SANTANDER CONSUMER FINANCE, S.A.
AND SUBSIDIARIES

Independent Auditor's Report,
Consolidated Annual Accounts
and Directors' Report for the year ended December 31, 2016

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 CONSOLIDATED ANNUALS ACCOUNTS

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

Report on the Consolidated Annual Accounts

We have audited the accompanying consolidated annual accounts of Santander Consumer Finance, S.A. (hereinafter, The Parent Company) and its subsidiaries (hereinafter, the Group), which comprise the consolidated balance sheet as at December 31, 2016, and the consolidated income statement, consolidated statement of recognized income and expense, consolidated statement of changes in equity, consolidated statement of cash flows and the notes to the consolidated annual accounts for the year then ended.

Directors' Responsibility for the Consolidated Annual Accounts

The Parent Company's Directors are responsible for the preparation of these consolidated annual accounts, so that they present fairly the consolidated equity, financial position and financial performance of Santander Consumer Finance, S.A. and its subsidiaries, 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 Directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated annual accounts based on our audit. We conducted our audit in accordance with legislation governing the audit practice in Spain. This legislation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Parent Company's Directors' preparation of the consolidated annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated annual accounts taken as a whole.

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

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Opinion

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the consolidated equity and the consolidated financial position of Santander Consumer Finance, S.A. and its subsidiaries as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union, and in particular, with the financial reporting framework applicable in Spain.

Other matters

The Group's consolidated financial statements for the year ended December 31, 2015 were audited by the predecessor auditor who issued a favorable opinion on March 10, 2016.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated Directors' Report for 2016 contains the explanations which the Parent Company's Directors consider appropriate regarding the Santander Consumer Finance, S.A. and its subsidiaries situation, the development of their business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the Directors' Report is in agreement with that of the consolidated annual accounts for 2016. Our work as auditors is limited to checking the Directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from Santander Consumer Finance, S.A. and its subsidiaries' accounting records.

PricewaterhouseCoopers Auditores, S.L.

PricewaterhouseCoopers Auditores, S.L.
Torre PWC
Paseo de la Castellana, 259 B - 28046 Madrid

Original version signed in Spanish by
José María Sanz Olmeda

February 24, 2017

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 2016

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 50). 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 50). 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 2016 AND 2015

(Thousands of Euros)

ASSETS	Note	2016	2015 (*)
CASH, CASH BALANCES AT CENTRAL BANKS AND OTHERS DEPOSITS ON DEMAND	2	4,837,901	5,834,622
FINANCIAL ASSETS HELD FOR TRADING:	9	56,035	125,807
Trading derivatives		56,035	125,807
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS		-	-
FINANCIAL ASSETS AVAILABLE FOR SALE:		3,170,929	3,184,995
Equity instruments	8	12,366	30,595
Debt instruments	7	3,158,563	3,154,400
LOANS AND RECEIVABLES:		82,677,048	71,718,336
Debt instruments	7	103,299	2,023
Loans and advances		82,573,749	71,716,313
Central Banks		10,200	15,051
Credit institutions	6	580,381	1,144,914
Customers	10	81,983,168	70,556,348
INVESTMENTS HELD-TO-MATURITY		-	-
HEDGING DERIVATIVES	11	122,492	244,372
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	11	117,973	218,431
INVESTMENTS:	13	538,019	545,539
Jointly controlled entities		120,050	113,936
Associates		417,969	431,603
INSURANCE CONTRACTS LINKED TO PENSIONS		-	-
TANGIBLE ASSETS:	14	333,691	322,885
Property, plant and equipment-		333,691	322,885
For own use		180,114	165,970
Leased out under an operating lease		153,577	156,915
Investment property		-	-
Memorandum items: Acquired in finance lease		50,321	51,485
INTANGIBLE ASSETS:	15	2,171,345	2,252,924
Goodwill		1,889,262	1,898,353
Other intangible assets		282,083	354,571
TAX ASSETS:	22	909,175	1,077,547
Current		227,567	296,860
Deferred		681,608	780,687
OTHER ASSETS:	16	1,296,950	888,652
Inventories		96,139	73,758
Other		1,200,811	814,894
NON-CURRENT ASSETS HELD FOR SALE	12	9,943	14,606
TOTAL ASSETS		**96,241,501**	**86,428,716**

(*) 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 2016.

SANTANDER CONSUMER FINANCE, S.A. AND SUBSIDIARIES
COMPOSING THE SANTANDER CONSUMER FINANCE GROUP
CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2016 AND 2015
(Thousands of Euros)

LIABILITIES	Note	2016	2015 (*)
FINANCIAL LIABILITIES HELD FOR TRADING:		53.277	122.761
Derivatives	9	53.277	122.761
FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS		-	-
FINANCIAL LIABILITIES AT AMORTISED COST:		82.665.341	73.883.687
Deposits		53.458.916	47.914.528
Central banks	17	10.001.944	*6.441.083*
Credit institutions	17	10.199.494	*10.436.834*
Customers	18	33.257.478	*31.036.611*
Marketable debt securities	19	27.865.655	25.328.954
Other financial liabilities	20	1.340.770	640.205
Memorandum items: subordinated liabilities	17	*866.346*	*1.025.375*
HEDGING DERIVATIVES	11	248.041	313.550
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST	11	-	-
LIABILITIES UNDER INSURANCE CONTRACTS		-	-
PROVISIONS:	21	760.083	730.820
Pensions and other employement defined benefit obligations		*508.851*	*484.851*
Other long term employee benefits		*70.549*	*73.277*
Taxes and other legal contingencies		*50.715*	*38.184*
Commitments and guarantees given		*5.053*	*7.547*
Other provisions		*124.915*	*126.961*
TAX LIABILITIES:	22	740.468	723.308
Current		207.541	*200.720*
Deferred		532.927	*522.588*
OTHER LIABILITIES	16	1.377.004	1.202.245
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE		-	-
TOTAL LIABILITIES		**85.844.214**	**76.976.371**
SHAREHOLDERS' EQUITY:		9.398.682	8.885.322
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		-	-
Other equity instruments		-	-
Accumulated retained earnings	25	1.887.666	1.168.480
Other reserves:	25	218.443	158.477
Reserves or accumulated losses of investments in joint ventures and associated		258.345	*198.380*
Other reserves		(39.902)	*(39.903)*
(-) Own shares		-	-
Profit attributable to shareholders of the parent		1.055.253	1.059.788
(-) Dividens	3	(541.309)	(280.052)
OTHER COMPREHENSIVE INCOME		(325.557)	(304.436)
ITEMS NOT RECLASSIFIED TO PROFIT OR LOSS		(133.544)	(126.785)
Actuarial gains or losses on defined benefit pension plans	26	*(133.574)*	*(126.785)*
Other recognised income and expense of investments in subsidaries, joint ventures and associates		*30*	-
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS		(192.013)	(177.651)
Hedge of net investments in foreign operations (effective portion)	26	*(30.632)*	*21.893*
Exchange differences	26	*(146.420)*	*(222.687)*
Hedging derivatives. Cash flow hedges (effective portion)	26	*(7.539)*	*(2.005)*
Financial assets available-for-sale	26	*2.374*	*18.270*
Debt instruments		*2.019*	*471*
Equity instruments		*355*	*17.799*
Other recognised income and expense of investments in subsidaries, joint ventures and associates		*(9.796)*	*6.878*
NON-CONTROLLING INTEREST	27	1.324.162	871.459
Other comprehensive income		*1.609*	*(1.053)*
Others items		*1.322.553*	*872.512*
TOTAL EQUITY		**10.397.287**	**9.452.345**
TOTAL LIABILITIES AND EQUITY		**96.241.501**	**86.428.716**
Memorandum items			
CONTINGENT LIABILITIES	28	832.951	658.933
CONTINGENT COMMITMENTS	28	21.184.195	20.456.587

(*) 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 2016.

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 50). 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 2016 AND 2015

(Thousands of Euros)

		Income/(Expenses)	
	Note	2016	2015 (*)
INTEREST INCOME	30	3,629,917	3,475,354
INTEREST EXPENSE	31	(552,450)	(712,343)
CAPITAL EXPEDITURE REIMBURSABLE TO THE VIST		-	-
NET INTEREST INCOME		**3,077,467**	**2,763,011**
DIVIDEND INCOME		59	79
SHARE OF RESULTS OF ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD		68,907	71,130
COMMISSION INCOME	32	1,171,986	1,118,300
COMMISSION EXPENSE	33	(351,875)	(292,516)
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net	34	19,549	(3,566)
Gains or losses on financial assets and liabilities held for trading, net	35	(3,677)	2,325
Gains or losses from hedge accounting, net	35	(11,257)	(4,951)
EXCHANGE DIFFERENCES (net)	36	3,424	(5,028)
OTHER OPERATING INCOME:	37	259,561	285,880
OTHER OPERATING EXPENSES:	38	(279,579)	(303,565)
Income from assets under insurance and reinsurance contracts		-	-
Expenses from liabilities under insurance and reinsurance contracts		-	-
GROSS INCOME		**3,954,565**	**3,631,099**
ADMINISTRATIVE EXPENSES:		(1,547,032)	(1,440,062)
Staff costs	39	*(697,822)*	*(641,408)*
Other general administrative expenses	40	*(849,210)*	*(798,654)*
DEPRECIATION AND AMORTISATION CHARGE	14 and 15	(189,281)	(177,205)
PROVISIONS OR REVERSAL OF PROVISIONS	21	(24,346)	(73,230)
IMPAIRMENT OR REVERSAL OF IMPAIRMENT AT FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS, NET	10	(328,248)	(493,186)
Financial assets available-for-sale		(245)	-
Loans and receivables	10	(328,003)	(493,186)
Held-to-maturity investments		-	-
PROFIT FROM OPERATIONS		**1,865,658**	**1,447,416**
Impairment of investments in subsidiaries, joint ventures and associates, net		-	-
Impairment on non-financial assets, net	41	(2,100)	(1,913)
Tangible assets		*(826)*	*(498)*
Intangible assets		*(652)*	*(934)*
Others		*(622)*	*(481)*
Gains or losses on non financial assets and investments, net	42	(16,391)	65,418
Which in subsidiaries, joint ventures and associates		*(8,999)*	69,526
Negative goodwill recognised in results	43	(9,078)	(8,996)
Profit or loss before tax from continuing operations		**1,838,089**	**1,501,925**
Tax expense or income from continuing operations	22	(614,554)	(331,150)
Profit for the period from continuing operations		**1,223,535**	**1,170,775**
Profit or loss after tax from discontinued operations			-
Profit for the period		**1,223,535**	**1,170,775**
Profit attributable to non-controlling interests	27	*168,282*	*110,987*
Profit attributable to the parent		*1,055,253*	*1,059,788*
Earnings per share			
Basic	3	0.56	0.57
Diluted	3	0.56	0.57

(*) 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 2016.

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 50). 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 2016 AND 2015

A) CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

(Thousands of Euros)

		2016	2015 (*)
CONSOLIDATED PROFIT FOR THE YEAR		**1,223,535**	**1,170,775**
OTHER RECOGNISED INCOME AND EXPENSE		**(18,459)**	**(14,765)**
Items that will not be reclassified to profit or loss		**(4,057)**	**10,377**
Actuarial gains and losses on defined benefit pension plans	26	(8,837)	15,103
Non-current assets held for sale		-	-
Other valuation adjustments		30	-
Income tax relating to items that will not be reclassified to profit or loss	22	4,750	(4,726)
Items that may be reclassified subsequently to profit or loss		**(14,402)**	**(25,142)**
Hedges of net investments in foreign operations (Effective portion):		(52,525)	25,284
Revaluation gains (losses)	*26*	*(52,525)*	*25,284*
Amounts transferred to income statement		-	-
Other reclassifications		-	-
Exchanges differences:		76,339	(81,038)
Revaluation gains (losses)	*26*	*76,339*	*(81,038)*
Amounts transferred to income statement		-	-
Other reclassifications		-	-
Cash flow hedges (Effective portion)	26	(6,954)	8,729
Revaluation gains (losses)		*(25,798)*	*(19,685)*
Amounts transferred to income statement		*18,844*	*28,414*
Transferred to initial carrying amount of hedged items		-	-
Other reclassifications		-	-
Financial assets available-for-sale:	26	(16,870)	21,430
Revaluation gains (losses)		*2,467*	*20,517*
Amounts transferred to income statement		*(19,337)*	*913*
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	(16,674)	4,197
Income tax relating to items that may be reclassified to profit or loss	22	2,282	(3,744)
TOTAL RECOGNISED INCOME AND EXPENSE		**1,205,076**	**1,156,010**
Attributable to non-controlling interests		*170,944*	*109,934*
Attributable to the Parent		*1,034,132*	*1,046,076*

(*) 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 2016.

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 50). 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 2016 AND 2015
(CONTINUED)

B) CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

(Thousands of 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 comprehend sive income	Non-Controlling interest (Note 27)		Total
												Other comprehens ive income	Others elements	
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**

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 2016.

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 2016 AND 2015 (CONTINUED)

(Thousands of 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 2015	**5.338.639**	**1.139.990**	-	-	**851.499**	-	**134.868**	-	**638.317**	**(297.818)**	**(290.724)**	-	**133.177**	**7.647.948**
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted opening balance at 01-01-2015	**5.338.639**	**1.139.990**	-	-	**851.499**	-	**134.868**	-	**638.317**	**(297.818)**	**(290.724)**	-	**133.177**	**7.647.948**
Total recognised income and expense (Note 4)	-	-	-	-	-	-	-	-	**1.059.788**	-	**(13.712)**	**(1.053)**	**110.987**	**1.156.010**
Other changes in equity	**300.000**	-	-	-	**316.981**	-	**23.609**	-	**(638.317)**	**17.766**	-	-	**628.348**	**648.387**
Issuance of ordinary shares	300.000	-	-	-	-	-	-	-	-	-	-	-	-	**300.000**
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)	-	-	-	-	-	-	-	-	-	(280.052)	-	-	(23.643)	**(303.695)**
Purchase of equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dispossal of equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity items	-	-	-	-	316.981	-	23.518	-	(638.317)	297.818	-	-	-	-
Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	652.730	**652.730**
Share-based payment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Others increases or (-) decreases of the equity	-	-	-	-	-	-	91	-	-	-	-	-	(739)	**(648)**
Ending balance at 31 December 2015 (*)	**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**

(*) 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 2016.

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 50). 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 2016 AND 2015

(Thousands of Euros)

	Notes	2016	2015 (*)
CASH FLOWS FROM OPERATING ACTIVITIES		**892,814**	**3,404,529**
Consolidated profit for the year		**1,223,535**	**1,170,775**
Adjustments made to obtain the cash flows from operating activities:		**1,404,857**	**1,098,375**
Depreciation		*189,281*	*177,205*
Other adjustments		*1,215,576*	*921,170*
Net (increase)/decrease in operating assets:		**(3,472,544)**	**(3,708,888)**
Financial assets held for trading		*96,967*	*16,289*
Financial assets at fair value through profit or loss		-	-
Financial assets available-for-sale	*7, 8*	*2,113,423*	*(2,750,668)*
Loans and receivables	*6, 7, 10*	*(5,699,315)*	*(2,229,635)*
Other operating assets		*16,381*	*1,255,126*
Net increase/(decrease) in operating liabilities:		**1,973,344**	**5,240,223**
Liabilities held-for-trading financial		*(74,779)*	*(489,196)*
Financial liabilities held for trading		-	-
Financial liabilities at amortised cost		*2,558,737*	*6,599,598*
Other operating liabilities		*(510,614)*	*(870,179)*
Income tax recovered/(paid)		**(236,378)**	**(395,956)**
CASH FLOWS FROM INVESTING ACTIVITIES		**(1,554,334)**	**(769,727)**
Payments-		**(1,648,451)**	**(900,520)**
Tangible assets	*14*	*(55,731)*	*(43,873)*
Intangible assets	*15*	*(82,657)*	*(146,585)*
Investments	*13*	*(5,000)*	*(30,396)*
Subsidiaries and other business units	*3*	*(1,505,063)*	*(679,666)*
Non-current assets held for sale and associated liabilities		-	-
Held-to-maturity investments		-	-
Proceeds-		**94,117**	**130,793**
Tangible assets	*14*	*35,507*	*9,985*
Intangible assets	*15*	-	-
Investments	*13*	*3,408*	*107,862*
Subsidiaries and other business units		*13,411*	-
Non-current assets held for sale and associated liabilities		*41,791*	*12,946*
Held-to-maturity investments		-	-
Other proceeds related to investing activities		-	-
CASH FLOWS FROM FINANCING ACTIVITIES		**(345,885)**	**(475,319)**
Payments-		**(345,885)**	**(775,319)**
Dividends		-	*(582,234)*
Subordinated liabilities	*19*	*(244,738)*	*(193,085)*
Redemption of own equity instruments	*17*	-	-
Acquisition of own equity instruments		-	-
Other payments related to financing activities	*27*	*(101,147)*	-
Proceeds-		-	**300,000**
Subordinated liabilities		-	-
Issuance of own equity instruments		-	*300,000*
Disposal of own equity instruments		-	-
Other proceeds related to financing activities		-	-
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**10,684**	**(19,673)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(996,721)**	**2,139,810**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**5,834,622**	**3,694,812**
CASH AND CASH EQUIVALENTS AT END OF YEAR		**4,837,901**	**5,834,622**
Memorandum items	2		
Cash		*138,385*	*142,803*
Cash equivalents at central banks		*2,122,607*	*3,470,545*
Other financial assets		*2,576,909*	*2,221,274*

(*) 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 2016.

