changes that could affect the credit quality of customers, in order to take measures to correct deviations with a negative impact.

This monitoring is based on customer segmentation, and is carried out by dedicated local and global risk teams, supplemented by internal audit.

This function involves identifying and tracking customers under special surveillance, reviewing ratings and continuously monitoring indicators.

The **customers under special surveillance system** (FEVE) has four levels based on the degree of concern about the observed circumstances (extinguish, secure, reduce, monitor). The inclusion of a position in FEVE does not mean that default has occurred, but does indicate that it would be advisable to adopt a specific policy for that position, establishing the person responsible for it and the appropriate time frame. Customers classified in FEVE are reviewed at least every six months, and every quarter in the most serious cases. A customer can be classified in FEVE as a result of monitoring, a review by internal audit, a decision by the officer responsible for the customer, or the triggering of the automatic warning system. This system will evolve into a new system - SCAN - with much more granular policies next year.

Ratings are reviewed at least every year, but this may be more frequent if weaknesses are detected or based on the rating.

The main risk indicators for individual customers, businesses and SMEs with low turnover are monitored to detect changes in the performance of the loan portfolio with respect to the projections in the commercial strategic plans (CSPs).

e) Measurement and control

In addition to monitoring customers' credit quality, Santander Consumer Finance establishes the control procedures required to analyse the current credit risk portfolio and the changes therein over the various credit risk phases.

The risk control function is performed by assessing risks from various complementary perspectives, the main pillars being control by geographical location, business area, management model, product, etc., thus facilitating the early detection of specific areas requiring attention and the preparation of action plans to correct possible impairment.

Each control pillar can be analysed in two ways:

1.- Quantitative and qualitative analysis of the portfolio

In the analysis of the portfolio, any variances in the risk exposure with respect to budgets, limits and benchmarks are controlled on an ongoing and systematic basis, and the impacts of these variances in certain future situations, both those of an exogenous nature and those arising from strategic decisions, are assessed in order to establish measures aimed at placing the profile and amount of the risk portfolio within the parameters set by the Group.

In addition to the traditional metrics, the following, inter alia, are used in the credit risk control phase:

- **Change in non-performing loans (VMG)**

  VMG measures the change in non-performing loans in the period, discounting the loans written off and taking recoveries into account. It is an aggregate measure at portfolio level that enables action to be taken in the event of deteriorations in the trend of non-performing loans.

- **EL (expected loss) and capital**

  Expected loss is the estimated financial loss that will occur over the next twelve months on the portfolio existing at any given time. It is an additional cost of the activity and must be charged in the transaction price.

2.- Assessment of the control processes

This includes a systematic periodic review of the procedures and methodology, and is performed over the entire credit risk cycle to ensure that they are in force and effective.

In 2006, within the corporate framework established in the Group for compliance with the Sarbanes-Oxley Act, a corporate tool was made available on the Group's intranet for the documentation and certification of all the subprocesses, operational risks and related mitigating controls. In this connection, the risk division assesses the efficiency of the internal control of its activities on an annual basis.

Furthermore, the internal validation function, as part of its mission to supervise the quality of the Group's risk management, guarantees that the systems for the management and control of the risks inherent to its activity comply with the strictest criteria and the best practices observed in the industry and/or required by the regulators. Also, internal audit is responsible for ensuring that the policies, methods and procedures are appropriate, effectively implemented and regularly reviewed.

f) Recovery management

Recovery is a significant function within the sphere of the Group's risk management. This function is performed by the Recovery and Collection Unit, which defines a global strategy and an integral approach to recovery management.

The Group combines a global model with a local implementation, considering the specific features of the business in each area of activity.

The main objective of loan recovery is to recover outstanding obligations through customer management, thereby helping to reduce the need for provisions and the costs associated with risk.

Thus, the specific aims of the recovery process are as follows:

- To seek collection or regularisation of unpaid balances, so that accounts can return to their normal status; if this is not possible, the aim is to fully or partially recover the debts, regardless of their status for accounting or management purposes.

- To maintain and strengthen the relationship with customers, paying attention to their payment behaviour and offering refinancing products to meet their needs in accordance with the corporate approval and control policies carefully established by the risk areas.

In the recovery process, large-scale or standardised customers are segregated or differentiated from individualised customers, using specific integral management models in each case, in accordance with certain basic specialisation criteria.

Recovery management involves the use of a multichannel customer relationship strategy. The telephone channel is aimed at large-scale, standardised management and involves high levels of activity in contacting customers and monitoring their payment agreements, with management actions being prioritised and adapted on the basis of the status of their debts (in arrears, doubtful or non-performing), their balances and their payment commitments.

The commercial recovery management network, which complements the telephone channel, is geared towards establishing close relationships with selected customers. It consists of teams of highly commercially-oriented agents with specific training and excellent negotiating skills who carry out a personalised management of their own portfolios of high impact customers (high balances, special products and specially managed customers).

The recovery activity for advanced stages of default involves both in- and out-of-court management and the continuation of commercial and monitoring activities through the telephone channels and agent networks, applying specific strategies and practices based on the particular stage of default.

The management model favours proactiveness and targeted management, achieved through ongoing recovery campaigns specifically designed for particular groups of customers and stages of default. Predefined objectives are pursued using specific strategies and intensive actions conducted through the appropriate channels within limited time frames.

Adequate local production and analysis of daily and monthly management information, aligned with the Bank's corporate models, were defined as the basis for the business intelligence required in order to take management-oriented decisions on an ongoing basis and to monitor the results thereof.

V. Market, structural and liquidity risk

2. **Scope and definitions**

The measurement, control and monitoring scope of the Market Risk function encompasses those operations where an asset risk is assumed because of changes in market factors.

Such risks are generated through two types of basic activities:

- Trading which includes both the rendering of financial services on markets for clients, on which the entity is the counterparty, and sales and purchases and positioning mainly in fixed income, equity and foreign currency products.

  The Group carries out no trading operations and confines its treasury activity to managing the structural risk of its balance sheet and its coverage, managing the necessary liquidity to finance its business.

- Management of the balance sheet or ALM entails managing the risks inherent in the entity’s balance sheet, excluding trading books.

The risks generated by these activities are:

- Market: Risk incurred as a result of possible changes in market factors affecting the value of the positions held by the entity in its trading books.

- Structural: Risk caused by the management of different balance sheet items. This risk includes both losses owing to price variations affecting available for sale and held to maturity portfolios (banking book), and losses arising on the management of the Group’s assets and liabilities measured at amortised cost.

- Liquidity: Risk of payment obligations not being met on a timely basis or met at an excessive cost. The types of losses that this risk triggers include losses on the forced selling of assets or impacts on the margin because of the mismatch of forecast cash outflows and inflows.

Market and structural risks, depending on the market variable that triggers them, may be classified as:

- Interest rate risk: Identifies the possibility that interest rate variations may have a negative impact on the value of a financial instrument, a portfolio or the Group as a whole.