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 50). 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 2016

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 2016 and 2015 (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 2015 of the Santander Group were authorised for issue by the Directors of Banco Santander, S.A. at its Board of Directors Meeting on 12 February 2016, were approved by the shareholders at the Annual General Meeting on 18 March 2016 and were filed at the Santander Mercantile Registry. The consolidated financial statements of the Santander Group for 2016 are expected to be authorised for issue by its Directors on 21 February 2017.

The Bank has one branch (Madrid), is not listed and, in 2016, 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 2016, the Group had 404 branches distributed throughout Europe, 64 of which were located in Spain (31 December 2015: 398 branches, 65 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 2016.

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 2015 were formally prepared by the Directors of the Bank, as Parent (at the Board Meeting on 11 February 2016), 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 2015, 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 2015.

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 2016. 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 2015 were approved by the Shareholders at the Annual General Meeting of the Bank on 31 March 2016 and filed at the Madrid Mercantile Registry. The 2016 consolidated financial statements of the Group and the 2016 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 2015 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 2016 are the same as those applied in the consolidated financial statements for the year ended 31 December 2015, *Adoption of new standards and interpretations issued*

The following standards came into force and were adopted by the European Union in 2016:

- Disclosure Initiative (Amendments to IAS 1) (obligatory for annual reporting periods beginning on or after 1 January 2016, early application permitted) - the main objective of these amendments is to improve financial statement presentation and disclosures. To this end, the amendments introduce certain qualifications relating to materiality, aggregation and disaggregation of items and the structure of the notes.

- Amendments to IAS 16 and IAS 38 - Clarification of acceptable methods of depreciation and amortisation (obligatory for annual reporting periods beginning on or after 1 January 2016, early application permitted) - these amendments clarify that when an item of property, plant and equipment or an intangible asset is accounted for using the revaluation model, the total gross carrying amount of the asset is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset, so that the accumulated depreciation or amortisation is equal to the difference between the gross carrying amount and the carrying amount of the asset after revaluation (after taking into account any impairment losses).

- Amendments to IASs 16 and 41 - bearer Plants (obligatory for annual reporting periods beginning on or after 1 January 2016, early application permitted) - under these amendments, plants of this nature are now within the scope of IAS 16 and must be accounted for in the same way as property, plant and equipment rather than at their fair value.

- Amendments to IAS 27 - Equity method in separate financial statements (obligatory for annual reporting periods beginning on or after 1 January 2016, early application permitted) - these amendments permit the use of the equity method as an option in the separate financial statements of an entity for accounting for investments in subsidiaries, joint ventures and associates.

- Amendments to IFRS 11 - Accounting for acquisitions of interests in joint operations (obligatory for annual reporting periods beginning on or after 1 January 2016, early application permitted) - these amendments specify how to account for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business.

- Improvements to IFRSs, 2012-2014 cycle (obligatory for reporting periods beginning on or after 1 January 2016, early application permitted) - these improvements introduce minor amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34.

- IFRS 10 (Modification), IFRS 12 (Modification) and IAS 28 (Modification) Investment entities: Applying the exception to consolidation - These amendments clarify three aspects on the application of the requirement for investment entities to value subsidiaries at fair value instead of consolidating them. The proposed modifications:

    - Confirm that the exception to present consolidated financial statements continues to apply to the subsidiaries of an investment entity that are themselves controlling entities;

    - Clarify when a controlling investment entity should consolidate a subsidiary that provides services related to the investment rather than valuing that subsidiary at fair value; and

    - Simplify the application of the equity method for an entity which is not itself an investment entity but which has a stake in an associate that is an investment entity.

- Amendments to IAS 19, Employee benefits - defined benefit plans: Employee contributions - these amendments allow employee contributions to be deducted from the service cost in the same period in which they are paid, provided certain requirements are met, without having to perform calculations to attribute the reduction to each year of service.

- Improvements to IFRSs, 2010-2012 cycle - these improvements introduce minor amendments to IFRS 2, IFRS 3, IFRS 8, IAS 16, IAS 24 and IAS 38.

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 2016 were in force:

- IFRS 9, Financial Instruments: Classification and Measurement, Hedge Accounting and Impairment (obligatory for reporting periods beginning on or after 1 January 2018). IFRS 9 defines the financial asset and certain non-financial assets purchases agreements classification and measurement model changes requirements. The main aspects included in the new standard are:

    (a) Classification of financial instruments: The criterion for classifying financial assets will depend both on their business management model and the features of the contractual flows. Consequently, the asset will be measured at amortised cost, at fair value with changes in other comprehensive income (equity), or at fair value with changes in profit and loss for the period. IFRS 9 also establishes the option of designating an instrument at fair value with changes in Profit and loss under certain conditions. The main activity of Santander Group in which Santander Consumer Finance Group is included, is the concession of retail banking operations and does not concentrate its exposure on complex financial products. The main objective of the Group is to achieve a homogeneous implementation of the classification of financial instruments of the portfolios established under IFRS 9 and, for this purpose, it has developed standardized guidelines to enable a homogeneous analysis in all of its units. The Group is currently implementing an analysis of its portfolios under the mentioned guidelines in order to identify and classify the financial instruments into their corresponding portfolio under IFRS 9.

    Based on the analysis currently being carried out, the Group expects that:

    - Financial assets classified as loans and held to maturity portfolios under IAS 39 will generally continue to be classified at amortised cost;

    - Available for sale debt instruments will continue to be classified at fair value with changes reported in other comprehensive income or at amortised cost. Nevertheless, some of these assets will be classified at fair value, with changes reported in profit and loss for the year.

    Available for sale capital instruments will be classified at fair value, with changes reported in profit and loss for the year, unless the Group decides, for non-trading assets, to classify at fair value, with changes reported in other comprehensive income (irrevocably).

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

(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 asset impairment model is applicable to financial assets valued at amortised cost, to debt instruments valued at fair value through other comprehensive income, to leasing receivables, and to contingent risks and commitments not valued at fair value.

- Application of practical expedients under IFRS 9: IFRS 9 contains a set of practical expedients that might be used by the entities to facilitate its implementation. However, in order to achieve full and high quality implementation of the standard, considering industry best practices, these practical solutions 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 will be used as an additional – but not primary - indicator of significant risk increase.

  - Financial instruments that have low credit risk at the reporting date.

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

  - Phase 1: a financial instrument will be considered to be in this phase where there has been no significant increase in risk since its initial recognition. In this case, the value correction will reflect expected credit losses arising from defaults over the 12 months from the reporting date.

  - Phase 2: financial instruments are included in this phase when there has been a significant increase in risk since the date of initial recognition, but the impairment has not materialised. In this case, the value correction for losses will reflect the expected losses from defaults over the residual life of the financial instrument. The existence of a significant increase in credit risk will be determined by considering the quantitative indicators used in the ordinary management of credit risk, together with other qualitative variables, such as the indication of whether refinanced transactions are considered non-impaired and transactions included in special debt sustainability agreements.

  - Phase 3: financial instruments are catalogued in this phase when they show effective signs of impairment as a result of one or more events that have already occurred that will result in a loss. In this case, the amount of the value correction will reflect the expected losses for credit risk over the expected residual life of the financial instrument.

  The methodology required for quantification of expected loss for credit events will be based on an unbiased and weighted consideration of the occurrence of a range of 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. GNP, house pricing, unemployment rate, etc.).

In estimating the parameters used in the expected loss calculation (EAD, PD, LGD and discount rate), the Group leverages its experience of developing internal models for calculating parameters for regulatory and management purposes. The Group is aware of the differences between such models and regulatory requirements for provisions. As a result, it is focusing on preparing for, and adapting to, such requirements as it develops its IFRS 9 models.

- Use of present, past and future information: The Group currently uses forward-looking information in internal management and regulatory processes, considering several scenarios. In this sense, the Group will leverage its experience in the management of such information and maintain consistency with the information used in the other processes.

- Impairment recording: The main change with respect to the current standard related to assets measured at fair value with changes in other comprehensive income. For these assets, 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, so allowing there 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 macro-hedging treatment is being developed in a separate IFRS9 project. Companies have the option to continue applying IAS39 regarding those accounting hedges until that project is completed. According to the analysis performed until now, the Group expects to maintain the application of IAS 39 in hedge accounting.

Transition

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.

The Group is evaluating the effects of IFRS 9 application. Once this evaluation is finished, the Group will communicate the expected impact when a reliable estimation can be maded, expected to be prior to the end 2017.

IFRS 9 application could suppose a loan impairment increase and a longer variability in the Group future results.

IFRS 9 implementation strategy

The Group has established a global workstream with the aim of adapting its processes to the new classification standards for financial instruments, accounting of hedges and estimating credit risk impairment, so that such processes are applicable in a uniform way for all Group units, and, at the same time, can be adapted to each unit's individual features.

Accordingly, the Group is working in 2016 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.

In principle, 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.

Regarding the governance structure, the Group has set up a regular committee to manage the project governance structure, and a task force which is responsible for its tasks, and also assuring that the pertinent responsible teams take part.

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 & Control and Technology and Operations. The Internal Audit division is also involved in the project, having shared the implementation plan and keeping regular meetings about the status of the project.

The project's main phases and milestones

During this exercise, the Group has successfully completed the design and development phase of the implementation plan. The major milestones achieved include:

- Complete the definition of functional requirements as well as the design of an operational model adapted to the requirements of IFRS 9.

- Development a training plan for all the staff who could be involved or impacted with the standards application.

- At the IT environment, the technological needs have been identified as well as the necessary adaptations to the existing control environment.

The Group is currently in the implementation phase of the models and requirements defined.

The objective of the Group at this stage is to ensure an efficient implementation, optimizing its resources as well as the designs elaborated in previous stages.

Once the implementation phase is completed, the Group will test the effective performance of the model through several simulations and ensuring that the transition to the new operating model meets the objectives established in the previous phases.

This last stage includes the parallel execution of the provisions calculation, as a complement to the internal simulations that the Group has been carrying out during the different phases of the project and to the participation of the Group in the different impact assessments that the regulators have carried out.

The Audit Committe is aware of the project and its relevance to the Group and is expected to follow up the project to its final implementation.

- IFRS 15, Revenue from Contracts with Customers (obligatory 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 (or as) the entity satisfies a performance obligation.

- Clarifications to IFRS 15 Revenue from contracts with Customers. – The Standard rules that at the commencement of a contract, an entity shall assess the goods or services promised in a contract with a customer and shall identify performance obligations on the basis of each transfer compromise with the client: (a) a good or service (or a group of goods or services) that are different; or (b) a series of different goods or services that are substantially equal and have the same transfer pattern to the client.

At the current date, the Group is assessing the possible impacts derived from these new standards.

Lastly, at the date of preparation of these consolidated financial statements, the following standards which effectively come into force after 31 December 2016 had not yet been adopted by the European Union:

- IFRS 16 Leases (obligatory for annual reporting periods beginning on or after 1 January 2019) - this new standard on leases supersedes IAS 17. IFRS 16 will modify the accounting model that lessees currently use introducing a single lessee accounting model without distinguishing between finance leases and operating leases. Under this model, the lessee is required to recognise, for each leased asset, a right-of-use asset and a lease liability.

  In compliance with IFRS 16 a lessee may elect to account for lease payments of operating leases as an expense on a straight-line basis over the lease term, or another systematic basis, for both, leases with a lease term of 12 months or less and containing no purchase options and leases where the underlying asset has a new value value less than 5.000 $. The exception for short term leases must be applied to groups of assets, whereas the exception for low value leases can be applied asset by asset. For those leases where this exception does not apply the lessee will recognise a right-of-use and a lease liability, which may therefore cause fluctuations in significant ratios and related metrics.

  When applying IFRS 16, the Group, from a lessee point of view, shall take a series of accounting decisions that will have an impact in the recognisable assets and liabilities amounts and, thus, in the financial ratios. The decisions we are referring to are associated with the choice of an alternative upon first-time application, since IFRS 16 allows alternative accounting treatments.

  The Standard allows three different alternatives upon first-time application; choosing one or another may not only cause differences during the first year of implementation but also in subsequent ones, like in any implementation process.

  Option 1 consists of applying IFRS 16 with full retrospective effect, reperforming the comparative information as if the standard had been applicable to the active lease agreements since they were recognised. (Full restrospective appliance, in compliance with IAS 8).

  In option 2 comparative information is not restated. Alternatively, option 2 allows to recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application, 1 January 2019.

  Regarding leases that were previously considered to be operating leases, liabilities on 1 January 2019 are measured discounting the residual future cash flows by using the interest rate of the lessor’s debt at the date of first adoption. Assets are measured likewise (adjusting the amount for any impairment or accrual previous to the date of first adoption).

  In relation with leases that were previously considered to be finance leases, assets and liabilities recognised under IAS 17 remain this way.

Option 3 is similar to option 2, but with the difference that assets are measured on 1 January 2019 as if the new accounting policy had always been applied from the commencement of the lease (discounting the cash flows at the interest rate at the date of first adoption). Assets are measured at the beginning and, on 1 January 2019 the amount that remains to be amortized is analyzed. The difference between assets and liabilities is recognised against reserves on 1 January 2019.

Sale&Lease Back operations previous to the date of entry into force of this standard, will not have retrospective effect in regards with the recognition of the gain at the commencement of the operation.

The criteria that IFRS 16 sets out for *Sale&Lease* Back operations, therefore, will not be applicable. In contrast, they will be registered as if they were operating lease operations under IFRS 16.

- Amendments to IFRS 10 and IAS 28, Sale or contribution of assets between an investor and its associate or joint venture (without a defined mandatory effective date) - these amendments establish that a gain or loss must be recognised for the full amount when the transaction involves assets that constitute a business (whether the business is housed in a subsidiary or not). When the transaction involves assets that do not constitute a business, a partial gain or loss is recognised, even if these assets are housed in a subsidiary.

- Modification of IAS 12 Recognition of deferred tax assets for unrealised losses. – A deferred taxes asset will be recognised for all the deductible temporary differences only to the extent that it is probable taxable profit will be available against which the temporary difference will be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction such that: (a) it is not a business combination; and (b) at the time it was performed it does not affect either the accounting or the taxable profit (loss).

- Modification of IAS 7 Information disclosure initiative. – The standard rules that an entity shall provide disclosures that enable users of financial statements to assess changes in liabilities arising from financing activities, including both, those derived from financing cash flows and those that do not involve cash flows.

- 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.

- Modification to the IFRS 4 by applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts.

- Annual Improvements to IFRS Standards 2014-2016 Cycle – Contains minor amendments to IFRS 1, IFRS 12 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 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 to (i) 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.

The Group with currently available information cannot reliable estimate the potential impacts arising from these new standards.

All accounting policies and measurement bases with a material effect on the consolidated financial statements for 2016 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 2016 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 2016 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 2015 contained in these notes to the consolidated financial statements is presented with the information relating to 2016 for comparison purposes only and, accordingly, it does not constitute the Group's statutory consolidated financial statements for 2015.

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 2016 and 2015, 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 2016 and 2015, 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 2016.

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 2016.

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 2016.

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 2016.

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 "Gains from Bargain Purchases Arising in Business Combinations" 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 2016 and 2015.

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 2016, the Santander Consumer Finance Group's Common Equity Tier 1 capital and its CET1 plus Additional Tier 1 capital amounted to EUR 7,785 million in both cases (31 December 2015: EUR 6,967 million), while its total capital amounted to EUR 8,215 millionat that date (31 December 2015: EUR 7.304 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 2016 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 2016 and 2015, 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 2016 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 and Portugal, 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 2016 include additional information on the contributions of this type made by the Bank in 2016 and 2015.

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 2016, the amount accrued for contributions to both funds stood at EUR 44,697 thousand (EUR 47,497 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 2016 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 2016, a total of 991 claims were received (795 in 2015). Of these, 926 were lodged through Customer Service, 41 through the Customer Ombudsman and 24 through the Bank of Spain. All claims received were processed.

91% of the claims and complaints submitted in 2016 were resolved (2015: 94%). The detail, by type, of the claims and complaints filed in 2016 and 2015 is as follows:

	Number of Claims	
	2016	2015
Assets	433	318
Payment methods	522	441
Insurance	8	13
Other	28	23

The Bank's Directors state that the matters not yet resolved at 2016 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 2016 and 2015 is as follows:

	Percentage	
	2016	2015
In favour of claimant	65%	68%
In favour of the Bank	35%	32%

The average handling period for claims was 21 calendar days in 2016 (2015: 22 days).

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

With respect to all the claims included in this report, no breach of the Bank of Spain's rules of conduct for Spanish credit institutions has been observed.

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

i. Claims received by the Customer Care Services

210 claims were received by the Customer Care Services of this Group company in 2016 (2015: 293). Of these, 191 were lodged through Customer Service, 14 through the Customer Ombudsman and 5 through the Bank of Spain. All claims received were processed.

83% of the claims and complaints were resolved and concluded during the same year (2015: 95%). The detail, by type, of the claims and complaints filed is as follows:

	Number of Claims	
	2016	2015
Payment methods	13	13
Assets	191	257
Insurance	6	20
Other	-	9

The detail of the responses to customers in 2016 and 2015 is as follows:

	Percentage	
	2016	2015
In favour of claimant	59%	60%
In favour of the Bank	41%	40%

The average handling period for claims was 19 days in 2016 (2015: 22 days).

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

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

69 claims were received by the Customer Care Services of this company in 2016 of which 60 were admitted for consideration and 9 was rejected from consideration, and the customer was informed in writing of the reasons for the rejection. (26 in 2015, of which 25 were admitted for processing and one was rejected, with the customer being informed, in writing, of the reasons the claim was inadmissible; in 2016, 73 claims were answered; 4 claims were received at the 2015 year-end; 53 of the claims addressed in 2016 were resolved in favour of the company and 11 in favour of the customer, 9 were not admitted due to non-compliance with the requirements foreseen in Ministry of the Economy Order ECO/734/2004, of 11 March, on customer service departments and the customer ombudsman at financial institutions. In all cases customers were informed of the decisions taken and were provided with the documentation requested.

Also, 4 files were received through the Bank of Spain's Department of Market Conduct and Claims and the supervisory authority found for the customer in 1 file.

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

Throughout 2016, several different measures and controls were implemented in order to ensure compliance with prevailing regulations and with best practices, and to improve customer service. Highlights include:

- The replacement, in all areas in which it had been published, of the Customer Service email for one that is more easily identifiable: servicioatencionclientes@elcorteingles.es.
- Creation of a Claims Committee to meet at least one a month and as many times as necessary, as called. Meetings are attended by representatives from the various operating departments, who discuss and share problems, suggestions, the application of regulations and other issues, and put forward proposals for improvement to resolve the issues raised by customers more quickly and more efficiently and to promote the adoption of measures to remedy actions and situations giving rise to customer disputes.
- Categorisation and clear definition of concepts: consultation, incident, compliant and claim.
- Reminder to the shopping centre operating departments regarding the information and documentation to be provided to customers pursuant to Finance Ministry Order EHA/2899/2011 on transparency and consumer protection in banking services, implemented through Bank of Spain Circular 5/2012 on transparency in banking services and responsibility in lending.
- Incorporation of new reason options in the case management application, to clearly identify the issues put forth by customers.
- Modification of descriptions, to make them more easily understood by the parties involved (shopping centres, operating departments, etc.)
- Automation of processes to address and resolve all questions, consultations, incidents, complaints and claims put forth by customers, in the shortest possible time frame.
- Controls to ensure that a claim not previously resolved by the relevant operating department is always addressed by the head of Customer Service.

- Amendment of the conditions of contracts to bring them into line with Supreme Court ruling 705/2015, of 23 December, and any modifications required in the different software applications to ensure that calculations are correct.

- Quarterly activity report by the head of Customer Service to the Management Committee, 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

A total of two claims were received during 2016, of which one was processed through the Customer Ombudsman.

All matters were resolved and closed during the same year, with 50% of claims and complaints being resolved in favour of the customer. The average resolution time for claims was 16 calendar days in 2016.

PSA Finance Spain, E.F.C., S.A.

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

792 claims were received by this company's Customer Complaints and Claims Services in 2016, of which 792 were admitted for consideration. 367 of the claims considered were resolved in the customer's favour.

Of the 792 claims received in 2016, 7 were made through the Bank of Spain, 22 through the Municipal Consumer Office (OMIC), 5 through other customer care services, 10 through lawyers on behalf of customers, 694 were received directly from customers and 54 by other means.

The main reasons for and issues raised in the claims were, inter alia, the early termination and management of the end of contracts, the recovery of past-dues (fees and expenses), the delay or error in the management of files, the request for information and/or dispatch of documents and claims relating to credit insurance.

The company paid/forgave approximately EUR 22 thousand, approximately, to its customers for claims resolved in their favour in 2016. The average resolution period was seven 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 addition, in 2016 the number of claims and complaints increased with respect to 2015 due to the launch and improvement of the customer website and e-mail service and the encouragement of customers to use them. Currently, 33.45% 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 remained nearly constant, as has the number received through public administration consumer information offices.

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 not 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. 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 2016 amounted to EUR 14,574 million and EUR 9,063 million, respectively (2015 year-end: EUR 13,578 million and EUR 9,111 million, respectively) (see Note 44). Approximately 93.2% of these assets and 97.1% of these liabilities at 31 December 2016 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 scantly 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 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, Changes in the fair value of hedged items in portfolio hedges of interest rate risk (asset side), 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 or which are part of a portfolio of financial instruments identified and managed jointly, for which there is evidence of recent actions to obtain short-term gains and financial derivatives that are not designated as hedging instruments.

- 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).

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 the Bank of Spain and other central banks.

- Derivatives: includes, where appropriate, the fair value in favour of the Group of derivatives which do not form part of hedge accounting.

- 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 debit balances of all the remaining credit and loans granted by the Group, other than those represented by marketable securities, 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 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 portfolios 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 at fair value through profit or loss - Financial liabilities held for trading: this category includes, where appropriate, the financial liabilities that have been issued for the purpose of repurchasing them in the near term or which are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, financial derivatives not considered to qualify for hedge accounting and financial liabilities arising from the outright sale of financial assets acquired under reverse repurchase agreements or borrowed (“short positions”).

- 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 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. This item includes, where appropriate, the component considered to be a financial liability of issued securities that are compound financial instruments.

- Other financial liabilities: includes the amount of payment obligations having the substance of financial liabilities not included under any other item.

- Hedging Derivatives: includes the fair value of the Group’s liability in respect of derivatives 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.

Financial derivatives, if any, that have as their underlying equity instruments whose fair value cannot be determined in a sufficiently objective manner and are settled through delivery of those instruments are measured at cost.

“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 the present value of all its estimated cash flows of all kinds over its remaining life, disregarding impairment losses. 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 amount of 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 is re-estimated on the benchmark interest reset dates.

Equity instruments, if any, whose fair value cannot be determined 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 and securities in reverse repurchase agreements.

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 2016 and 2015, 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:

	Thousands of Euros					
	31/12/16			31/12/15		
	Published Price Quotations in Active Markets	Internal Models (*)	Total	Published Price Quotations in Active Markets	Internal Models (*)	Total
Financial assets held for trading	2,875	53,160	56,035	-	125,807	125,807
Available-for-sale financial assets (**)	3,107,396	63,533	3,170,929	3,103,791	81,204	3,184,995
Hedging derivatives (assets)	10,829	111,663	122,492	70,815	173,557	244,372
Financial liabilities held for trading	2,899	50,378	53,277	-	122,761	122,761
Hedging derivatives (liabilities)	9,176	238,865	248,041	28,738	284,812	313,550

(*) 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 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 2016 or 2015. 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.

Valuation adjustment for counterparty risk or default risk

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 2016.

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 are not significantly subjective, since they can be adjusted and recalibrated, where appropriate, through the internal calculation of the fair value and the subsequent comparison with the related actively traded price.

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 2016 and 2015:

	Thousands of Euros		
	Fair Values Calculated Using Internal Models at 31/12/16	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 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

	Thousands of Euros		
	Fair Values Calculated Using Internal Models at 31/12/15	Valuation Techniques	Main assumptions
ASSETS:			
Financial assets held for trading	**125,807**		
Trading derivatives	125,807		
Swaps	*125,441*	Present Value Method	Interest rate curves, Market prices Fx, Basis, Liquidity.
Other	*366*	Present Value Method	Interes rate curves,Volatility surface Market prices Fx.
Available-for-sale financial assets	**81,204**		
Debt instruments	*81,204*	Present Value Method	Interest rate curves, HPI, Market prices Fx
Hedging derivatives	**173,557**		
Swaps	*81,124*	Present Value Method	Interest rate curves, Market prices Fx, Basis, Liquidity
Other	*92,433*	Present Value Method	Interest rate curves, Volatility surface, Market prices Fx
LIABILITIES:			
Financial liabilities held for trading	**122,761**		
Trading derivatives	122,761		
Swaps	*122,233*	Present Value Method	Interest rate curves, Market prices Fx, Basis, Liquidity
Other	*528*	Present Value Method	Interest rate curves, Volatility surface, Market prices Fx
Hedging derivatives	**284,812**		
Swaps	*103,273*	Present Value Method	Interest rate curves, Market prices Fx, Basis, Liquidity
Other	*181,539*	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.

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.

  - 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 2016 and 2015 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 consolidated entities 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 2016 and 2015.

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.

- 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.e).

- 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.

Loss given default (LGD) is the loss arising in the event of default. It depends mainly on the discounting of the guarantees associated with the transaction and the future flows that are expected to be recovered.

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 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.

ii. 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.

The incurred loss is calculated in the Group's internal models by multiplying three factors: exposure at default, probability of default and loss given default.

- 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.

  The definition of default used includes amounts past due by 90 days or more and cases in which there are no missed payments 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.

- Loss given default (LGD) is the loss arising in the event of default. It depends mainly on the discounting of the guarantees associated with the transaction and the future flows that are expected to be recovered.

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).

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 2016 are as follows: Ibertasa S.A. and Gesvalt Sociedad de Tasación, S.A. In 2015 were as follows: Ibertasa, Sociedad de Tasación, S.A., Compañía Hispania de Tasaciones y Valoraciones, S.A., Tinsa Tasaciones Inmobiliarias, S.A.U., Eurovaloraciones, S.A., Tasiberica, S.A., Técnicos en Tasación, S.A., Grupo Tasvalor, S.A. and Arco Valoraciones, 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 reporting period goodwill is reviewed for impairment (i.e. a reduction in the 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) - Goodwill and Other Intangible Assets" in the consolidated income statement, in the case of the goodwill on subsidiaries, and under "Impairment on non-financial assets (net) - Other", in the case of the goodwill on investments accounted for using the equity method. An impairment loss recognised for the goodwill relating to subsidiaries is not reversed in a subsequent period.

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 on non-financial assets (net) - Goodwill and Other Intangible Assets" 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.

- 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.

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 2016 and 2015 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 and the other aforementioned changes to the defined benefit post-employment obligations that are recognised in equity as valuation adjustments in the consolidated balance sheet are, for this type of long-term benefit, in no case recognised as valuation adjustments but rather are recognised immediately 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. At 2016 and 2015 year-end there were no objective reasons for, and circumstances had not arisen requiring, the recognition of material provisions in this connection.

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 2016 and 2015 and of the average annual interest rates in 2016 and 2015 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 sheetat 31 December 2016 and 2015 , details by type and currency as follows:

	Thousands of Euros	
	2016	2015
Type:		
Cash	138,385	142,803
Current accounts	2,112,261	3,251,369
Reciprocal accounts	1,283,330	1,388,562
Other credit institutions	1,293,579	832,712
Other accounts at central banks	10,346	219,176
	4,837,901	**5,834,622**
Currency:		
Euro	4,577,549	5,320,194
Foreign currency	260,352	514,428
	4,837,901	**5,834,622**

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 2016 and 2015:

SANTANDER CONSUMER FINANCE, S.A.

CONDENSED BALANCE SHEETS AS AT 31 DECEMBER 2016 AND 2015
(Thousands of Euros)

ASSETS	2016	2015	LIABILITIES AND EQUITY	2016	2015
Cash, cash balances at central banks and other deposits on demand	16,326	1,069,693	**LIABILITIES**		
Financial assets held for trading	30	-			
Financial assets designated at fair value through profit or loss	-	-	Financial liabilities held for trading	1,747	109
Financial assets available for sale	1,202,855	1,268,006	Financial liabilities at amortised cost	25,884,208	23,700,087
Loans and receivables	22,346,832	20,072,847	Hedging derivatives	43,733	15,631
Investments held to maturity	-	-	Provisions	51,833	59,720
Hedging derivatives	69,953	106,459	Tax liabilities	176,113	183,642
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	-	-	Other liabilities	38,098	23,378
Investments	11,745,889	10,445,007			
Tangible assets	263	75	**TOTAL LIABILITIES**	**26,195,732**	**23,982,567**
Intangible assets	8,889	4,740			
Tax assets	120,081	245,400			
Other assets	2,665	1,203	Shareholders equity	9,327,530	9,242,341
Non current assets held for sale	5,196	9,875	Other comprehensive income	(4,283)	(1,603)
TOTAL ASSETS	**35,518,979**	**33,223,305**	**TOTAL EQUITY**	**9,323,247**	**9,240,738**
			TOTAL LIABILITIES AND EQUITY	**35,518,979**	**33,223,305**
MEMORANDUM ITEMS:					
CONTINGENT LIABILITIES	1,536,494	1,013,105			
CONTINGENT COMMITMENTS	4,588,651	3,629,640			

SANTANDER CONSUMER FINANCE, S.A.

CONDENSED INCOME STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

(Thousands of Euros)

	Income/(Expenses)	
	2016	2015
Interest Income	310,195	340,557
Interest Expense	(126,387)	(147,366)
Net interest income	**183,808**	**193,191**
Dividend Income	684,824	274,238
Commission income	29,741	31,234
Commission expense	(46,949)	(47,821)
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net	(12,634)	(360)
Gains or losses on financial assets and liabilities held for trading, net	(474)	3
Gains or losses on financial assets and liabilities measured at fair value through profit or loss, net	-	-
Gains or losses from hedge accounting, net	(13)	(12)
Exchange differences, net	(2,891)	131
Other operating income	130	434
Other operating expenses	(7,077)	(6,608)
Income from assets under insurance and reinsurance contracts	-	-
Expenses from liabilities under insurance and reinsurance contracts	-	-
Total income	**828,465**	**444,430**
Administrative expenses	(53,733)	(55,036)
Depreciation and amortisation cost	(1,811)	(236)
Provisions or reversal of provisions	4,470	(7,441)
Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss, net	12,968	(26,747)
Profit from operations	**790,359**	**354,970**
Impairment of investments in subsidiaries, joint ventures and associates, net	**-**	**-**
Impairment on non-financial assets, net	**-**	**-**
Negative goodwill recognised in results	**-**	**-**
Gains or losses on non-current assets held for sale classified as discontinued operations	(6,889)	(4,715)
Profit or loss before tax from continuing operations	**783,470**	**350,255**
Tax expense or income from continuing operations	(156,972)	63,740
Profit for the period from continuing operations	626,498	413,995
PROFIT FOR THE YEAR	**626,498**	**413,995**

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 2016 AND 2015

(Thousands of Euros)

	2016	2015
PROFIT FOR THE YEAR	**626,498**	**413,995**
OTHER RECOGNISED INCOME AND EXPENSE	**(2,680)**	**3,184**
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**(255)**	**(816)**
ACTUARIAL GAINS AND LOSSES ON DEFINED BENEFIT PENSION PLANS	*(364)*	*(1,166)*
NON-CURRENT ASSETS HELD FOR SALE	-	**-**
INCOME TAX RELATING TO ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	*109*	*350*
ITEMS THAT WILL BE RECLASSIFIED TO PROFIT OR LOSS	**(2,425)**	**4,000**
EXCHANGE DIFFERENCES		
HEDGES OF NET INVESTMENTS IN FOREIGN OPERATIONS		
CASH FLOW HEDGES	*(4,056)*	*4,984*
AVAILABLE-FOR-SALE FINANCIAL ASSETS	*592*	*730*
NON-CURRENT ASSETS HELD FOR SALE		
OTHER RECOGNISED INCOME AND EXPENSE OF INVESTMENT IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES	-	-
INCOME TAX	1,039	(1,714)
TOTAL RECOGNISED INCOME AND EXPENSE	**623,818**	**417,179**

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 2016 AND 2015

(Thousands of Euros)

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**

2015	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 2014	**5,338,639**	**1,139,990**	**-**	**-**	**2,367,534**	**378,007**	**(297,818)**	**(4,787)**	**8,921,565**
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-
Adjustments due to errors	-	-	-	-	(117,953)	-	-	-	(117,953)
Adjusted beginning balance	**5,338,639**	**1,139,990**	**-**	**-**	**2,249,581**	**378,007**	**(297,818)**	**(4,787)**	**8,803,612**
Total recognised income and expense	**-**	**-**	**-**	**-**	-	**413,995**	**-**	**3,184**	**417,179**
Other changes in equity	**300,000**	**-**	**-**	**-**	**80,189**	**(378,007)**	**17,765**	**-**	**19,947**
Issurance of ordinary shares	300,000	-	-	-	-	-	-	-	300,000
Issurance of preferent shares			-	-					
Dividends	-	-	-	-	-	-	(280,053)	-	(280,053)
Transfers between equity items	-	-	-	-	80,189	(378,007)	297,818	-	-
Ending balance at 31 December 2015	**5,638,639**	**1,139,990**	**-**	**-**	**2,329,770**	**413,995**	**(280,053)**	**(1,603)**	**9,240,738**

SANTANDER CONSUMER FINANCE, S.A.