- Credit risk spread: Identifies the possibility that variations in credit risk curves associated with issues and specific types of debt may have an adverse effect on a financial instrument, a portfolio or the Group as a whole. The spread is a differential between listed financial instruments with a margin over other instruments used as a reference, basically the IRR (Internal Rate of Return) on Government securities and interbank rates.

- Exchange rate risk: Identifies the possibility that variations in the value of a position in a currency other than the base currency can have an adverse effect on the value of a financial instrument, a portfolio or the Group as a whole.

- Inflation risk: Identifies the possibility that variations in the inflation rate may have an adverse effect on the value of a financial instrument, a portfolio or the Group as a whole.

- Volatility risk: Identifies the possibility that variations in the listed volatility of market variables may have an adverse effect on the value of a financial instrument, a portfolio or the Group as a whole.

- Market liquidity risk: Identifies the possibility that an entity or Group as a whole is unable to dispose of or close a position on a timely basis without impacting the market price or transaction cost.

- Risk of early payment or cancellation: Identifies the possibility of early cancellation without negotiation on operations where the contractual relationship so allows explicitly or implicitly, generating cash flows that should be reinvested at a potentially lower interest rate.

-

There are other variables that only impact the market risk (and not the structural risk), meaning that it can also be classified as follows:

- Equity risk: Identifies the possibility that changes in the value of prices or dividend expectations from equity instruments can have an adverse effect on the value of a financial instrument, a portfolio or the Group as a whole.

- Commodity price risk: Identifies the possibility that changes in the value of commodity prices may have an adverse effect on the value of a financial instrument, a portfolio or the Group as a whole.

- Correlation risk: Identifies the possibility that changes in the correlation between variables, either of the same type or different in nature, listed on the market, may have an adverse effect on the value of a financial instrument, a portfolio or the Group as a whole.

- Underwriting risk: Identifies the possibility that placement targets for securities or other types of debt are not reached when the entity participates in underwriting them.

The liquidity risk may also be classified in the following categories:

- Financing risk: Identifies the possibility that the entity is unable to comply with its obligations as a result of its inability to sell assets or obtaining funding.

- Mismatch risk: Identifies the possibility that differences between asset and liability maturity structures generate additional costs for the entity.

- Contingency risk: Identifies the possibility of not having adequate management elements to obtain liquidity as a result of an extreme event which increases the need for financing or collateral to obtain it.

6. Methodologies

6.1 Structural Interest Rate Risk

The Group analyses the sensitivity of the net interest margin and market value of equity to changes in interest rates. This sensitivity arises from maturity and interest rate repricing gaps in the various balance sheet items.

On the basis of the balance-sheet interest rate position, and considering the market situation and outlook, the necessary financial measures are adopted to align this position with that desired by the Bank. These measures can range from the taking of positions on markets to the definition of the interest rate features of commercial products.

The measures used by the Group to control interest rate risk in these activities are the interest rate gap and the sensitivity of net interest margin and market value of equity to changes in interest rates.

- *Interest rate gap of assets and liabilities*

The interest rate gap analysis focuses on the mismatches between the interest reset periods of on-balance-sheet assets and liabilities and of off-balance-sheet items. This analysis facilitates a basic snapshot of the balance sheet structure and enables concentrations of interest rate risk in the various repricing buckets to be detected. Additionally, it is a useful tool for estimating the possible impact of potential changes in interest rates on the entity's net interest margin and market value of equity.

The flows of all the on- and off-balance-sheet aggregates must be broken down and placed at the point of repricing or maturity. For those aggregates that do not have a contractual maturity date, their duration and sensitivity are analysed and estimated using the Santander Group's internal model.

- *Net interest margin (NIM) sensitivity*

The sensitivity of the net interest margin measures the change in the expected net interest income for a specific period (twelve months) given a shift in the yield curve.

- *Market value of equity (MVE) sensitivity*

It measures the implicit interest rate risk with respect to equity value which for the purposes of interest rate risk is defined as the difference between the net present of assets less the net present value of liabilities due, based on the impact of a variation in interest rates on such present values.

6.2 Liquidity Risk

Structural liquidation management aims to finance the recurring activities of the Santander Consumer Finance Group in optimal conditions in terms of time and cost, and avoids undesired liquidity risk exposures.

The measures used to control liquidity risk are the liquidity gap, liquidity ratios, the statement of structural liquidity and regulatory reporting.

- *Liquidity gap*

The liquidity gap provides information on contractual and expected cash inflows and outflows for a given period for each currency in which the Santander Consumer Finance Group operates. The gap measures the net cash requirement or surplus at a given date and reflects the liquidity level maintained under normal market conditions.

In the contractual liquidity gap, all cash-flow generating balance sheet items are analysed and placed at the point of contractual maturity. For assets and liabilities without contractual maturities, the Santander Group's internal analysis model is used, based on a statistical study of the time series of the products, and the so-called stable or unstable balance for liquidity purposes is determined.

- *Liquidity ratios*

The minimum liquidity ratio compares the liquid assets available for sale or transfer (after the relevant discounts and adjustments have been applied) and the assets maturing in less than twelve months with the liabilities maturing in twelve months or less.

The Structural Financing Ratio measures the extent to which assets requiring structural financing are being financed through structural liabilities.

- *Structural liquidity table*

The aim of this analysis is to determine the structural liquidity position on the basis of the liquidity profile (more or less stable) of the various asset and liability instruments.

- *Liquidity stress tests*

The purpose of the liquidity stress tests conducted by the Santander Consumer Finance Group is to determine the impact of a severe, but plausible, liquidity crisis. In these stress scenarios, internal factors that might affect the Group's liquidity are simulated, such as a fall in the institutional credit rating or the value of on-balance-sheet assets, banking crises, regulatory factors, changes in consumption trends and/or a loss of depositor confidence.

Every month, four liquidity stress scenarios (banking crisis in Spain, idiosyncratic crisis at the Santander Consumer Finance Group and global crisis and a combine scenario) are simulated by stressing these factors, and the results are used to establish early warning levels.

- Financial Plan

Each year, a liquidity plan is prepared on the basis of the funding needs arising from the business budgets of all the Group's subsidiaries. Based on these liquidity requirements, an analysis is made of the limits on new securitisations, considering the eligible assets available, and of the potential growth in customer deposits. This information is used to establish an issue and securitisation plan for the year. Throughout the year the Group periodically monitors the actual changes in financing requirements and updates this plan accordingly.

- Liquidity Contingency Plan

The purpose of the Liquidity Contingency Plan is to set out the processes (governance structure) to be followed in the event of a potential or real liquidity crisis, as well as the analysis of contingency actions or levers available to Management should such a situation arise.

The Liquidity Contingency Plan is underpinned by, and must be designed in line with, two key elements: liquidity stress tests and the early warning indicator (EWI) system. Stress tests and the different testing scenarios serve as a basis for analysing the contingency actions that could be taken and for determining whether these actions are sufficient. The EWI system is used to monitor and potentially trigger the escalation mechanism in order to activate the plan and subsequently monitor the situation.

- *Regulatory reporting*

Santander Consumer Finance prepares the consolidated subgroup's liquidity coverage ratio (LCR) as foreseen by the European Banking Authority (EBA) on a monthly basis and the net stable funding ratio (NSFR) quarterly.

In addition, since 2016 Santander Consumer Finance has published the annual Internal Liquidity Adequacy and Assessment Process (ILAAP) report as part of the Santander Group's consolidated reporting documents, even though the supervisory authorities do not require this report at subgroup level

6.3. Structural foreign currency risk

Structural foreign currency risk is managed centrally, as part of the general corporate procedures at Santander Group level.

7. Limits

Within the framework of the annual limits plan, limits are established for structural balance sheet risks, based on Limits are set for balance sheet structural risks as part of the framework of the annual limits plan, responding to the Santander Consumer Finance Group’s risk appetite.

The limit structure involves a process that considers:

- Efficient and comprehensive identification and delimitation of the main types of market risk incurred, consistently with the management of the business and the strategy defined.

- Quantification and communication of the risk levels and profile considered acceptable by senior management to the business areas, so that undesired risks are not incurred.

- Providing flexibility for the business areas in the acceptance of risks, responding efficiently and appropriately to developments in the market and changes in business strategies, within the risk limits considered acceptable by the entity.

- Enabling business generators to take sufficient prudent risks to achieve their budgeted results.

- Delimiting the range of products and underlying assets in which each Treasury unit can operate, considering characteristics such as the model and assessment systems, the liquidity of the instruments involved, etc.

In the event of exceeding one of these limits or their sub-limits, the risk management officers involved must explain the reasons and facilitate an action plan to correct it.

The main management limits for structural risk at the consolidated Santander Consumer level are:

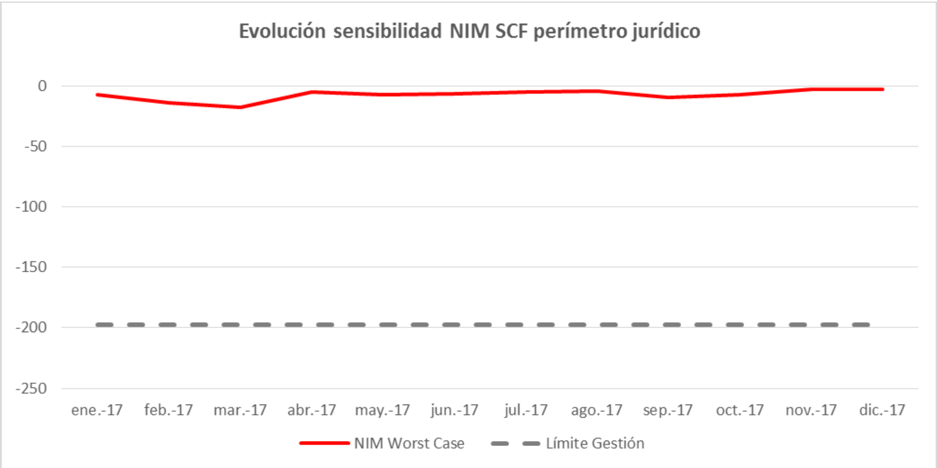
- Limit on the sensitivity of net interest income over 1 year.

- Limit of the sensitivity of equity value.

The limits are compared to the sensitivity that would result in the largest loss among those calculated under eight scenarios (parallel 25, 50, 75 and 100 basis point increases and decreases in the interest rate curve). Using a range of scenarios fosters improved control of interest rate risk. The downward scenarios consider negative interest rates, with a defined floor. In 2017, the exposure of the net interest margin and economic value was moderate compared to the budget and the value of own funds, respectively, being within the limits set for the legal scope.

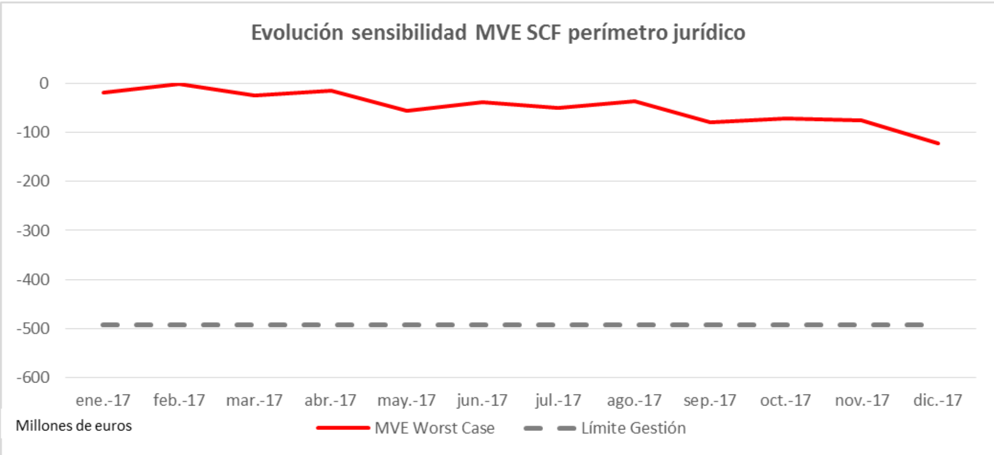
As year-end 2017, net interest margin risk over one year, measured as the sensitivity to a parallel 25 basis point fall in the curve, was EUR -3.1 million.

The sensitivity of the net interest margin in 2017 is shown in the chart below:



The sensitivity of the market value of equity to a parallel 100 basis point fall in the same period was EUR -121.3 million.

The sensitivity of market value of equity in 2017 is shown in the chart below:



8. Management

Balance sheet management entails the analysis, projection and simulation of structural risks, along with the design, proposal and performance of transactions and strategies to manage this risk. The Finance Management area is entrusted with carrying out this process, applying a projection method whenever applicable and feasible.

A high-level description of the main processes and/or responsibilities in managing structural risks is as follows:

- Analysis of the balance sheet and its structural risks

- Monitoring of movements in the most relevant markets for asset and liabilities management (ALM) within the Group

- Planning. Design, maintenance and monitoring of certain planning instruments. The Financial Management area is responsible for preparing, following and maintaining the Finance Plan, the Financing Plan and the Liquidity Contingency Plan.

- Strategy proposals. Design of strategies aimed at financing the SCF subgroup's business by securing the best market conditions or by managing the balance sheet and its exposure to structural risks, thereby avoiding the assumption of unnecessary risks, preserving net interest income and safeguarding the market value of equity and capital.

- Execution. In order to achieve an adequate ALM position, the Financial Management area uses different tools, particularly market issues of debt/capital, securitisations, deposits and interest rate and/or currency hedges, as well as management of ALCO portfolios.