CONDENSED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

(Thousands of Euros)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES	**445,891**	**2,816,329**
Profit for the year	**626,498**	**413,995**
Adjustments made to obtain the cash flows from operating activities	46,921	(33,323)
Net (increase)/decrease in operating assets	(1,985,379)	(6,486,004)
Net increase/(decrease) in operating liabilities	1,757,851	8,921,661
Income tax recovered/paid	-	-
CASH FLOWS FROM INVESTING ACTIVITIES	**(1,362,272)**	**(1,539,807)**
(Payments)	(1,352,576)	(1,544,898)
Proceeds	(9,696)	5,091
CASH FLOWS FROM FINANCING ACTIVITIES	**(85,995)**	**(282,235)**
(Payments)	(85,995)	(582,235)
Proceeds	-	300,000
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,002,376)**	**994,287**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,075,506**	**81,219**
CASH AND CASH EQUIVALENTS AT END OF YEAR	**73,130**	**1,075,506**
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash	-	-
Cash equivalents at central banks	16,326	1,069,693
Other financial assets	56,804	5,813
Less: Bank overdrafts refundable on demand	-	-
Total cash and cash equivalents at end of year	**73,130**	**1,075,506**

b) Acquisitions and disposals

The most significant acquisitions and disposals of equity investments in Group entities in 2016 and 2015 and other relevant corporate transactions which modified the Group's scope of consolidation in these years were as follows:

b.1) 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 contributes a lending portfolio of approximately EUR 2,367 million to the Group, of which around EUR 1,065 million corresponds to PSA Finance Benelux, S.A./N.V.

As a result of the acquisition of this 99.99% interest, 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. 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 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.

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.

b.2) 2015

Agreements with Banque PSA Finance

Within the framework of the agreements entered into in 2014 by the Bank, Peugeot, S.A. and Banque PSA Finance, the vehicle financing unit of the PSA Peugeot Citroën Group, the following events and transactions was taken place in 2015:

- In January 2015 the relevant regulatory authorisations were obtained for the commencement of activities in France.

  On 30 January 2015, the subsidiary Santander Consumer France, S.A. (formerly Santander Consumer France, S.A.S.) was carried out a capital increase which was subscribed and paid in full by the Bank through a monetary contribution of EUR 476.7 million. In addition, on 3 November 2015, a EUR 12.7 million capital increase was subscribed and paid in full by the Bank.

  On 2 February 2015, Santander Consumer France, S.A. acquired 50% of the share capital of PSA Banque France, S.A. (formerly Société Financière de Banque – SOFIB), which until that time was part of the Banque PSA Finance Group, for EUR 463 million.

  Following the aforementioned acquisition of 50% of the share capital of PSA Banque France, S.A. (formerly Société Financière de Banque – SOFIB) and pursuant to the aforementioned agreements entered into, the entity, together with its subsidiaries, become Group subsidiaries as from that date. At the date control was obtained by the Consumer Group, the total assets and liabilities acquired in this transaction, measured in accordance with the applicable legislation, amounted to approximately EUR 8,708 million and EUR 7,782 million, respectively; consequently, taking into account the cost of the aforementioned consideration transferred by the Group and the effect of the related non-controlling interests, no goodwill or gain from a bargain purchase arose thereon. With regard to the main classes of assets and liabilities acquired on the date control was obtained as a result of this transaction, it should be noted that they consist mainly of loans and advances to customers and financial liabilities at amortised cost (deposits from credit institutions, customer deposits and marketable debt securities), respectively.

- On 7 January 2015, the Bank made a contribution of EUR 2 million to the capital of the newly-created company Finance Professional Services, S.A.S. (a subsidiary, with no relevant impact for the Group), of which it is the sole shareholder.

- Also, on 16 March 2015, the Group incorporated PSA Life Insurance Europe Limited and PSA Non-Life Limited, both of which are insurance companies with registered office in Malta (and jointly controlled entities with no relevant impact for the Group), in which it holds 50% ownership interests, for a total investment of approximately EUR 3 million.

- On 3 August 2015, the Bank and the subsidiary Banco Santander Consumer Portugal, S.A. acquired all the share capital of Santander Consumer Service, S.A. (formerly PSA Gestao - Comércio e Aluguer de Veículos, S.A.), a company with registered office in Portugal which until that time was part of the Banque PSA Finance Group, for EUR 10,444 thousand; however, this price might change as a result of the various review processes currently under way, pursuant to the terms of the aforementioned agreements. 80% of the shares in the entity's share capital were acquired by the Bank and the remaining 20% were acquired by Banco Santander Consumer Portugal, S.A.

  Following the aforementioned acquisition of the entire capital of Santander Consumer Service, S.A. (formerly PSA Gestao - Comércio e Aluguer de Veículos, S.A.), and pursuant to the terms of the aforementioned agreements entered into, this company become a Group subsidiary as from the aforementioned date, contributing a lending portfolio totalling approximately EUR 250 million to the consolidated Group.

  Also, Banco Santander Consumer Portugal, S.A. acquired the lending business of the Portuguese branch of Banque PSA Finance, S.A. for approximately EUR 24,941 thousand, contributing a lending portfolio totalling approximately EUR 265 million to the consolidated Group.

- On 2 October 2015, the Bank subscribed a capital increase carried out by PSA Financial Services Spain, E.F.C., S.A. (a company incorporated in 2015 by Banque PSA Finance to which the latter had spun off its vehicle financing business in Spain prior to the Bank's entry in the share capital). The Bank paid a total of EUR 181,485 thousand in this connection, of which EUR 132,566 thousand related to the creation and issue of 13,256,600 new shares of EUR 10 par value each acquired by the Bank and EUR 48,919 thousand to the share premium on the shares acquired. This capital increase was subscribed and paid in full by the Bank. Following this capital increase, the Bank holds a 50% ownership interest in the share capital of this entity, over which, in view of the terms of the shareholder agreements entered into, it exercises control. Also, prior to its joining the Group, this company performed a securitisation transaction involving receivables that were transferred to the securitisation special-purpose vehicle Auto ABS 2012-3, Fondo de Titulización de Activos.

  PSA Financial Services Spain, E.F.C., S.A. owns all the share capital of PSA Finance Suisse, S.A. (Switzerland), which, in turn, prior to its joining the Group performed a securitisation transaction involving receivables that were transferred to the securitisation special-purpose vehicle Auto ABS Swiss Leases 2013 GmbH.

  Since the Group has retained substantially all the risks and rewards associated with the securitised portfolios, and has control thereof, the financial statements of these special-purpose vehicles were included in these consolidated financial statements.

At the date control was obtained by the Consumer Group, the total assets and liabilities acquired in this transaction, measured in accordance with the applicable legislation, amounted to approximately EUR 3,286 million and EUR 2,924 million, respectively; consequently, taking into account the cost of the aforementioned consideration transferred by the Group and the effect of the related non-controlling interests, no goodwill or gain from a bargain purchase arose thereon. With regard to the main classes of assets and liabilities acquired on the date control was obtained as a result of this transaction, it should be noted that they consist mainly of loans and advances to customers and loans and advances to credit institutions and financial liabilities at amortised cost (deposits from credit institutions, customer deposits and marketable debt securities), respectively.

It should be noted that, pursuant to EU-IFRS 3, Business Combinations, although the foregoing business combination did not give rise to any goodwill or gain from a bargain purchase at the time of the transactions, during 2016 and based on the additional information obtained in reviewing the definitive measurement of the assets acquired and the liabilities assumed, certain variations were raised in the acquisition price of PSA Financial Services Spain, E.F.C., S.A. (Spain), PSA Finance Suisse, S.A. (Switzerland), PSA Banque France S.A. (formerly Société Financière de Banque, S.A. – SOFIB - France) and Santander Consumer Service, S.A. (formerly PSA Gestao - Comércio e Aluguer de Veículos, S.A. - Portugal). These variations have led to a EUR 12 million decrease in the total definitive measurement.

In 2015 the businesses acquired by the Santander Consumer Finance Group in relation to the agreements entered into with the PSA Finance Group contributed EUR 85 million to the Group's profit. Had the above business combinations taken place on 1 January 2015, the profit contributed to the Santander Consumer Finance Group in 2015 would have been approximately EUR 108 million.

Santander Consumer Holding GmbH (Germany)

On 4 November 2015, the subsidiary Santander Consumer Holding GmbH (Germany), following its merger by absorption with the subsidiary Santander Consumer Beteiligungsverwaltungsgesellschaft mbH (Germany), reached an agreement with the Bank to sell to the latter all the shares of Santander Consumer Finance Benelux, B.V. (Netherlands) and Santander Consumer Holding Austria GmbH (Austria) held by it at that date, for EUR 190 million and EUR 518 million, respectively. Since this transaction was carried out between Group companies, the effects thereof were eliminated on consolidation and had no impact whatsoever on the consolidated financial statements for 2015.

Santander Consumer Bank S.p.A. (Italy) and Unifin S.p.A. (Italy)

On 1 December 2015, the merger by absorption of the Group companies Santander Consumer Bank S.p.A. (absorbing company) and Unifin S.p.A. (absorbed company) was executed. This transaction did not have any impact on the Group's accounting figures presented in the consolidated financial statement for 2015.

Andaluza de Inversiones, S.A.

On 18 December 2015, following the obtainment of the appropriate authorisations from the regulatory and competition authorities, the subsidiary Andaluza de Inversiones, S.A. sold its entire holdings in the associates Grupo Konectanet, S.L. and Konecta Activos Inmobiliarios, S.L. (44.77% and 45.62% of the shares, respectively) to Brendembury, S.L., in which Banco Santander, S.A. indirectly holds 40% of the share capital, for EUR 103,300 thousand and EUR 4,562 thousand, respectively. As a result, the Group obtained a gain of EUR 69,526 thousand which was recognised under “Gains or losses on financial assets and liabilities measured at fair value through profit or loss, net” in the accompanying consolidated income statement for 2015 (see Note 42).

Capital increases

In 2016 and 2015, 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 of Euros (*)	
	2016	2015
Santander Consumer Bank S.p.A (Italia)	80.0	-
Banca PSA Italia S.p.A. (***)	15.0	-
PSA Insurance Europe Ltd (Malta) (***)	5.0	17.2
PSA Bank Deutschland GmbH (***)	0.5	-
Transolver Finance, E.F.C., S.A. (**)	-	3
Santander Consumer Bank A.S. (Norway)	-	125.5
Santander Consumer Finance Zrt. (Hungary)	-	2.9
PSA Life Insurance Europe Ltd (Malta) (***)	-	2.4
	100.5	**151.0**

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

(**) Relates to a capital increase of EUR 6 million carried out by this jointly controlled entity 50% owned by the Bank, following which the Bank retained its 50% ownership interest therein.

(***) Relates to the subscription of 50% in the share capital of these entities.

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 2016 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 31 March 2016 is as follows:

	Thousands of Euros	
	2016	2015
Distributable profit:		
Balance per the income statement	626,498	413,995
Appropriation:		
Interim dividends	541,309	280,052
To legal reserve	62,650	41,399
To voluntary reserves	22,539	92,544
Total	**626,498**	**413,995**

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 2016.

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 of 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.

At the Board Meeting held on 18 December 2015, the Bank's Directors resolved to distribute an interim dividend out of 2015 profit of EUR 280,052 thousand. This dividend was paid on 28 December 2015 and was recognised in equity under “Shareholders' Equity - Less- Dividends” in the consolidated balance sheet as at 31 December 2015.

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 liquidity for the distribution of the interim dividend is as follows:

	Thousands of Euros
	30/11/15
Estimated profit before tax	260,785
Less:	
Estimated income tax	56,035
Appropriation to legal reserve	(31,682)
Distributable profit	**285,138**
Interim dividend to be distributed	**280,052**
Gross dividend per share (euros) (*)	**0.15**

(*) 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 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.

In calculating diluted earnings per share, the amount of profit attributable to ordinary shareholders and the weighted average number of shares outstanding, net of treasury shares, are adjusted to take into account all the dilutive effects inherent to any potential ordinary shares (share options, warrants and convertible debt instruments, if any).

At 31 December 2016 and 2015, there were no share option plans on Bank shares or issues convertible into Bank shares conferring privileges or rights which might, due to any contingency, make them convertible into shares. Therefore, there is no dilutive effect on net profit and diluted earnings per share coincide with basic earnings per share in 2016 and 2015.

Accordingly:

	Thousands of Euros	
	2016	2015
Consolidated profit for the year attributable to the Parent (thousands of euros)	1,055,253	1,059,788
Of which:		
From discontinued operations:	-	-
Weighted average number of shares outstanding	1,879,546,172	1,852,148,912
Basic and diluted earnings per share (euros)	0.5614	0.5722
Of which:		
From continuing operations (euros)	*0.5614*	*0.5722*

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

a) Bylaw-stipulated emoluments and other fees

In 2016 the members of the Bank's Board of Directors received remuneration amounting to EUR 321 thousand in the form of bylaw-stipulated emoluments and attendance fees (2015: EUR 231 thousand), which related in full to two external Directors of the Bank at 31 December 2016, the detail being as follows:

	Thousands of Euros	
	2016	2015
Mr Antonio Escámez Torres	270	180
Mr Luis Alberto Salazar-Simpson Bos	51	51

In 2016 the Bank’s Directors received approximately EUR 12,446 thousand from Banco Santander, S.A. (2015: approximately EUR 14,484 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 164 thousand in 2016 (2015: approximately EUR 331 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 19,769 thousand at 31 December 2016 (31 December 2015: EUR 20,644 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 1,352 thousand in 2016, to defined contribution plans externalised at the Santander Group subsidiary Santander Seguros y Reaseguros, Compañía Aseguradora, S.A. (2015: EUR 1,759 thousand, of which EUR 7 thousand related to defined benefit plans and EUR 1,752 thousand to defined contribution plans). 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 977 thousand in 2016 (2015: EUR 13,751 thousand) and were made mainly by other Santander Group entities that do not belong to the Group.

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) required investment based share plan; (ii) deferred conditional delivery share plan; (iii) deferred conditional variable remuneration plan and (iv) performance share plan. The characteristics of the plans are set forth below:

(i) Deferred conditional 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 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 on the basis of the gross variable cash-based remuneration or annual bonus for the year:

Benchmark Bonus (Thousands of 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 2016, the Group approved the sixth cycle 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 cycle of deferred conditional variable remuneration was 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 28 March 2014, 27 March 2015 and 18 March 2016 approved, respectively, the application of the fourth, fifth and sixth 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 and sixth 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 fifth and fourth cycles will be paid in accordance with the following percentages:

	2016		
	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.

	2015	
	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%

(*) 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 and sixth cycles, 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 and in the 2018, 2019 and 2020 for the sixth cycle, 50% being paid in cash and 50% in shares, provided that the conditions described below are met.

For the fifth cycle, the payment of the deferred percentage of the bonus applicable in each case based on the group to which the beneficiary belongs will be deferred over a period of three or five years and will be paid in three or five instalments, as appropriate, within 30 days following the anniversaries of the initial date in 2017, 2018 and 2019 and, where appropriate, in 2020 and 2021, provided that the conditions described below are met.