- Compliance with limits and with risk appetite

V. Operational risk

h) Definition and objectives

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

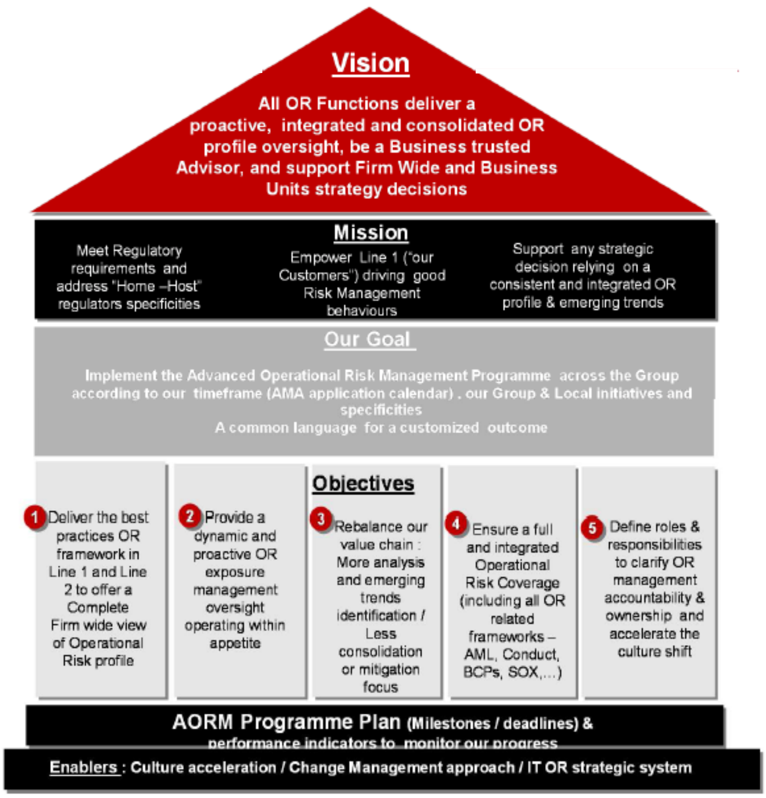
Operational risk is inherent in all products, activities, processes and systems, and is generated in all the business and support areas. Accordingly, all employees are responsible for managing and controlling the operational risks generated in their area of activity.

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

The Group's priority, therefore, is to identify and mitigate any clusters of operational risk, irrespective of whether or not they have given rise to any losses. Measurement of this risk also contributes to the establishment of priorities in operational risk management.

For the purpose of calculating regulatory capital for operational risk, the Group has been applying the Standardised Approach provided for under Basel II standards.

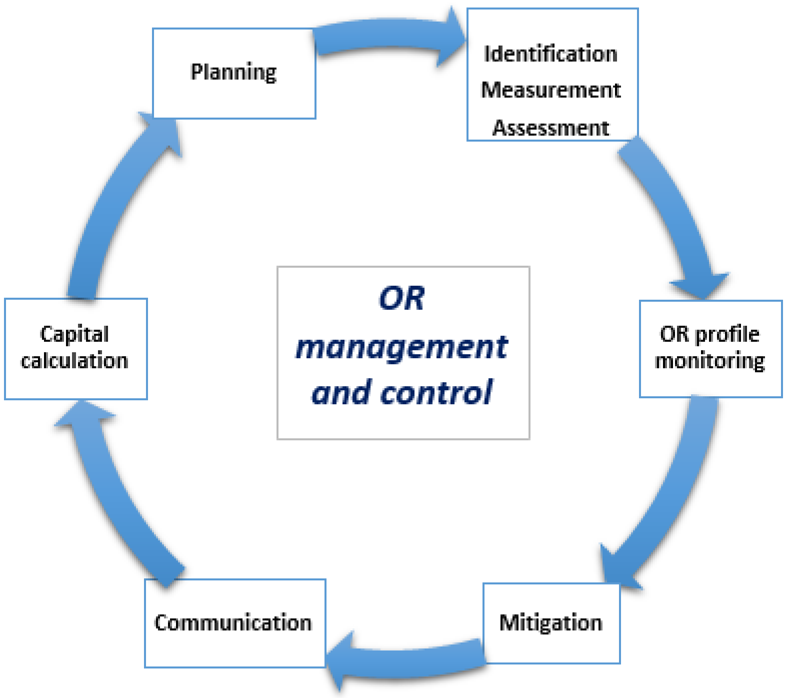
However, during 2017, Group has followed the implementation of an advance models approach (AORM) in the main geographies.



i) Operational risk management and control model

Operational risk management cycle

The components of operational risk management at the Group are as follows:



The various phases of the operational risk management and control model involve:

- Identification of the operational risk inherent in all Groups's activities, products, processes and systems. This process is carried out through a Risk and Control Self-Assessment (RCSA).
- Definition of the target operational risk profile, specifying the strategies by unit and time horizon, through the establishment of the operational risk appetite and tolerance, the budget and the related monitoring.
- Encouragement of the involvement of all employees in the operational risk culture, through appropriate training for all areas and levels of the organisation.
- Objective and ongoing measurement and assessment of operational risk, consistent with industry and regulatory standards (Basel, Bank of Spain, etc.).

- Continuous monitoring of operational risk exposures, implementation of control procedures, improvement of internal awareness and mitigation of losses.
- Establishment of mitigation measures to eliminate or minimise operational risk.
- Preparation of periodic reports on the exposure to operational risk and its level of control for Group's senior management and its areas/units, and reporting to the market and the regulatory authorities.
- Definition and implementation of the methodology required for calculating capital in terms of expected and unexpected loss.

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

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

  The Group has implemented a single tool (Heracles) for managing and controlling operational risk, compliance and internal control.
- The internal regulations setting out operational risk management and control principles have been defined and approved in accordance with the established governance system and in line with both prevailing regulations and best practices.

  In 2015, the Group adhered to the corresponding corporate framework and, subsequently, the model, policies and procedures were approved and implemented, along with the Operational Risk Committee Regulations.

The operational risk management and control model implemented by Santander Consumer Finance provides the following benefits:

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

j) Risk identification, measurement and assessment model

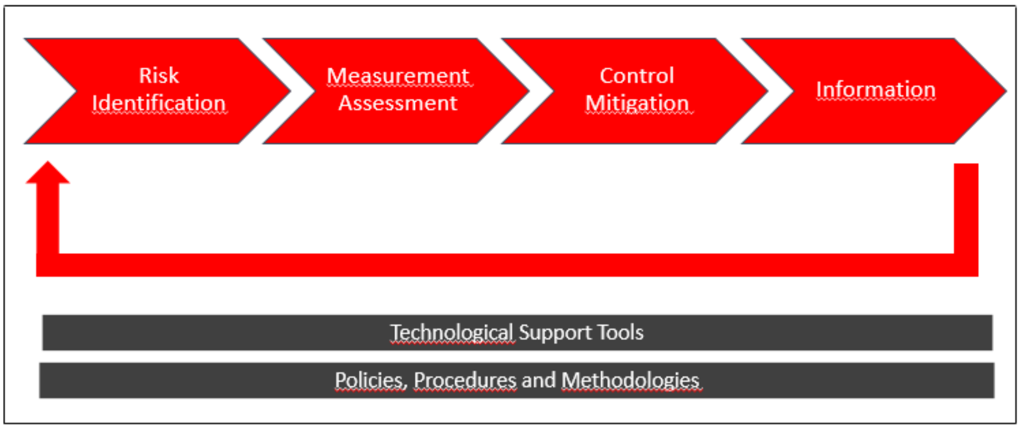
Since November 2014, the Group Santander Consumer Finance has adopted the new Santander Group management system in which three lines of defence were defined:

- 1st line of defence: integrated in the business or support areas. Its tasks are to identify, measure or assess, control (primary control), mitigate and report the risks inherent to the activity or function for which it is responsible

- 2nd line of defence: performed by the non-financial risks unit, reporting to the CRO. Its functions are to design, maintain and develop the local adaptation of the Operational Risk Management Framework (BIS), and to control and challenge the actions of the first line of defence against operational risk.

- 3rd line of defence: performed by internal audit, which assesses the compliance of all the entity's activities and units with its policies and procedures.

The components of risk management at Santander Consumer Finance are as follows:



In order to identify, measure and assess operational risk, the Group defined a set of quantitative and qualitative corporate techniques/tools that are combined to perform a diagnosis based on the identified risks and obtain a valuation through the measurement/assessment of the area/unit.

The quantitative analysis of this risk is carried out mainly using tools that record and quantify the level of losses associated with operational risk events.

- An internal event database, to capture all operational risk events. The capture of operational risk-related events is not limited by the establishment of thresholds, i.e. events are not excluded because of their amount, and the database contains both events with an accounting impact (including positive impacts) and those without.

  There are accounting reconciliation procedures that ensure the quality of the information entered in the database. The most significant events of the Group and of each of the Group's operational risk units are especially documented and reviewed.

- An external event database, since the Group participates, through the Santander Group, in international consortia such as ORX (the Operational Riskdata Exchange Association). In 2016 greater use was made of external databases, which provide quantitative and qualitative information and permit a more detailed and structured analysis of major events that have occurred in the sector.

- OR scenario analysis. Expert opinion is obtained from the business lines and the risk and control managers with the aim of identifying potential events which, although very unlikely to occur, could result in a very high loss for the institution. Their possible effect on the institution is evaluated and additional controls and mitigating measures are identified that reduce the possibility of a high economic impact.

  This feature has also been included in the HERACLES tool.

- Calculation of capital using the Standardised Approach. (Confirm that it is not calculated using advanced methods)

The tools defined for the qualitative analysis aim to assess aspects (coverage/exposure) linked to the risk profile, thereby making it possible to capture the control environment in place. These tools include primarily:

- Risk and Control Self-Assessment (RCSA): This new methodology designed to improve risk assessment, based on the expert judgement of the managers, provides a qualitative view of the main clusters of risk at the Group, irrespective of whether or not they have occurred previously.

  Improvements of the RCSA:

  - To motivate the assumption of responsibility by the first lines of defence: it establishes the first-line figures of the risk owner and the control owner.
  - To favour the identification of the most significant risks: not pre-defined risks, but rather risks that arise from the risk-generating areas.
  - To improve the integration of the OR tools: it includes a root cause analysis.
  - To improve the validation of the exercise. it is conducted in the form of workshops, rather than questionnaires.
  - To render the exercises more forward-looking in their approach*:* the financial impact resulting from risk exposure is assessed.

- A continuously-evolving corporate system of operational risk indicators that is coordinated with the corresponding corporate area. The indicators are statistics or parameters of various kinds that provide information on an entity's risk exposure. They are revised periodically in order to warn of any changes that could reveal problems vis-à-vis operational risk.

- Audit recommendations. These provide relevant information on the inherent risk owing to internal and external factors and make it possible to identify weaknesses in the controls

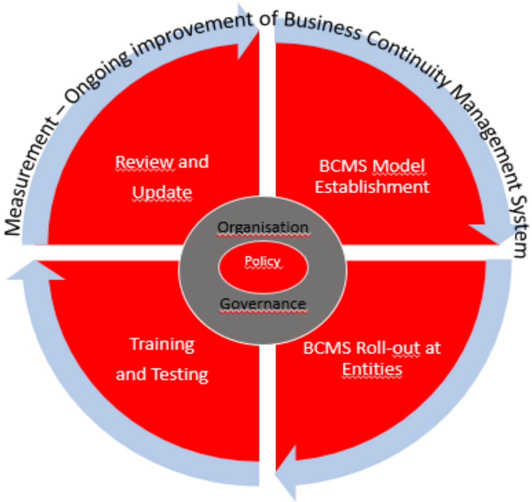
- Other specific instruments that permit a more detailed analysis of technology risk, such as the control of critical incidents in the systems and cyber-security events.

k) Operational risk reporting system

Heracles is the corporate operational risk reporting system. The system, which is applied in all Group companies, comprises modules for risk self-assessment, event logging, risk map and evaluation, operational risk and internal control indicators, mitigation and scenario analysis and reporting systems.

l) Business continuity plan

The Santander Group and, therefore, Santander Consumer Finance Group, has a business continuity management system (BCMS) to ensure the continuity of the business processes of its entities in the event of a disaster or serious incident.



This basic objective consists of the following:

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

m) Corporate information

The Santander Group's corporate operational risk control area has an operational risk management information system that provides data on the Group's main risk elements. The information available from each country/unit in the operational risk sphere is consolidated to obtain a global view with the following features:

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

More specifically, information is prepared on the following aspects:

- The operational risk management model in place at the Santander Group and its main units and geographical areas.
- The scope of operational risk management.
- Monitoring of appetite metrics.
- Analysis of the internal event database and of significant external events.
- Analysis of the most significant risks, detected using various sources of information, such as the internal operational and technology risk assessment exercises.
- Evaluation and analysis of risk indicators.
- Mitigating measures/active management.
- Business continuity plans and contingency plans.

This information serves as the basis for meeting reporting requirements vis-à-vis the executive risk committee, the risk, regulation and compliance oversight committee, the operational risk committee, senior management, regulators, rating agencies, etc.

The role of insurance in operational risk management

Santander Consumer Finance Group considers insurance as a key factor in operational risk management. In 2014 common guidelines were established for coordinating the various functions involved in the management cycle for operational risk-mitigating insurance, mainly the areas of proprietary insurance and operational risk control, but also the various front-line risk management areas.