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.

On each delivery fourth and fiveth cycle, 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 Banco Santander for the bonus share rights corresponding to those shares.

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 prices for the 15 trading sessions prior to the date on which the Board of Directors approves the bonus for the executive directors of Banco Santander for, 2014 and 2015 for the fourth and fifth cycles, respectively. For the sixth cycle, the maximum number of shares will be determined using the same procedure, at the 15 meetings prior to the preceding Friday (excluded), at the date on which the Board of Directors decides the 2016 bonus for the Bank's executive directors.

(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%	1
> 75% but < 90%	0.75 - 1 (*)
≤ 75%	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.

Based on the Santander 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	100%
9th to 12th	50%
13th and below	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, 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, 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 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, the Bank's Board of Directors, at the proposal of the Remuneration Committee, approved the first cycle of the deferred variable remuneration plan linked to multi-year objectives, corresponding to 2016, for executive Directors and certain executives (including senior management) in the Group's top tier of responsibility (formerly known as Top Red managers). At the Annual General Meeting held on 18 March 2016, the shareholders approved the plan with the aim of simplifying the remuneration structure, improving the ex ante risk adjustment and increasing the weight of long-term objectives for the top tier of executives within the Group. The plan also takes into account 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.

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.

Variable remuneration will be paid in accordance with the following percentages, based on when the payment occurs and the group of which the beneficiary forms part:

	2016		
	Percentage paid immediately (*)	Percentage deferred (*)	Deferral period
Executive Directors and identified staff with total variable remuneration ≥ EUR 2.7 million	40%	60%	5 years
Executive vice-presidents, country heads of countries representing at least 1% of the Group's economic capital and other identified staff receiving total variable remuneration ≥ EUR 1.7 million (<EUR 2.7 million)	50%	50%	5 years
Other identified staff	60%	40%	3 years

(*) In certain countries the deferral period could be greater, in order to comply with local regulations or with requirements of the corresponding authority.

In 2017, each beneficiary will receive, based on the group of which he or she forms part, the percentage to be paid immediately, half in shares and half in cash. Payment of the deferred percentage of the variable remuneration corresponding to each group will be deferred for a period of between three and five years, and will be made in thirds or fifths, as applicable, within thirty days of the anniversary of the initial date in 2018, 2019 and 2020 and, where appropriate, 2021 and 2022, providing the conditions set out below are met.

Accrual of deferred remuneration is conditional upon continued service of the beneficiary at the Group, with the exceptions foreseen in the plan regulations, and upon the absence, in the judgement of the Board and at the proposal of Remuneration Committee, of any of the following circumstances during the period prior to each of the deliveries foreseen in each case in the plan regulations: (i) inadequate financial performance by the Group; (ii) non-compliance by the beneficiary with internal rules, particularly in regard to risks; (iii) a material restatement of the Group’s financial statements, except if such restatement is made pursuant to a change in accounting rules, or (iv) significant changes in the Group’s economic capital or risk profile.

In addition, accrual of the deferred portion corresponding to the third year of deferral for the portion deferred over three years and to the third, fourth and fifth year for the part deferred over five years, is conditional on compliance with certain targets set for 2016-2018 and with the compliance scales and metrics associated with these multi-year objectives, 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 addition, the amounts paid under this plan are subject to clawback (recovery) arrangements if the same circumstances giving rise to application of the malus arrangement arise. The application of the clawback arrangement will be in addition to that of the malus arrangement, such that the clawback arrangement will apply when the malus arrangement is considered insufficient to include the effects that the event should have on the allocated variable remuneration. The application of the clawback arrangement will be determined by the Board of Directors at the proposal of the Remuneration Committee, and cannot be proposed once the final payment in cash or in shares has been made in 2022.

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:

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:

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 thousands of simulations to determine the TSR of Banco Santander and of each company within the peer group. Taking into account the foregoing, the fair value of the plan at the award date was 36.3% of the maximum amount.

d) Performance-based share plans:

- 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.

	PI13	PI14
Expected volatility (*)	49.65%	51.35%
Annual dividend yield based on recent years	6.34%	6.06%
Risk-free rate of return (treasury bond yield (zero coupon) over the plan period)	3.33%	4.073%

(*) Determined using historic volatility for the corresponding period (three years)

The result of applying the simulation model was a value of 62.62% for the I-13 plan and 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 2016 and 2015, 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 2016 and 2015, 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 (ten persons in 2016 and 2015) amounted to EUR 5,500 thousand in 2015 (2014: EUR 4,462 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 84 thousand in 2016 (2015: EUR 90 thousand), which were paid by other Santander Group entities that do not belong to the Group.

In 2016 contributions amounting to EUR 712 thousand (2015: EUR 722 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 2016 no payments were made in this connection (2015: EUR 57 thousand).

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 2016 (31 December 2015: EUR 3 thousand). It should also be noted that these senior managers held deposits at the Bank totalling EUR 277 thousand at 31 December 2016 (31 December 2015: EUR 196 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 2016 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	-	Deputy 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
Ms Magdalena Salarich Fernández de Valderrama	Banco Santander, S.A.	Financial institution	Less than 0.001%	Executive Vice President
	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	-	Director
	Santander Consumer Bank, S.A. (Poland)	Financial institution	-	Member of the Supervisory Board
	Santander Consumer Bank, S.p.A.	Financial institution	-	Director
	Santander Consumer France, S.A.S.	Financial institution	-	Member of the Supervisory Board
Mr Luis Alberto Salazar-Simpson Bos	Santander Investment, S.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	Less than 0.001%	Director
Ms Inés Serrano González	Santander Consumer Holding GmbH	Financial institution	-	Member of the Supervisory Board
	Santander Consumer Banque S.A.	Financial institution	-	Member of the Supervisory Board
	Compagnie Générale de Crédit aux Particuliers - CREDIPAR	Financial institution	-	Director
	Santander Consumer France, S.A.S.	Financial institution	-	Member of the Supervisory Board
	PSA Bank Deutschland GmbH	Financial institution	-	Member of the Supervisory Board
	Financiera El Corte Inglés E.F.C, S.A.	Financial institution	-	Director
	Santander Consumer Bank AG	Financial institution		Member of the Supervisory Board
	PSA Banque France, S.A.	Financial institution	-	Chairman
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
	Santander Consumer Finance Zrt.	Financial institution	-	Member of the Supervisory Board
Mr Jose Luis De Mora Gallardo (*)	Banco Santander, S.A.	Financial institution	Less than 0.001%	-
	Bank Zachodni WBK S.A.	Financial institution	-	Director

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 2016 and 2015 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 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Type:		
Time deposits	34,552	740,105
Reverse repurchase agreements	444,141	270,273
Other accounts	101,539	131,107
	580,232	1,141,485
Currency:		
Euro	490,006	1,114,315
Foreign currency	90,226	27,170
	580,232	1,141,485
Add - Valuation adjustments	149	3,429
Of which:		
Accrued interest	*1,249*	*3,666*
Transaction costs	*(1,100)*	*(237)*
	580,381	**1,144,914**

Note 44 contains a detail of the terms to maturity and estimated fair value of these assets at 31 December 2016 and 2015 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 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Classification:		
Loans and receivables	103,299	2,023
Available-for-sale financial assets	3,158,563	3,154,400
	3,261,862	**3,156,423**
Type:		
Spanish government debt securities	1,252,504	1,268,006
Foreign government debt securities	1,084,454	871,823
Issued by financial institutions	919,310	1,016,594
Other fixed-income securities	5,594	-
	3,261,862	**3,156,423**
Currency:		
Euro	2,239,510	2,220,843
Foreign currency	1,022,352	935,580
	3,261,862	**3,156,423**
Less - Impairment losses	-	-
	3,261,862	**3,156,423**

The balance of “Spanish Government Debt Securities” at 31 December 2016 and 2015 in the foregoing table relates to treasury bills acquired by Santander Consumer Finance, S.A.

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 “Foreign Government Debt Securities” at 31 December 2015 in the foregoing table relates mainly to: treasury bonds issued by Danske Bank A/S, Nordea Kredit Realkredit, Nykredit Realkredit A/S and 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 approximately EUR 289,759 thousand; Italian treasury bonds purchased by the subsidiary Santander Consumer Bank S.p.A. (Italy) for approximately EUR 407,389 thousand; French treasury bonds purchased by the French subsidiaries PSA Banque France (formerly Société Financière de Banque-SOFIB), Compagnie Pour la Location de Vehicules (CLV) and Compagnie Générale de Crédit Aux Particuliers (Credipar S.A.) for approximately EUR 132,953 thousand; and Finnish treasury bonds purchased by the subsidiary Santander Consumer Finance Oy (Finland) for approximately EUR 40,722 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 (AlemaniaGermany) 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.

The balance of “Issued by Financial Institutions” at 31 December 2015 in the foregoing table includes mainly: bonds issued by the financial institutions Nordea Eiendomskredi AS and DNB Boligkreditt AS (Norway), Nordea Bank Finland PLC (Finland), Nykredit Realkredit A/S and Realkredit Danmark A/S (Denmark), Kreditanstalt für Wiederaufbau (Germany), Swedbank Hypotek AB and SEB Kortrantefond SEK (Sweden), purchased by the subsidiary Santander Consumer Bank AS (Norway) for EUR 645,821 thousand; bonds issued by the financial institutions Kreditanstalt für Wiederaufbau (Germany), Landesbank Rheinland-Pfalz and European Investment Bank (Luxembourg) purchased by the subsidiary Santander Consumer Bank AG (Germany) for EUR 348,097 thousand; and bonds issued by the financial institutions European Investment Bank and Danske Bank A/S (Luxembourg) purchased by the subsidiary Santander Consumer Finance Oy (Finland) for EUR 20,653 thousand.

At 31 December 2016 and 2015, 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 2016 and 2015 and of the related average interest rates in the years then ended.

8. Equity instruments

The detailof “Equity Instruments” in the accompanying consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Classification:		
Available-for-sale financial assets	11,996	11,394
	11,996	**11,394**
Type:		
Shares of foreign companies	11,996	11,394
	11,996	**11,394**
Currency:		
Euro	11,996	11,394
Foreign currency	-	-
	11,996	**11,394**
Add - Valuation adjustments	370	19,201
Of which:		
Measurement of assets at fair value	*370*	*19,201*
	12,366	**30,595**

The changes in 2016 and 2015 in “Financial Assets Available-for-Sale - Equity Instruments” in the accompanying consolidated balance sheets were as follows:

	Thousands of Euros	
	2016	2015
Balance at beginning of year	30,595	11,180
Net additions (disposals)	(18,599)	-
Valuation adjustments	370	19,201
Exchange rate and other changes	-	214
Balance at end of year	**12,366**	**30,595**

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 2016 and 2015 is as follows:

	Thousands of Euros			
	2016		2015	
	Asset Balance	Liability Balance	Asset Balance	Liability Balance
Interest rate risk	14,741	18,197	2,551	4,699
Foreign currency risk	41,294	35,080	123,256	118,062
	56,035(*)	**53,277(*)**	**125,807(*)**	**122,761(*)**

(*) Of which EUR 30,878 thousand and EUR 26,555 thousand of asset and liability balances, respectively, relate to amounts held with Santander Group companies at 31 December 2016 (31 December 2015: EUR 65,388 thousand and EUR 65,871 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 2016 and 2015, which reflect the Group’s exposure to credit risk in its core business:

	Thousands of Euros	
	2016	2015
Loan type and status:		
Commercial credit	2,455,224	1,859,287
Secured loans	7,330,600	8,405,378
Other term loans	56,483,760	47,872,377
Finance leases	11,331,117	8,265,039
Receivable on demand and other	1,114,519	1,017,706
Credit card receivables	2,486,314	2,495,191
Impaired assets	2,006,326	2,266,389
Valuation adjustments for accrued interest receivable and other items	931,013	809,545
	84,138,873	**72,990,912**
Borrower sector:		
Public sector – Spain	573	568
Public sector - Other countries	128,721	109,991
Individuals	67,121,869	56,173,183
Energy	2,704	10,676
Construction	369,623	223,315
Manufacturing	1,495,764	1,936,525
Services	5,877,560	4,144,943
Other sectors	9,142,059	10,391,711
	84,138,873	**72,990,912**
Geographical area:		
Spain and Portugal	14,160,174	12,562,101
Italy	7,077,882	5,013,805
Germany and Austria	36,418,472	33,147,547
France	9,527,974	8,583,656
Scandinavia	13,716,685	12,113,015
Other	3,237,686	1,570,788
	84,138,873	**72,990,912**
Interest rate formula:		
Fixed rate	64,969,179	56,846,283
Floating rate	19,169,694	16,144,629
	84,138,873	**72,990,912**
Currency:		
Euro	71,977,283	62,055,435
Foreign currency	12,161,590	10,935,477
	84,138,873	**72,990,912**
Less - *Impairment losses*	*(2,155,705)*	*(2,434,564)*
	81,983,168	**70,556,348**

Note 44 contains a detail of the terms to maturity and estimated fair value of loans and advances to customers at 31 December 2016 and 2015 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 616,609 thousand at 31 December 2016 (31 December 2015: EUR 680,790 thousand).

At 31 December 2016 and 2015, 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 2016 (2014: EUR 1,350,000 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 2016 and 2015 were as follows:

	Thousands of Euros	
	2016	2015
Balance at beginning of year	2,434,564	2,657,489
Net impairment losses charged to consolidated profit for the year (*)	586,737	676,239
Of which:		
Losses charge to profit	*991,752*	*1,004,475*
Impairment recoveries credited to profit	*(405,015)*	*(328,236)*
Exclusions from the scope of consolidation		-
Write-off of impairment balances against recorded impairment allowance	(937,358)	(1,196,887)
Exchange differences and other (**)	71,762	297,723
Balance at end of year	**2,155,705**	**2,434,564**
Of which:		
By method of assessment-		
Identified losses	*1,373,756*	*1,570,683*
Rest	*781,949*	*863,881*
By geographical location of risk-		
Spain	*446,737*	*517,983*
Other	*1,708,968*	*1,916,581*
By estimate		
Individual	*528,945*	*696,812*
Collective	*1,626,760*	*1,737,752*

(*) 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 2016 and 2015. Additionally, there have no been impairments released to Debt instruments neither 2016 nor in 2015.

(**) 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 2016 and 2015 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 259,090 thousand in 2016 (2015: EUR 183,053 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 2016 and 2015. In addition, during 2016 this consolidated income statement heading included EUR 356 thousand relating to impairment of "Other financial assets".

In 2016 the Group sold the following portfolios of written-off loans:

Company	Thousands of 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 accompanying consolidated income statement for 2016.

In 2015 the Group sold the following portfolios of written-off loans:

Company	Thousands of Euros	
	Nominal Value of the Portfolio Sold	Selling Price (*)
Santander Consumer, E.F.C., S.A. (Spain)	21,439	429
Santander Consumer Bank S.p.A. (Italy)	227,390	39,310
Santander Consumer Finance Benelux B.V. (Netherlands)	25,070	9,520
Santander Consumer Bank AS (Norway)	140,746	39,974
Santander Consumer Finance Oy (Finland)	7,959	5,969
Banco Santander Consumer Portugal, S.A. (Portugal)	23,580	2,370
Santander Consumer Bank GmbH (Austria)	26,640	8,180
	472,824	**105,752**

(*) 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 2015.