These guidelines include the following activities:

- Identification of all risks at the Group which could be covered by insurance, as well as new insurance cover for risks already identified in the market.
- Establishment and implementation of methods for quantifying insurable risk, based on loss analysis and loss scenarios that make it possible to determine Group's level of exposure to each risk.
- Analysis of the cover available in the insurance market, as well as preliminary design of the terms and conditions that best suit the requirements previously identified and evaluated.
- Technical assessment of the level of protection provided by a policy, and of the cost and retention levels that the Group will assume (excesses and other items to be borne by the insured), for the purpose of deciding whether to arrange it.
- Negotiation with insurance providers and award of policies in accordance with the relevant procedures established by the Group.
- Monitoring of claims reported under the policies, as well as those not reported or not recovered due to incorrect reporting.
- Analysis of the appropriateness of the Group's policies for the risks covered, taking the necessary measures to correct any shortcomings detected.

- Close cooperation between local operational risk officers and local insurance coordinators in order to enhance operational risk mitigation.
- Regular meetings to report on specific activities, statements of position and projects in the two areas.
- Active participation of the two areas in the global insurance sourcing desk, the Group's highest technical body for the definition of insurance cover and arrangement strategies.

Compliance and conduct risk

The compliance function encompasses all matters relating to regulatory compliance, the prevention of money laundering and terrorist financing, product governance and consumer protection, and reputational risk.

The compliance function promotes adherence by Santander Consumer Finance, S.A. ("SCF") to the rules, oversight requirements, principles and values of good conduct by establishing standards, holding debates and providing advice and information in the interest of employees, customers, shareholders and society in general. Based on the current corporate arrangement of the Santander Group's three lines of defence, the compliance function is a second-line independent control function that is directly accountable to the Board of Directors and its committees through the Chief Compliance Officer (CCO). This structure is in line with banking regulatory requirements and supervisory expectations.

SCF's objective regarding compliance and conduct risk is to minimise the likelihood of non-compliance and irregularities occurring and to ensure that, should they ultimately occur, they are promptly identified, assessed, reported and resolved. The compliance function at SCF is currently undergoing a transformation process in line with that being implemented by the Group.

SCF continues to transform the Compliance function with a view to fully aligning all units with the Santander Group's standards on policies, procedures and management methodologies by the end of 2018.

Compliance with the regulatory framework

The Basel III regulations came into effect in 2014, setting new global standards for the capital, liquidity and leverage of financial entities.

From the capital perspective, Basel III: redefines what is considered available capital for financial entities (including new deductions and increasing requirements for eligible capital instruments); increases minimum capital requirements; requires financial entities to always hold capital buffers; and adds new requirements for the risks considered.

These regulations were implemented in Europe through Directive 2013/36/EU, known as 'CRD IV', and its regulations, 575/2013 (CRR), which apply directly in all EU member states (Single Rule Book). These rules are currently subject to regulatory development by the European Banking Authority (EBA).

CRD IV was introduced into Spanish law through Act 10/2014, on the ordering, supervision and solvency of credit institutions, and its subsequent regulatory implementation through Royal Decree Act 84/2015. The CRR is directly applicable to member states from 1 January 2014 and repeals lower-ranking standards that entail additional capital requirements.

The CRR provides for a phase-in period that will allow institutions to adapt gradually to the new requirements in the European Union. The phase-in arrangements have been introduced into Spanish law through Bank of Spain Circular 2/2014. The phase-in affects both the new deductions from capital and the capital instruments and elements that cease to be eligible as capital under the new regulations. The capital conservation buffers provided for in CRD IV are also being phased in gradually, starting in 2016 and reaching full implementation in 2019.

In late 2017, the ECB sent each entity its minimum prudential capital requirements for the following year. In 2018, the Santander Consumer Finance Group must maintain a minimum capital ratio of 8.12%[3] CET1 phase-in (4.5% for Pillar I, 1.5% for Pillar II, 1.875% for the capital conservation buffer, and 0.24% for the anti-cyclical buffer), at the consolidated level. In addition, the Santander Consumer Finance Group must also maintain a minimum T1 phase-in capital ratio of 9.62%, and minimum total capital ratio of 11.62%.

At year-end 2017, the Bank far exceeded the prudential requirement defined by the ECB, with a CET1 ratio (fully loaded) of 12.04% (phase-in:12.95%) and total capital ratios of 15.04% (fully loaded) and 15.24% (phase-in)

The Bank is continuing its plan to implement the Basel advanced internal rating-based measurement approach (AIRB). This objective is also conditioned by the acquisition of new entities, as well as by the need for coordination of the validation processes for internal models by supervisors.

The Santander Consumer Finance Group mainly operates in countries within the same legal supervisory framework, as is the case in Europe through the Capital Directive.

Santander Consumer Finance currently has supervisory authorisation to use advanced approaches for calculating regulatory capital requirements for credit risk for its main portfolios in Spain, and some portfolios in Germany, Scandinavia and France.

Santander Consumer Finance Group currently applies the standard approach to calculating regulatory capital for operational risk, as set out in the European Capital Directive.

As for the other risks expressly considered in Basel Pillar I, market risk is not significant in Santander Consumer Finance, as this is not part of its business purpose, and it therefore uses the standard approach.

Leverage ratio

The leverage ratio was established within the Basel III regulatory framework as a non-risk-sensitive measure of the capital that financial institutions are required to hold. CRD IV was amended on 17 January 2015 through the modification of Regulation (EU) No. 575/2013 to harmonise the calculation criteria with those specified in the Basel Committee's document entitled "Basel III leverage ratio framework and disclosure requirements". This ratio is calculated as Tier 1 capital divided by leverage exposure.

The leverage ratio is still in the calibration phase and there is no obligation to comply with it until 2018. The reference rate was set at 3.5% and at December 2017 Santander Consumer Finance had a fully-loaded leverage ratio of 8.77% at sub-consolidated level (8.91% Phase-inn).

[3] This requirement includes: (i) the minimum Common Equity Tier 1 requirement that must be maintained at all times pursuant to article 92(1)(a) of regulation (EU) No. 575/2013; (ii) the Common Equity Tier 1 required to retain a buffer pursuant to article 16(2)(a) of regulation (EU) No. 1024/2013; and (iii) the capital conservation buffer pursuant to article 129 of directive 2013/36/EU.

Economic capital

With regard to capital adequacy, in the context of Pillar 2 of the Basel Capital Accord, the Santander Consumer Finance Group conducts the internal capital adequacy assessment process (ICAAP) using its economic capital model. To this end, it plans the evolution of the business and the capital requirements under a central scenario and under alternative stress scenarios. With this planning the Group ensures that it will continue to meet its capital adequacy targets, even in adverse economic scenarios.

Economic capital is the capital required, based on an internally-developed model, to support all the risks of the Group's business activity with a given solvency level. In the Group's case, the solvency level is determined by the A long-term target rating (two notches above the rating for Spain), which results in the application of a 99.95% confidence level (higher than the regulatory 99.90%) for the purpose of calculating the required capital.

The Group's economic capital model includes in its measurement all the significant risks incurred by it in its operations. Accordingly, it considers risks such as concentration risk, structural interest rate risk, business risk, pension risk and other risks outside the scope of regulatory Pillar 1 capital requirements. Economic capital also includes the diversification effect, which in the Group's case, owing to the multinational, multibusiness nature of its operations, is of key importance in determining its overall risk and solvency profile.

In its risk management, the Santander Consumer Finance Group uses the RORAC methodology for the calculation of the economic capital requirements and of the return thereon for the Group's business units, segments, portfolios and customers, with a view to regularly analysing value creation and facilitating an optimal allocation of capital.

The RORAC methodology permits the comparison, on a like-for-like basis, of the performance of transactions, customers, portfolios and businesses, and identifies those which achieve a risk-adjusted return higher than the Group's cost of capital, thus aligning risk management and business management with the aim of maximising value creation, which is the ultimate objective of Santander Consumer Finance's senior management.

Proposed distribution of profit

The proposed distribution of the Bank’s net profit for 2017, amounting to EUR 462,877 thousand, that will be submitted for approval by the Annual General Meeting is as follows:

Dividends: EUR 400,343 thousand.

Legal reserve: EUR 46,288 thousand.

Voluntary reserve: EUR 16,246 thousand.

Share capital and treasury shares

The Group did not perform any transactions involving treasury shares in 2017 and it did not have any treasury share balance in its balance sheet as at 31 December 2017.

Research and development

The Santander Group considers technological development and innovation to be a cornerstone of the corporate strategy and therefore aims to maximise the opportunities afforded by digitalisation. Santander Consumer Finance is backed by the Group's know-how and strategy in technological development of its businesses.

Technology and Operations are a vital support for the business needs, putting forth specific value propositions for the consumer financing business, focused on the point of sale, clients and products. Processes and efficiency are managed optimally and technological and operating security is carefully controlled.

Also, as other Santander Group units, Santander Consumer Finance and its individual subsidiaries are under growing pressure due to ever-more demanding regulatory requirements that impact on the systems model and the underlying technology, obliging them to make additional investments in order to guarantee their compliance and legal security.

Significant events after the reporting period

Significant events occurring after 2017 year-end are detailed in Note 1-i to the consolidated financial statements.

Expected outlook

The management report contains certain prospective information reflecting the plans, forecasts or estimates of the directors, based on assumptions that the latter consider reasonable. Users of this report should, however, take into account that such prospective information is not to be considered a guarantee of the future performance of the entity, inasmuch as said plans, forecasts or estimates are subject to numerous risks and uncertainties that mean that the entity's future performance may not match the performance initially expected.

The global economy is expected to grow by around 3.75% in 2018, slightly above the 3.6% in 2017, and clearly above the 3-3.5% band seen in previous years.

This consolidation of the recovery seen in 2017 will slow down in both advanced and emerging economies.

Advanced economies will once again grow at around 2.2% thanks to a certain upturn in the US economy, which will offset, perhaps by some degree, euro area growth, which is expected to be slightly lower than in 2017. This is supported by funding conditions, the US fiscal package and the confidence of agents.

Emerging economies will grow by 4.9% in 2018, just above the figure of 4.8% recorded in 2017. These projections are based on the improved credibility of economic policies, the recovery of commodity prices, good global financial conditions, the control of inflation and a slight slowdown in Chinese growth.

In Latin America, we expect the recovery which began in 2017 to be confirmed and growth to reach levels of around 2%, supported by a very broad base and with Brazil and Argentina now showing more consistent growth rates as their policies gain credibility. Mexico, affected by the uncertainty resulting from the NAFTA talks and a tightening of its monetary policy, is likely to see growth stall, but everything points to the rest of the region growing somewhat faster than in 2017.

Annual corporate governance report

Pursuant to article 9.4 of Order ECC/461/2013, of 20 March, from the Ministry of Economy and Competitiveness, the Bank, an entity domiciled in Spain with voting rights belonging, directly and/or indirectly, to Banco Santander, S.A., has not prepared an annual corporate governance report, as this is drawn up and filed with the CNMV by Banco Santander, S.A. as the parent of the Santander Group.

Non-financial information

On 24 November 2017, the Spanish government passed Royal Decree Law 18/2017, which transposed into Spanish law the European Parliament and European Council Directive 2014/95/EU, dated 22 October 2014, amending Directive 2013/34/EU, regarding the disclosure of non-financial and diversity information.

The non-financial information statement must provide: a brief description of the Group's business model and policies and the results of their application; the main risks involved in its activities; and information on its key non-financial operating indicators, relating to the environment, employees, human rights, the fight against corruption and bribery, and diversity.

This Directive applies to entities of public interest employing over 500 employees on average during the year that can be classified as large companies in two successive years. However, subsidiaries belonging to a group are exempt from this obligation if the company and its subsidiaries are included in another company's consolidated management report.

In this regard, as a subsidiary of Banco Santander S.A, Santander Consumer Finance, S.A. and the companies in the Consumer Finance Group (consolidated) have included this information in the management report of Banco Santander S.A. and subsidiaries for the year ended 31 December 2017, which has been filed with the Companies' Registry of Santander, together with the consolidated financial statements of the Banco Santander Group and subsidiaries, as set out in note 1 to the accompanying Notes. These are also available at www.santander.com

Capital structure and significant shareholders

Banco Santander, S.A.	1,409,659,629	Percentage: 75.00%
Holneth, B.V.	469,886,543	Percentage: 25.00%
Total shares	1,879,546,172	
Par value in euros	3.00	
Share capital in euros	5,638,638,516	

At 31 December 2017, the Bank's share capital consisted of 1,879,546,172 registered shares, with a par value of EUR 3 each, all fully subscribed and paid up, and with equal dividend and voting rights.

Restrictions on the transferability of shares

Not applicable.

Significant direct and indirect shareholdings

The most important actions involving holdings in subsidiary companies are described in Note 3 of the consolidated Notes to the financial statements. Details of Group companies, jointly controlled entities and associates are set out in appendixes I and II of the consolidated Notes to the financial statements for the year ended 31 December 2017.

Restrictions on voting rights

The shareholders attending the Annual General Meeting will have one vote for each share that they hold or represent.

Only the holders of 20 or more shares will be entitled to attend the Annual General Meeting, provided that they are registered in their name in the share register.

Side agreements

Not applicable.

Board of Directors

Appointment and replacement of members of the Board of Directors and amendment of the bylaws

The representation of the Bank is the responsibility of the Board of Directors, which will comprise no fewer than 5 and no more than 15 members, who will be appointed by the Annual General Meeting for a period of three years, although they may be re-elected, as many times as may be desired, for further three-year periods.

It is not necessary to be a shareholder of the Bank in order to be a director.

Powers of the members of the Board of Directors

On 24 May 2012, the Bank granted powers of attorney to the General Managing Director Ms Inés Serrano González and to the General Managing Director Mr Bruno Montalvo Wilmot, so that either of them, acting jointly and severally, for and on behalf of the Bank, can exercise the powers detailed below:

a) To manage, control and govern all manner of properties now or hereafter owned by the principal, to perform the improvements, repairs and work thereon that they deem appropriate, to lease them for the period, price and terms they consider appropriate, to evict tenants or dwellers and approve new ones, to collect rent, interest, dividends and lease payments, and to give the corresponding receipts and invoices.