Written-off assets

The changes in 2016 and 2015 in the balance of the financial assets classified as loans and receivables and considered to be written-off assets at 31 December 2016 and 2015 were as follows:

	Thousands of Euros	
	2016	2015
Balance at beginning of year	2,369,652	1,618,644
Additions	937,358	1,196,887
Withdrawals	(950,466)	(445,879)
Changes in the scope of consolidation (net)(*)	-	-
Balance at end of year	**2,356,544**	**2,369,652**

(*) 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 2016 and 2015 is as follows:

	31-12-2016		31-12-2015	
	Thousands of Euros		Thousands of Euros	
	Gross Amount	Of Which: Non Performing	Gross Amount	Of Which: Non Performing
Loans for home purchases				
- Without mortgage guarantee	-	-	-	-
- With mortgage guarantee	2,192,092	97,278	2,381,638	89,562
	2,192,092	**97,278**	**2,381,638**	**89,562**

The detail, by loan-to-value ratio, of the home purchase mortgage loans granted by the Group to households in Spain at 31 December 2016 and 2015 is as follows:

	2016					
	Loan-to-Value Ratio					
	Thousands of Euros					
	From 0% to 40%	From 40% to 60%	From 60% to 80%	From 80% to 100%	More than 100%	Total
Gross amount	*294,410*	*396,988*	*602,821*	*247,364*	*650,509*	***2,192,092***
Of which: Non-performing	*4,764*	*12,458*	*23,010*	*14,820*	*42,226*	***97,278***

	2015					
	Loan-to-Value Ratio					
	Millions of Euros					
	From 0% to 40%	From 40% to 60%	From 60% to 80%	From 80% to 100%	More than 100%	Total
Gross amount	*291,097*	*404,537*	*700,980*	*245,958*	*739,066*	***2,381,638***
Of which: Non-performing	*4,684*	*4,822*	*20,770*	*13,048*	*46,238*	***89,562***

Securitisation

The balance of "Loans and Advances to Customers" in the accompanying consolidated balance sheets as at 31 December 2016 and 2015 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 2016 and 2015, 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:

	Thousands of Euros	
	2016	2015
Derecognised	**-**	**-**
Retained on the balance sheet:	**26,855,037**	**23,492,851**
Of which:		
Santander Consumer Bank AG (Germany)	*9,217,701*	*7,741,240*
Santander Consumer, E.F.C., S.A. (Spain)	*2,263,936*	*1,117,936*
Compagnie Generalé de Credit Aux Particuliers-Credipar (France)	*3,390,437*	*3,708,091*
Santander Consumer Bank S.p.A. (Italy)	*3,064,692*	*2,228,793*
Santander Consumer Bank A.S. (Norway)	*2,629,047*	*4,328,497*
Santander Consumer Finance Oy (Finland)	*1,723,754*	*1,416,444*
PSA Financial Services, Spain, E.F.C., S.A. (Spain)	*980,005*	*517,263*
Financiera El Corte Inglés, E.F.C., S.A. (Spain)	*968,621*	*995,041*
Banco Santander Consumer Portugal, S.A. (Portugal)	*610,703*	*611,958*
Banca PSA Italia S.p.A. (Italy)	*552,527*	-
PSA Bank Deutschland GmbH (Germany)	*541,646*	-
Santander Consumer Bank gmbh (Austria)	*418,641*	*310,191*
Santander Consumer Finance Benelux B.V. (Nederland)	*248,631*	*277,150*
PSA Finance Suisse, S.A (Switzerland).	*244,696*	*240,247*
Total	**26,855,037**	**23,492,851**

The securitised assets relate basically to vehicle financing and consumer finance.

In 2016 the subsidiaries mentioned in the foregoing table securitised receivables amounting to EUR 7,056,570 thousand (2015: EUR 4,675,808 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 2016 and 2015 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 2016 and 2015 were as follows:

	Thousands of Euros	
	2016	2015
Balance at beginning of year	2,266,389	2,709,789
Additions net of recoveries	603,066	431,065
Written-off assets	(937,358)	(1,196,887)
Changes in the scope of consolidation exchange	11,272	51,563
Exchanges differences (net)	62,957	270,859
Balance at end of year	**2,006,326**	**2,266,389**

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 2016 and 2015, classified by geographical location of risk and by age of the oldest past-due amount at those dates:

2016						
	Thousands of 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**

2015						
	Thousands of 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	97,271	61,625	33,268	42,585	226,503	461,252
Germany and Austria	157,797	87,756	80,845	76,745	669,914	1,073,057
Italy	24,666	35,758	28,551	23,278	64,290	176,543
Scandinavia (1)	97,564	47,372	22,331	9,747	76,724	253,738
France (2)	72,796	15,986	12,623	11,476	138,349	251,230
Other	7,396	2,160	2,160	38,853	-	50,569
	457,490	**250,657**	**179,778**	**202,684**	**1,175,780**	**2,266,389**

(1) It should be borne in mind that the change in the balance of non-performing assets in this geographical location in 2015 includes the write-off of assets amounting to approximately EUR 540 thousand during the year for the purpose of standardising the policies of the Group's consolidated companies, as mentioned above.

(2) Relates to the Group's French subsidiaries, which were included in the scope of consolidation in 2015.

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 2.41% at 31 December 2016 (31 December 2015: 3.14%).

The accrued interest receivable on impaired assets amounted to EUR 8,895 thousand at 31 December 2016 (31 December 2015: EUR 11,287 thousand). This interest has not been recognised in the accompanying consolidated income statements as there are doubts as to its collection.

Loans classified as standard: past-due amounts receivable

In addition, at 31 December 2016 and 2015, 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:

2016			
	Thousands of 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**

2015			
	Thousands of Euros		
	Less than 1 Month	1 to 2 Months	2 to 3 Months
Loans and advances to customers	116,486	34,277	37,735
Public sector	*1,794*	-	-
Private sector	*114,692*	*34,277*	*37,735*
Total	**116,486**	**34,277**	**37,735**

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 2016 and 2015 is as follows:

	Thousands of Euros			
	2016		2015	
	Assets	Liabilities	Assets	Liabilities
Fair value hedges(**)				
Micro hedges	35,874	13,709	93,019	8,551
Portfolio hedge	2,731	189,616	2,605	295,004
Cash flow hedges (*)				
Micro hedges	83,887	44,716	148,748	9,197
Portfolio hedge	-	-	-	798
	122,492	**248,041**	**244,372**	**313,550**

(*) Of which EUR 7,539 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 2016 (31 December 2015: EUR 2,005 thousand) (see Note 26).

(**) Of which EUR 30,632 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 2016 (31 December 2015: EUR 21,893 thousand of losses, net of tax) (see Note 26).

Note 29 includes a description of the hedges arranged by the Group.

At 31 December 2016 and 2015, the asset heading "Fair value changes of the hedged items in portfolio hedge of interest rate risk" includes the positive and negative variations in the fair value of certain financial assets (primarily the lending portfolio), in the amount of EUR 117,973 thousand and EUR 218,431 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 2016 and 2015 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:

	Thousands of Euros	
	2016	2015
Foreclosed tangible assets	50,682	53,778
Other tangible assets held for sale	1,456	1,001
	52,138	54,779
Less - Impairment losses	(42,195)	(40,173)
	9,943	**14,606**

The changes in “Impairment Losses” in the foregoing table in 2016 and 2015 were as follows:

	Thousands of Euros	
	2016	2015
Balances at beginning of year	40,173	42,432
Net impairment losses charged to consolidated profit for the year (Note 43)	7,259	3,928
Amounts used	(5,237)	(6,187)
	42,195	**40,173**

The consolidated entities incurred a net loss of EUR 1,819 thousand in 2016 on the sale of non-current assets held for sale (2015: a net loss of EUR 5,068 thousand) (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 2016 and 2015 is as follows:

	Thousands of Euros			
	31 December 2016		31 December 2015	
	Gross Amount	Of which: Impairment Losses	Carrying Amount	Of which: Impairment Losses
Property assets arising from financing granted for construction and property development	6,063	4,459	5,511	4,107
- Completed buildings	2,822	1,908	2,310	1,731
Residential	-	-	-	-
Other	*2,822*	*1,908*	*2,310*	*1,731*
- Land	3,241	2,551	3,201	2,376
Developed land	*2,703*	*2,178*	*2,832*	*2,119*
Other land	*538*	*373*	*369*	*257*
Property assets arising from home purchase mortgage financing granted to households	38,806	33,399	41,738	32,215
Other property assets received in payment of debts	5,131	3,364	2,862	2,639
Total property assets	**50,000**	**41,222**	**50,111**	**38,961**

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 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Associates:		
Bank of Beijing Consumer Finance Company	64,046	66,132
Reintegra, S.A.	-	2,681
Santander Consumer Bank S.A. (Poland)	331,623	348,088
Santander Consumer Finanse S.A. (Poland)	6,130	6,578
Other associates	16,170	8,124
	417,969	431,603
Of which:		
Goodwill		
Bank of Beijing Consumer Finance Company	*3,529*	*3,658*
Santander Consumer Bank S.A. (Poland)	*103,082*	*106,621*
	106,611	*110,279*
Jointly controlled entities:		
Fortune Auto Finance Co. Ltd. (China)	87,525	71,271
Transolver Finance, E.F.C., S.A. (*)	-	17,007
PSA Insurance Europe Ltd (Malta)	25,657	18,737
Other jointly controlled entities	6,868	6,921
	120,050	113,936
	538,019	**545,539**

(*)In order to obtain control of Transolver Finance, E.F.C., on 22 December 2016, the Bank acquired 4,878 shares corresponding to 1% of that company, for EUR 382 thousand (see Note 3.b).

The changes in 2016 and 2015 in “Investments - Associates” and “Investments - Jointly Controlled Entities” in the accompanying consolidated balance sheets were as follows:

	Thousands of Euros	
	2016	2015
Balance at beginning of year	545,539	488,604
Purchases and capital increases	10,767	26,250
Sales	(2,681)	(38,336)
Dividends paid	(41,547)	(4,097)
Effect of equity accounting (Note 32)	68,907	71,130
Changes in the scope of consolidation	(17,007)	(5,312)
Exchange differences and other	(25,959)	7,300
Balance at end of year	**538,019**	**545,539**

Impairment losses

In 2016 and 2015 there was no evidence of material impairment on the Group's investments.

The financial information on the associates and jointly controlled entities is summarised below:

	Millions of Euros	
	2016 (*)	2015
Data at 31 December		
Total assets	8,822	9,188
Total liabilities	(7,601)	(7,978)
Equity	(1,221)	(1,210)
Group's share of the net assets of associates	431	436
Goodwill	107	110
Total Group share	**538**	**546**
Data for the year		
Total income	1,200	1,331
Total profit	157	197
Group's share of the profit of associates	69	71

(*) 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 2016 and 2015 in the balance of "Tangible Assets" in the accompanying consolidated balance sheets as at 31 December 2016 and 2015 were as follows:

	Thousands of Euros		
	Property, Plant and Equipment for Own Use	Other Assets Leased out under an Operating Lease	Total
Cost:			
Balances at 1 January 2015	**430,537**	**243,326**	**673,863**
Additions / disposals (net)	(19,661)	(13,848)	(33,509)
Additions	*43,192*	*681*	*43,873*
Disposals	*(62,853)*	*(14,529)*	*(77,382)*
Net additions/disposals due to change in the scope of consolidation	9,225	-	*9,225*
Exchange differences	(324)	-	(324)
Transfers and other	(12,831)	-	(12,831)
Balances at 31 December 2015	**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**
Accumulated depreciation:			
Balances at 1 January 2015	**(283,538)**	**(76,197)**	**(359,735)**
Net additions/disposals due to change in the scope of consolidation	(3,904)	-	(3,904)
Charge for the year (1)	(25,313)	-	(25,313)
Disposals and retirements	60,461	4,255	64,716
Exchange differences	130	-	130
Transfers and other	11,188	2,661	13,849
Balances at 31 December 2015	**(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)**
Impairment losses:			
Balance at 1 January 2015	-	**(2.866)**	**(2.866)**
Transfers and other	-	(416)	(416)
Balance at 31 December 2015	**-**	**(3.282)**	**(3.282)**
Charge for the year	(9)	(1.354)	(1.363)
Reversals	-	537	537
Disposals and retirements	9	83	92
Transfers and other	-	1.358	1.358
Balances at 31 December 2016	**-**	**(2.658)**	**(2.658)**
Net tangible assets:			
Balances at 31 December 2015	**165.970**	**156.915**	**322.885**
Balances at 31 December 2016	**180.114**	**153.577**	**333.691**

(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 50,321 thousand at 31 December 2016 (31 December 2015: EUR 51,485 thousand).

The Group incurred a net loss of EUR 7,392 thousand in 2016 (2015: a loss of EUR 4,108 thousand) on sales of property, plant and equipment, 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 2016 and 2015 is as follows:

	Thousands of Euros		
	Cost	Accumulated Depreciation	Carrying Amount
Buildings	74,957	(14,337)	60,620
Furniture	199,002	(123,017)	75,985
IT equipment	100,334	(86,642)	13,692
Other	32,653	(16,980)	15,673
Balances at 31 December 2015	**406,946**	**(240,976)**	**165,970**
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**

The net balance of "Property, Plant and Equipment for Own Use" at 31 December 2016 includes approximately EUR 176,200 thousand (31 December 2015: EUR 162,483 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 2016 and 2015, based on the cash-generating units giving rise thereto, is as follows:

	Thousands of Euros	
	2016	2015
Germany	1,186,315	1,186,315
Austria	98,074	98,074
Nordic countries (Scandinavia)	536,811	545,902
The Netherlands	35,550	35,550
Spain/Portugal	32,512	32,512
Total	**1,889,262**	**1,898,353**

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.

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 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 2016 ad 2015 year-end, of the most significant cash-generating units valued using the discounted cash flow method:

	Projected Period	Discount Rate (*)	Nominal Perpetuity Growth Rate
Germany	5 years	8.7%	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 2016 and 2015 the Group did not recognise any impairment loss on goodwill.

The changes in 2016 and 2015 in the balance of "Goodwill" in the accompanying consolidated balance sheets as at 31 December 2016 and 2015 were as follows:

	Thousands of Euros	
	2016	2015
Balance at beginning of year	1,898,353	1,916,255
Impairment losses	-	-
Exchange differences and other	(9,091)	(17,902)
Balance at end of year	**1,889,262**	**1,898,353**

At 31 December 2016 and 2015, 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 2016 and 2015 is as follows:

	Estimated Useful Life	Thousands of Euros	
		2016	2015
With finite useful lives:			
Customer base	2 years	15	12,686
IT developments	3 years	281,254	340,441
Other		814	1,444
		282,083	**354,571**

The changes in 2016 and 2015 in "Other Intangible Assets" in the accompanying consolidated balance sheets were as follows:

	Thousands of Euros	
	2016	2015
Balance at beginning of year	354,571	373,960
Net additions	87,331	133,437
Amortisation charge (1)	(159,167)	(151,892)
Impairment losses (Note 41)	(652)	(934)
Balance at end of year	**282,083**	**354,571**

(1) The period amortisation charges are recognised under "Depreciation and Amortisation Charge" in the consolidated income statement.

Most of the additions in 2016 and 2015 relate to the implementation of management and accounting software at certain Group companies in Germany for their commercial banking business.

In 2016 impairment losses of EUR 652 thousand 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 (2015: EUR 934 thousand). (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 2016 and 2015 is as follows:

	Thousands of Euros			
	Assets		Liabilities	
	2016	2015	2016	2015
Inventories	96,139	73,758	-	-
Prepaid expenses	72,022	39,610	-	-
Accrued expenses	-	-	579,310	496,492
Transactions in transit	22,432	15,733	148,714	87,388
Other	1,106,357	759,551	648,980	618,365
	1,296,950	**888,652**	**1,377,004**	**1,202,245**

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 2016 of EUR 10,001,944 thousand (2015: EUR 6,441,083 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 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Type:		
Reciprocal accounts	24,701	31,916
Time deposits	8,316,248	8,479,797
Other demand accounts	978,757	871,451
Subordinates (*)	865,500	1,024,245
	10,185,206	10,407,409
Currency:		
Euro	10,144,619	9,644,376
Foreign currency	40,587	763,033
	10,185,206	10,407,409
Add - Valuation adjustments	14,288	29,425
Of which:		
Accrued interest	*21,773*	*30,806*
Subordinates (*)	*846*	*1,130*
Other	*(8,331)*	*(2,511)*
	10,199,494	**10,436,834**

A significant portion of these deposits from credit institutions at 31 December 2016 and 2015 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 2016 and 2015 and of the related average annual interest rates in the years then ended.

At 31 December 2016, the consolidated entities had unused credit facilities amounting to EUR 500,254 thousand (31 December 2015: EUR 349,570 thousand).

(*) The list of subordinated liabilities at 31 December 2016 and 2015 includes a measurement adjustment totalling EUR 839 thousand and EUR 1.130 million, respectively, based on the currency in which the issue is denominated.

The detail of the balance of subordinated liabilities at 31 December 2016 and 2015 is as follows:

Issue currency	Thousands of Euros 2016	Thousands of Euros 2015	2016 Active amount of the issue in foreign currency (Millions)	2016 Annual interest rate at 31-12-16	2015 Active of the issue in foreign (Millions)	2015 Annual interest rate at 31-12-15
Euro	866,346	1,006,627	-	3.16%	-	2.93%
Norwegian Kroner (*)	-	18,748	-	-	180	1.78%
Balance at the end of the year	**866,346**	**1,025,375**				

(*) At 31 December 2015 this includes a subordinated loan granted to the subsidiary Santander Consumer Bank AS by a Santander Group entity in the amount of 180 million Norwegian kroner that was repaid in 2016.

The list of subordinated liabilities denominated in euro at 31 December 2016 and 2015, set out by company, is as follows:

2016				
Company	Thousands of 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.

2015				
Company	Thousands of Euros	Counterparty	Date of early repayment	Maturity date
Santander Consumer E.F.C., S.A. (1)	34,000	Santander Benelux, S.A./N.V.	16/12/2014	16/12/2019
Santander Consumer Bank S.p.A.	9,750	Open Bank, S.A.	(2)	31/10/2018
Santander Consumer Bank S.p.A.	9,750	Open Bank, S.A.	(2)	31/10/2018
Santander Consumer Bank S.p.A.	6,500	Open Bank, S.A.	(2)	22/06/2016
Santander Consumer Bank S.p.A.	16,250	Open Bank, S.A.	(2)	31/10/2018
Santander Consumer Bank S.p.A.	16,250	Open Bank, S.A.	(2)	31/10/2018
Santander Consumer Bank S.p.A.	32,500	Open Bank, S.A.	(2)	22/06/2016
Santander Consumer Bank AG	22,000	Open Bank, S.A.	(3)	20/01/2016
Santander Consumer Bank S.p.A.	20,000	Santander Benelux, S.A./N.V.	(2)	31/12/2019
Santander Consumer Bank S.p.A.	16,000	Santander Benelux, S.A./N.V.	(2)	31/12/2019
Santander Consumer Holding GmbH	600,000	Banco Santander, S.A.	(3)	22/03/2021
Santander Consumer Holding GmbH	200,000	Banco Santander, S.A.	(3)	22/03/2021
Santander Consumer Bank S.p.A.	22,500	Banco Madesant, Sociedade Unipessoal, S.A.	(2)	30/09/2019
	1,005,500			
Plus - Measurement adjustments	1,127			
Total	**1,006,627**			

(1) May not be repaid early without the authorization of the Bank of Spain.

(2) May be fully or partially repaid starting on the first principal repayment date, after receiving authorization from the Bank of Italy.

(3) May not be repaid early.

The movements in the consolidated balance sheet heading in 2016 and 2015 are as follows:

	Thousands of Euros	
	2016	2015
Balance at beginning of the year	1,025,375	1,149,568
Additions	-	-
Repayments	(88,748)	(123,900)
Of which:		
Norway	*(18,748)*	*(24,400)*
Germany	*(22,000)*	*(20,000)*
Italy	*(45,500)*	*(79,500)*
Portugal	*(2,500)*	-
Additions / Disposals (net) due to changes in scope of consolidation (*)	(70,000)	-
Exchange differences and other	(281)	(293)
Balance at the end of the year	**866,346**	**1,025,375**

(*)Includes the entry of Santander Benelux, S.A.,N.V. into the scope of consolidation. - See Note 3.b.

18. Customer deposits

The detail, by type, geographical area and currency, of "Customer Deposits" in the accompanying consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Type:		
On demand-		
Current accounts	15,197,271	14,632,337
Savings accounts	8,021,570	6,778,320
Other demand deposits	3,637	3,033
Time deposits-		
Fixed-term deposits	9,735,707	9,311,840
Home-purchase savings accounts	2	2
Other time deposits	171,518	150,527
	33,129,705	30,876,059
Geographical area:		
Spain and Portugal	371,437	349,055
Germany	24,480,859	23,902,651
Italy	809,975	373,428
France	1,777,812	1,321,621
Scandinavia	4,509,047	3,892,593
Austria	1,111,728	1,024,493
Other	68,847	12,218
	33,129,705	30,876,059
Currency:		
Euro	28,608,972	26,971,248
Foreign currency	4,520,733	3,904,811
	33,129,705	30,876,059
Add - Valuation adjustments	127,773	160,552
Of which:		
Accrued interest	*128,106*	*160,943*
Other	*(333)*	*(391)*
	33,257,478	**31,036,611**

The amount recognised under "Other Time Deposits" at 31 December 2016 and 2015 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 Note 10). 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 they mature 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 2016 the heading "Other term accounts" includes other term deposits totalling 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 2016 and 2015 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 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Bonds and debentures outstanding	18,101,314	17,033,517
Mortgage-backed bonds	500,000	1,193,952
Notes and other securities	9,200,863	6,926,751
Other	-	86,000
	27,802,177	25,240,220
Add- Valuation adjustments-	63,478	88,734
Of which:		
Accrued interest	52,146	88,538
Issue premiums/discounts	(1)	139
Micro-hedges (Note 29) (*)	26,385	12,601
Subordinates	116	(5)
Other	(15,168)	(12,539)
	27,865,655	**25,328,954**

(*) There are no discontinued micro-hedge transactions at 31 December 2016 (31 December 2015: EUR 1,813 thousand). This amount is deferred with a credit to "Interest Expense" in the consolidated income statement until the mortgage-backed bonds included in the foregoing table mature.

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 -Santander Consumer Bank S.p.A. (Italy) and Santander Consumer Bank AS (Norway)- amounting to EUR 3,215,957 thousand at 31 December 2016 (31 December 2015: EUR 2,357,089 thousand). At 31 December 2016, "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 6,478,619 thousand (31 December 2015: EUR 6,980,787 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 31 December 2016, the outstanding balance of these notes amounted to EUR 8,406,738 thousand (31 December 2015: EUR 7,695,641 thousand), and they mature between 27 July 2017 and 30 November 2021. The annual interest rate on these financial liabilities is between 0.19% and 2.15% (2015: between 0.08% and 1.80%).

Mortgage-backed bonds

At 31 December 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 (2015: EUR 1,200,000 thousand and mature on 23 March 2016). The annual interest rate on these liabilities in 2016 is 5.135% (2015: 3.875%) 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 0.09% in 2016 (2015: 0.14%), 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 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 25 September 2015, 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 is registered in the Official Registers of the Spanish National Securities Market Commission (CNMV). Subsequently, at its meeting held on 12 November 2015, the Bank's Executive Committee resolved to change the limit of the aforementioned Notes Programme to EUR 10,000 million.
  The balance of the notes traded on the Spanish AIAF fixed-income market amounted to EUR 4,062,469 thousand at 31 December 2016 (31 December 2015: EUR 2,430,299 thousand).

- At its meeting held on 11 June 2015, the Bank’s Executive Committee resolved to launch a Euro Commercial Paper programme with a maximum principal amount outstanding that may not exceed EUR 5,000 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 2015.

  The outstanding balance of this commercial paper recognised in these consolidated financial statements amounted to EUR 4,621,394 thousand at 31 December 2016 (31 December 2015: EUR 4,496,452 thousand). At 31 December 2016 PSA Banque France, S.A. (formerly Société Financière de Banque, S.A. - SOFIB) maintains issues in promissory notes and marketable securities totalling EUR 517 million.

Other information

At 31 December 2016 and 2015, none of these issues was 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 2016 and 2015 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 2016 and 2015, and of the changes in this balance in 2016 and 2015:

	Thousands of 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	24,373,435	15,805,231	(13,385,862)	(222,798)	26,570,006
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
	25,240,220	16,643,106	(13,887,135)	(194,014)	27,802,177

(*) Includes, inter alia, the additions to and exclusions from the Group's scope of consolidation.

	Thousands of Euros				
	2015				
	Outstanding Balance at 01/01/15	Issues	Repurchases or Redemptions	Exchange Rate and Other Adjustments (*)	Outstanding Balance at 31/12/15
Debt instruments issued in an EU Member State for which it was necessary to file a prospectus	17,840,653	26,689,644	(22,318,844)	2,161,982	24,373,435
Debt instruments issued in an EU Member State for which it was not necessary to file a prospectus	275,968	300,000	(135,400)	-	440,568
Other debt instruments issued outside EU Member States	318,514	239,508	(115,068)	(16,737)	426,217
	18,435,135	27,229,152	(22,569,312)	2,145,245	25,240,220

(*) Includes, inter alia, the additions to and exclusions from the Group's scope of consolidation.

Other issues guaranteed by the Group

At 31 December 2016 and 2015, 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 of Euros	
	2016	2015
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) (*)	2,213	2,403
Of which:		
Loans eligible to cover issues of mortgage-backed securities	*1,304*	*1,441*
Non-eligible mortgage loans and credits	*909*	*962*

(*) At 31 December 2016 and 2015, 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 had EUR 650 million of mortgage-backed bonds outstanding at 31 December 2016 (2015: EUR 1,350 million) 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 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Declared dividends payable (Note 4-a)	541,309	-
Trade payables	221,809	174,734
Tax collection accounts	17,347	18,521
Unsettled financial transactions	324	3,402
Other financial liabilities (*)	559,981	443,548
	1,340,770	**640,205**

(*) This item included EUR 208,671 thousand at 31 December 2015 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) (see Note 46).

Note 44 contains a detail of the terms to maturity and estimated fair value of these financial liabilities at 31 December 2016 and 2015.

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 for the first time by the Bank for the purpose of preparing the disclosures included in this connection in these consolidated financial statements and, accordingly, pursuant to the Single Additional Provision of the aforementioned Resolution, no comparative information is presented for 2014 in connection with this new disclosure obligation.

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 2016 and 2015 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:

	2016	2015
	Days	Days
Average period of payment to suppliers	1.73	3.90
Ratio of transactions settled	1.57	3.66
Ratio of transactions not yet settled	17.15	27.91
	Thousands of Euros	Thousands of Euros
Total payments made	184,359	141,954
Total payments outstanding	1,936	1,441

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. However, due to the recent publication of this Resolution and, therefore, the scant amount of time that entities have had to prepare these disclosures, the processes, information sources and procedures used by the Bank for the purpose of preparing them will be reviewed in the course of the coming year.

21. Provisions

The detail of “Provisions” in the accompanying consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Provision for pensions and other employement defined benefit obligations	508,851	484,851
Provisions for other long term employee benefits	70,549	73,277
Provisions for taxes and other legal contingencies	50,715	38,184
Provisions for commitments and guarantees given	5,053	7,547
Other provisions	124,915	126,961
	760,083	**730,820**

The changes in 2016 and 2015 in the balances of these items in the accompanying consolidated balance sheets were as follows:

	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**

	2015					
	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	**485,978**	**78,670**	**51,480**	**4,636**	**313,954**	**934,718**
Net inclusion (exclusion) of entities in (from) the Group	14,097	1,709	-	4,011	253	20,070
Additions/(Reversals) charged (credited) to income:	-	-	-	-	-	-
Interest expense (Note 31)	10,197	807	-	-	-	11,004
Staff costs (Note 39)	12,817	1,673	-	-	-	14,490
Net additions to provisions (amounts used) (*) (***)	752	3,536	(2,876)	(1,100)	72,918	73,230
	37,863	**7,725**	**(2,876)**	**2,911**	**73,171**	**118,794**
Changes in value recognised in equity	(20,324)	-	-	-	-	(20,324)
Payments to retired employees and pre-retirees with a charge to internal provisions (**)	(12,825)	(13,052)	-	-	-	(25,877)
Insurance premiums paid, return premiums received and payments to external funds	(4,022)	-	-	-	-	(4,022)
Payments to retired employees by insurance companies	-	-	-	-	-	
Amounts used	-	-	(12,979)	-	(255,588)	(268,567)
Transfers, exchange differences and other changes	(1,819)	(66)	2,559	-	(4,576)	(3,902)
	(38,990)	**(13,118)**	**(10,420)**	**-**	**(260,164)**	**(322,692)**
Balances at end of year	**484,851**	**73,277**	**38,184**	**7,547**	**126,961**	**730,820**

(*) The detail of “Net Additions to Provisions (Amounts Used)” with respect to pensions and similar obligations in 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
	Expense/(Income)	
Post-employment benefits - Spanish entities:		
Past service cost	-	122
Pre-retirements	-	-
Curtailments/settlements	-	-
Return premiums received on defined contribution pension plans	-	(38)
	-	84
Other long-term benefits - Spanish entities:		
Recognised actuarial losses/(gains) (obligations and assets)	476	349
Pre-retirements	5,404	3,436
Past service cost	-	-
Curtailments/settlements	-	(316)
	5,880	3,469
Foreign entities:		
Recognised actuarial losses/(gains) (obligations and assets)	(856)	219
Past service cost	256	834
Pre-retirements	(261)	(152)
Curtailments/settlements	(6,514)	(166)
	(7,375)	735
	(1,495)	**4,288**

(**) The detail of “Payments to Retired Employees and Pre-retirees with a Charge to Internal Provisions” is as follows:

	Thousands of Euros	
	2016	2015
Post-employment benefits - Spanish entities	2,578	2,593
Other long-term benefits - Spanish entities	11,591	11,721
Foreign entities	14,290	11,563
	28,459	**25,877**

(***) 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.

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).

In 2016 the Bank hasn't received return premiums from the insurance company (2015: EUR 38 thousand).

No premiums were paid to the insurance company in 2016 and 2015 (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 2016 and 2015 (see Note 2-q).

Spanish entities

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 (the amount of this contribution may be reviewed subject to mutual agreement between the parties). In 2016 the contributions made in this connection amounted to EUR 365 thousand (2015: EUR 337 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.

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

- 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 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Present value of the obligations:		
To current employees	189	179
Vested obligations to retired employees and pre-retirees	30,653	32,223
Other obligations to retired employees	170	186
Provisions - Provisions for pensions and similar obligations (Note 2-q)	**31,012**	**32,588**

The present value of the obligations was determined by independent actuaries using the following actuarial techniques:

1. 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.

2. Actuarial assumptions used: unbiased and mutually compatible. Specifically, the most significant actuarial assumptions used in the calculations were as follows:

	2016	2015
Annual discount rate	0.85%	1%
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.

3. 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 2016 and 2015 were as follows:

	Thousands of Euros	
	2016	2015
	Expense/(Income)	
Current service cost (Notes 2-q and 39)	153	82
Net interest cost (Note 31)	293	406
Extraordinary charges		
Past service cost	-	122
Return premiums received on defined contribution pension plans	-	(38)
Amount recognised in the year	**446**	**572**

In addition, in 2016 a net charge of EUR 389 thousand with respect to defined benefit obligations was recognised under "Other comprehensive income - Actuarial gains or (-) losses on defined benefit pension plans" (2015: a net charge of EUR 1,205 thousand).

The changes in 2016 and 2015 in the present value of the accrued defined benefit obligations of the Spanish entities in the Group were as follows:

	Thousands of Euros	
	2016	2015
Present value of the obligations at beginning of year	32,588	32,850
Current service cost (Notes 39 and 2-q)	153	82
Interest cost (Note 31)	293	406
Pre-retirements		-
Effect of curtailments/settlements		-
Benefits paid	(2,578)	(2,593)
Past service cost	-	122
Actuarial (gains)/losses (Note 2-q) (*)	556	1,721
Other	-	-
Present value of the obligations at end of year	**31,012**	**32,588**

(*) Including in 2016 demographic actuarial losses of EUR 60 thousand (2015: gains of EUR 272 thousand) and financial actuarial losses of EUR 496 thousand (2015: losses of EUR 1,449 thousand) in the post-employment plans.

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 2016 and 2015 was as follows:

	Thousands of Euros	
	2016	2015
Present value of the obligations:		
To pre-retirees	56,341	61,290
Long-service bonuses	176	193
Provisions - Provisions for pensions and similar obligations (Note 2-q)	**56,517**	**61,483**

The present value of the obligations was determined by qualified independent actuaries using the following actuarial techniques:

1. Valuation method: projected unit credit method.

2. Actuarial assumptions used: unbiased and mutually compatible. Specifically, the most significant actuarial assumptions used in the calculations were as follows:

	2016	2015
Annual discount rate	0.85%	1%
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.