   To enter into, modify, subrogate and terminate finance leases on all manner of real and movable properties, upon the terms and conditions that they may freely determine, and to acquire the properties held under such finance leases, the only limit being that when the acquisition amount exceeds EUR 300,507 it must have been approved by the Board of Directors or the Executive Committee, and this approval must be supported by the appropriate certificate issued by the Secretary to the Board or to the Executive Committee, or by the acting Secretary to said Board or Committee, with the approval of the Chairman or of his assignee.

b) To verify groupings or subdivisions of properties, demarcations and deeds of declaration of new construction.

c) To submit accounts and request them, approve them, adjust or challenge them, to provide and receive the amounts of the resulting balances and sign and receive final settlements.

d) To use, with full powers, the signature of the principal bank in all banking transactions, acts and agreements to which the principal bank is party, subject to the limits indicated for the transactions referred to in sections e) and j), and to sign all manner of correspondence.

e) To acquire and dispose of, at the price and under the terms that they may freely stipulate, including resale and repurchase agreements and by any other means permitted by law, all manner of movable and immovable property, not excluding rights in personam and rights in rem, the only limit being that when the transaction arranged in exercise of this power exceeds EUR 300,507 it must have been approved by the Board of Directors or the Executive Committee, and this approval must be supported by the appropriate certificate issued by the Secretary to the Board or to the Executive Committee or by the acting Secretary to said Board or Committee, with the approval of the Chairman or of his assignee.

Notwithstanding the provisions of the preceding paragraph, the limitation will not exist when the acquisition relates to loans that other financial institutions (banks, savings banks, credit cooperatives and similar entities registered with the Bank of Spain) have granted to their customers, i.e. the loans included in the loan portfolio of the entity in question, even if the latter, in turn, had acquired the loans from another financial institution and they were not originally granted by said entity; or when the disposal relates to loans in the Bank's portfolio, whether these be loans granted to its customers or loans that the Bank had acquired previously from another financial institution; all the foregoing irrespective of whether these acquisitions or disposals relating to the loan or loans in question are full or partial, and irrespective of the type of the loans themselves, in terms of either the form of instrumentation (agreement, deed, bills, promissory notes or by another other means) or of the additional guarantees they might have (all manner of security interest, mortgages, etc.).

f) To arrange in favour of the Bank mortgages and other encumbrances on immovable property to secure the loan transactions to which it is party or to underwrite guarantees and other obligations which, with respect to these transactions, are outstanding, and they will stipulate the periods, interest and distribution of charges and any other terms inherent to the agreements in question at their own discretion.

g) To modify, transfer or subrogate and terminate mortgages and other in rem rights, including entries in the Land Registry, held by the Bank, and to grant and release, in the Bank's name, tax payment documents and final account settlements, or declare that the obligations related to the encumbrances have been extinguished.

h) To reach a settlement on properties and rights and submit any questions and discrepancies affecting the Bank to the decision of arbitrators or honest brokers.

i) To appear in the hereditary successions of debtors, at administration and insolvency proceedings and in bankruptcies, to approve inventories and arrangements and contest them; to take part in and vote at the meetings held for such purposes, whether they be in or out of court; to accept or reject such agreements as are adopted for the purpose; to sign arrangements in or out of court, to provide the guarantees that may be required, and to accept attached assets.

j) As security for the obligations of third parties and on their behalf, whether said parties be individuals or legal entities, and under the terms and clauses deemed appropriate, they may arrange, modify and withdraw or terminate guarantees and all other types of collateral before all manner of departments, bodies and agencies at central, provincial or municipal government level, autonomous community governments and their dependent agencies, autonomous community or semi-public agencies, ordinary and special tribunals and courts, including the economic-administrative and judicial review jurisdictions, employment courts, official banks and savings banks and, in general, before any public body, and before any type of company or individual, placing, as the case may be, the required deposits in cash or securities, with or without transfer of possession, and they may bind the Bank, even jointly and severally with the principal debtor, therefore waiving the benefits of order, discussion and division, the only limit being that, if the obligation undertaken by way of guarantee exceeds EUR 3,005,060, the transaction must have been approved by the Board of Directors or the Executive Committee, and this approval must be supported by the appropriate certificate issued by the Secretary to the Board or to the Executive Committee or by the acting Secretary to said Board or Committee, with the approval of the Chairman or of his assignee.

k) Without any limitations, to perform all manner of actions and to file claims and appeals at the courts and tribunals of any jurisdiction, including the Constitutional Court, and most particularly the judicial review jurisdiction; to answer interrogatories; to give court depositions; to file complaints and criminal complaints and to ratify them.

To request from the ministries, directorates general, units and offices of central government, from autonomous community governments, provincial, municipal and any other level of public corporations, and from authorities and civil servants, such action as is deemed appropriate in the interests of the principal, by filing economic-administrative claims, appeals to superior administrative bodies and claims of any other nature and class, which they will conduct through all stages and levels; to request payment orders/releases, and to present affidavits and supporting evidence.

To confer legal and court-case powers on court procedural representatives ("procuradores") if the principal requires such legal representation, and to perform in the Bank's name all manner of actions and exceptions which might be available to the former, conducting the proceedings through all stages and appeals, including appeals to the Constitutional Court and extraordinary cassation and judicial review appeals, and to withdraw, settle and stay such proceedings.

l) To pledge securities belonging to the Bank's portfolio in sufficient quantity so as to arrange credit account facilities, pledging the amount deemed appropriate in each case, and to sign the documents required for this purpose, and for the arrangement, drawdown and cancellation of the aforementioned accounts and of their related guarantees and the renewal thereof upon expiry of each facility.

m) To present, at any central government offices, banks (including the Bank of Spain), companies, establishments and private individuals, shares or securities for conversion or exchange purposes, withdrawing or collecting the new certificates, receipts, securities or bills resulting from the exchange or conversion, with current or in-arrears coupons, and in general carrying out any transactions required to this end.

n) To arrange policies with insurance companies that cover all manner of movable or immovable property owned by the Bank or pledged or mortgaged in its favour against the risks of fire, catastrophic damage or third-party liability, being able to establish such terms and conditions of the policies as they see fit.

o) To authorise certifications of the company's accounting ledgers and documents.

p) To grant and sign the public deeds and private documents required to execute the aforementioned acts and agreements.

q) To take part in Annual General Meetings and meetings of the Board of Directors in the name and on behalf of the Bank at companies in which the Bank holds an ownership interest.

The Bank does not grant the power to issue or buy back treasury shares, which corresponds to the Annual General Meeting or the Board of Directors, as appropriate.

Significant agreements which will be modified or terminated in the event of a change in control of the Company

Not applicable.

Agreements between the Company and the directors, executives or employees which provide for termination benefits if the relationship with the Company ends as a result of a takeover bid

Not applicable.