3. 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 for 2016 and 2015 in relation to these long-term obligations were as follows:

	Thousands of Euros	
	2016	2015
	Expense/(Income)	
Current service cost (Note 39)	11	10
Net interest cost (Note 31)	524	809
Expected return on insurance contracts linked to pensions	-	-
Extraordinary charges		
Actuarial (gains)/losses recognised in the year	476	349
Past service cost	-	-
Pre-retirement cost	5,404	3,436
Curtailments/settlements	-	(316)
Amount recognised in the year	**6,415**	**4,288**

The changes in 2016 and 2015 in the present value of the accrued obligations for other long-term benefits at the Spanish entities in the Group were as follows:

	Thousands of Euros	
	2016	2015
Present value of the obligations at beginning of year	61,483	68,988
Current service cost (Note 39)	11	10
Interest cost (Note 31)	524	809
Pre-retirement cost	5,404	3,436
Effect of curtailments/settlements	-	(316)
Benefits paid	(11,591)	(11,721)
Past service cost	-	-
Actuarial (gains)/losses recognised in the year	476	349
Other	210	(72)
Present value of the obligations at end of year	**56,517**	**61,483**

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 2016 and 2015, net of the assets that meet the requirements established in the applicable legislation in order to qualify as plan assets, is as follows:

	Thousands of Euros	
	2016	2015
Present value of the obligations:	596,290	520,541
Of which:		
Germany	*456,724*	*410,171*
Nordics (Scandinavia)	72,693	75,334
Less-		
Plan assets	(104,419)	(56,484)
Provisions - Provisions for pensions and similar obligations (Note 2-q)	**491,871**	**464,057**

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:

	2016		2015	
	Germany	Nordics (Scandinavia)	Germany	Nordics (Scandinavia)
Annual discount rate	1.84%,	2.75% - 3.00%	2.20%	2.50% - 3.50%,
Mortality tables	R2005G	K2013 / DUS2014	R2005G	K2013 / DUS 2014
Cumulative annual CPI growth	1.90%,	-	-	-,
Annual salary increase rate	2.75%,	2.25% - 3.25%	2.00%	2.50% - 3.25%,
Annual social security pension	1.90%,	1.75% - 1.99%	2.75%	1.75% - 2.10%,
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 2016 and 2015 in relation to these defined benefit pension obligations of the Germany's foreign entities were as follows:

	Thousands of Euros	
	2016	2015
	Expense/(Income)	
Current service cost (Note 39)	10,996	9,256
Net interest cost (Note 31)	9,101	8,508
Extraordinary charges		
Actuarial gains or losses recognized	(397)	
Past service cost	-	-
Pre-retirements	(173)	-
Effect of curtailments/settlements	(2)	-
Expected return on plan assets		-
Other interest	(199)	-
Amount recognised in the year	19,326	17,764

The changes in 2016 and 2015 in the present value of the accrued defined benefit obligations of the Germany's foreign companies, were as follows:

	Thousands of Euros	
	2016	2015
Present value of the obligations at beginning of year	410,171	401,528
Net inclusion/(exclusion) of entities in/(from) the Group	19,852	-
Current service cost (Note 39)	10,996	9,256
Interest cost (Note 31)	9,101	8,508
Pre-retirements	(173)	-
Effect of curtailments/settlements	(2)	-
Benefits paid	(10,600)	(8,983)
Past service cost	-	-
Actuarial (gains)/losses (*)	17,918	(138)
Exchange differences, transfers and other items	(539)	-
Present value of the obligations at end of year	**456,724**	**410,171**

(*) Including in 2016 demographic actuarial gains of EUR 5,218 thousand (2015: losses of EUR 4,673 thousand) and financial actuarial losses of EUR 23,136 thousand (2015: financial actuarial gains of EUR 4,811 thousand).

The changes in 2016 and 2015 in the fair value of the plan assets associated with these defined benefit obligations of the Germany's foreign subsidiaries were as follows:

	Thousands of Euros	
	2016	2015
Fair value of plan assets at beginning of year	-	-
Net inclusion (exclusion) of entities in (from) the Group	17,165	-
Expected return on plan assets	-	-
Actuarial gains/(losses) arising in the year	461	-
Contributions	750	-
Benefits paid	(568)	-
Exchange differences and other items	-	-
Fair value of plan assets at end of year	**17.808**	**-**

The amounts recognised in the consolidated income statements for 2016 and 2015 in relation to these defined benefit pension obligations of the Group's foreign entities (without Germany) were as follows:

	Thousands of Euros	
	2016	2015
	Expense/(Income)	
Current service cost (Note 39)	2,980	5,142
Net interest cost	3,203	2,269
Extraordinary charges		
Actuarial gains or losses recognized	(459)	-
Past service cost	256	834
Pre-retirements	(88)	(152)
Effect of curtailments/settlements	(6,512)	(166)
Expected return on plan assets	(1,659)	(988)
Other interest	(403)	-
Amount recognised in the year	(2,682)	6,939

(*) These items are recognised at their net amount (2016: EUR 1,544 thousand; 2015: EUR 1,281 thousand) under “Interest Expense” in the consolidated income statement (see Note 31).

The changes in 2016 and 2015 in the present value of the accrued defined benefit obligations of the Group's foreign companies (without Germany), were as follows:

	Thousands of Euros	
	2016	2015
Present value of the obligations at beginning of year	110,370	104,947
Net inclusion/(exclusion) of entities in/(from) the Group	35,367	25,527
Current service cost (Note 39)	2,980	5,142
Interest cost	3,203	2,269
Pre-retirements	(88)	(152)
Effect of curtailments/settlements	(6,512)	(166)
Benefits paid	(11,691)	(4,882)
Past service cost	256	834
Actuarial (gains)/losses (*)	395	(21,907)
Exchange differences, transfers and other items	5,287	(1,242)
Present value of the obligations at end of year	**139,567**	**110,370**

(*) Including in 2016 demographic actuarial gains of EUR 1,905 thousand (2015: gains of EUR 2,722 thousand) and financial actuarial losses of EUR 2,300 thousand (2015: financial actuarial gains of EUR 19,185 thousand).

The changes in 2016 and 2015 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:

	Thousands of Euros	
	2016	2015
Fair value of plan assets at beginning of year	56,484	43,665
Net inclusion (exclusion) of entities in (from) the Group	25,014	9,721
Expected return on plan assets	1,659	988
Actuarial gains/(losses) arising in the year	4,138	561
Contributions	5,747	4,022
Benefits paid	(7,433)	(2,302)
Exchange differences and other items	1,003	(171)
Fair value of plan assets at end of year	**86,612**	**56,484**

In 2016 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 charge totalling EUR 9,989 million for defined benefit commitments relating to the Group's foreign companies (net payment of EUR 11,582 million in 2015).

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 2016 amounted to EUR 16,128 thousand (2015: EUR 17,040 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 2016, 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 2016 and the four preceding years

The situation of the defined benefit obligations at the end of 2016 and the four preceding years was as follows:

Spanish entities-

	Thousands of Euros							
	Post-Employment Benefits				Other Long-Term Employee Benefits			
	2016	2015	2014	2013	2016	2015	2014	2013
Present value of the obligations:								
To current employees	189	179	161	115		-	-	-
Vested obligations to retired employees	30,653	32,223	32,491	31,131		-	-	-
To pre-retirees	-	-	-	-	56,177	61,290	68,800	72,108
Long-service bonuses and other obligations	-	-	-	-	175	193	180	172
Other	170	186	198	189	-	-	-	-
Provisions - Provisions for pensions	**31,012**	**32,588**	**32,850**	**31,435**	**56,352**	**61,483**	**68,980**	**72,280**
Of which:								
Insurance contracts linked to pensions	-	-	-	-	-	-	-	-

Foreign entities-

	Thousands of Euros			
	2016	2015	2014	2013
Present value of the obligations	596,290	520,541	506,475	379,635
Less-				
Fair value of plan assets	(104,419)	(56,484)	(43,665)	(30,027)
Provisions - Provisions for pensions	**491,871**	**464,057**	**462,810**	**349,608**

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 2016 and 2015 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 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
	Continuing Operations	Continuing Operations
Consolidated profit (loss) before tax	1,838,089	1,501,925
Accounting profit multiplied by income tax rate (*)	*551,427*	*450,578*
Permanent differences and adjustments (**)	63,127	(119,428)
Consolidated income tax expense	614,554	331,150
Effective tax rate	**33.43%**	**22.04%**

(*) 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 2016 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 2016 there were no developments with a significant impact in connection with the tax disputes at various instances which were pending resolution at 31 December 2015.

d) Deferred taxes

The detail of the deferred taxes at 31 December 2016 and 2015 is as follows:

	Thousands of Euros					
	2016			2015		
	Monetisable	Other	Total	Monetisable	Other	Total
Tax assets	**338,275 (*)**	**343,333**	**681,608**	**353,535(*)**	**427,152**	**780,687**
Tax losses and tax credits	-	*64,094*	*64,094*	-	*73,171*	*73,171*
Temporary differences	*338,275*	*279,239*	*617,514*	*353,535*	*353,981*	*707,516*
Of which:						
Non-deductible provisions	-	*49,714*	*49,714*	-	*38,457*	*38,457*
Valuation of financial instruments	-	*31,270*	*31,210*	-	*88,462*	*88,462*
Tax credit for reinvestment and double taxation of gains on disposal of investments	-	-	-	-	-	-
Credit losses	*291,493*	*6,442*	*297,935*	*307,289*	*21,242*	*328,531*
Pensions	*34,765*	*109,282*	*144,047*	*34,229*	*81,995*	*116,224*
Valuation of tangible and intangible assets	*12,017*	*41,536*	*53,553*	*12,017*	*35,686*	*47,703*
Tax liabilities	**-**	**532,927**	**532,927**	**-**	**522,588**	**522,588**
Temporary differences	-	*532,927*	*532,927*	-	*522,588*	*522,588*
Of which:						
Valuation of financial instruments	-	*104,610*	*104,610*	-	*94,899*	*94,899*
Valuation of tangible and intangible assets	-	*316,744*	*316,744*	-	*323,664*	*323,664*
Gains on disposal of investments	-	-	-	-	-	-
Valuation of Group investments	-	*32,366*	*32,366*	-	*42,699*	*42,699*

(*) At 31 December 2016, EUR 139 million of the monetisable tax assets corresponded to Spain (31 December 2015: EUR 133 million) and EUR 199 million corresponded to Italy (31 December 2015: EUR 221 million).

The balance of “Tax Assets - Deferred” in the consolidated balance sheets as at 31 December 2016 and 2015 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 2016 and 2015.

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.

e) Tax recognised in equity

In addition to the income tax recognised in the consolidated income statements, in 2016 and 2015 the Group recognised the following amounts in consolidated equity:

	Thousands of Euros Credits (Charges) to Consolidated Equity	
	2016	2015
Actuarial gains and losses on pension plans	4,750	(4,726)
Cash flow hedges	2,499	(2,209)
Available-for-sale financial assets	(217)	(1,535)
Total	**7,032**	**(8,470)**

23. Registered share capital

On 25 March 2015, the Extraordinary General Meeting of the Bank resolved to increase capital by EUR 300,000 thousand by issuing at par 100,000,000 ordinary shares of EUR 3 par value each. This capital increase, which was fully subscribed and paid by the Bank's shareholders on 25 March 2015, was executed in a public deed on 26 March 2015 and registered in the Mercantile Register on 10 April 2015.

Consequently, at 31 December 2016 and 2015, 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
Banco Santander, S.A.	63.19%
Holneth, B.V. (*)	25.00%
Fomento e Inversiones, S.A. (*)	11.81%
	100.00%

(*) Santander Group companies.

At 31 December 2015, 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.

24. Share premium

The balance of “Share Premium” in the accompanying consolidated balance sheets as at 31 December 2016 and 2015 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 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Accumulated earnings:		
Legal reserve of the Bank	523,382	475,601
Unrestricted, voluntary and other reserves	2,064,665	1,972,122
Consolidation reserves attributable to the Bank	109,860	110,965
Reserves of subsidiaries	(810,241)	(1,390,208)
	1,887,666	**1,168,480**
Reserves or Accumulated losses in Investments in Joint Ventures and Associates:		
Associates and jointly controlled entities	**218,443**	**158,477**

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 of Euros	
	2016	2015
Santander Consumer Holding GmbH (Germany)	(1,986,450)	(1,993,682)
Santander Consumer Bank S.p.A. (Italy)	(240,584)	(265,987)
Santander Consumer, E.F.C., S.A. (Spain)	(71,963)	(132,669)
Banco Santander Consumer Portugal S.A. (Portugal)	48,324	42,748
Santander Consumer Bank Gmbh (Alemania)	55,941	56,827
Compagnie Generale De Credit Aux Particuliers -	62,295	-
Santander Consumer Finance Benelux B.V. (Netherlands)	88,213	68,311
Santander Consumer Finance OY (Finland)	109,926	71,774
Andaluza de Inversiones, S.A. (Spain)	134,041	58,345
Santander Consumer Bank A.S. (Norway)	377,177	247,345
Santander Consumer Bank AG (Germany)	451,612	416,779
Other companies	161,227	40,001
	(810,241)	**(1,390,208)**

26. Other comprehensive income

The balances of “Other comprehensive income” in the accompanying consolidated balance sheets as at 31 December 2016 and 2015 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 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 2016 related mainly to the variations in the main actuarial assumptions of the German subsidiary, namely the decrease in the discount rate from 2.20% to 1.84%, and a staff turnover (2015: the changes related mainly to the variations in the main actuarial assumptions of the Norwegian subsidiary (increase in the discount rate from 2.30% to 2.50%, a 0.25% reduction in the salary growth rate assumption, a higher than estimated return on plan assets, and a staff turnoverand a salary increase rate that were higher and lower, respectively, than initially estimated).

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 2016 and 2015 were as follows:

	Thousands of Euros	
	2016	2015
Balance at beginning of year	21,893	(3,391)
Revaluation gains/(losses)	(52,525)	25,284
Amounts transferred to consolidated income statement	-	-
Balance at end of year	**(30,632)**	**21,893**

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 2016 and 2015 were as follows:

	Thousands of Euros	
	2016	2015
Balance at beginning of year	(2,005)	(8,525)
Revaluation gains/(losses)	(25,798)	(19,685)
Amounts transferred to consolidated income statement	18,844	28,414
Income tax	1,420	(2,209)
Balance at end of year (Note 29)	**(7,539)**	**(2,005)**

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 2016 and 2015, disregarding the valuation adjustments attributable to non-controlling interests, were as follows:

	Thousands of Euros	
	2016	2015
Balance at beginning of year	18,270	(1,637)
Revaluation gains/(losses)	2,579	20,529
Amounts transferred to consolidated income statement	(19,337)	913
Income tax	862	(1,535)
Balance at end of year	**2,374**	**18,270**
Of which:		
Equities	*355*	*17,799*
Fixed-income securities	*2,019*	*471*

27. Non-controlling interests

"Non-Controlling Interests" in the accompanying consolidated balance sheets as at 31 December 2016 and 2015 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 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Santander Consumer Finance Media, S.r.L.	2,592	2,639
Suzuki Servicios Financieros, S.L.	2,014	1,857
PSA Banque France S.A (previously Société Financière de Banqu e - SOFIB, S.A.)	463,985	461,683
Financiera El Corte Inglés, E.F.C., S.A.	105,038	105,039
PSA Financial Services, Spain, E.F.C., S.A.	181,293	180,802
PSA Finance Belux S.A.	63,918	-
PSA Bank Deutschland GmbH (previously PSA Lion Deutschland GmbH)	220,939	3,452
Banca PSA Italia S.P.A.	97,014	5,000
Transolver Finance E.F.C., S.A.	19,087	-
	1,155,880	760,472
Profit (loss) for the year attributable to non-controlling interests:		
Santander Consumer Finance Media, S.r.l.	*(69)*	*(47)*
Suzuki Servicios Financieros, S.L.	*120*	*157*
PSA Banque France S.A.	*73,231*	*77,937*
Financiera El Corte Inglés, E.F.C., S.A.	*32,952*	*26,100*
PSA Financial Services, Spain, E.F.C., S.A.	*24,479*	*6,840*
PSA Finance Belux S.A.	*11,527*	-
PSA Bank Deutschland GmbH	*12,553*	-
Banca PSA Italia S.P.A.	*13,489*	-
	168,282	110,987
	1,324,162	**871,459**

The changes in 2016 and 2015 in “Non-Controlling Interests” in the consolidated balance sheets were as follows:

	Thousands of Euros	
	2016	2015
Balance at beginning of year	871,459	133,177
Change in percentages of ownership	(*) 375,545	(**) 652,730
Dividends	(101,147)	(23,643)
Exchange differences and other	10,023	(1,792)
Profit for the year attributable to non-controlling interests	168,282	110,987
Balance at end of year	**1,324,162**	**871,459**

(*) 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)

(**) Relates to the 50% ownership interest in the subsidiaries PSA Banque France (previously Société Financière de Banque - SOFIB, S.A.), PSA Bank Deutschland GmbH (previously PSA Lion Deutschland GmbH), Banca PSA Italia S.p.A. and PSA Financial Services, Spain, E.F.C., S.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 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Guarantees:		
Bank guarantees and other indemnities	832,951	658,933
Of which:		
Credit institutions	*516,050*	*534,790*
Other sectors	*316,901*	*124,143*
Other contingent liabilities	-	-
	832,951	**658,933**
Contingent commitments:		
Drawable by third parties	20,731,028	20,224,591
Of which:		
Drawable by credit institutions (*)	916,983	921,603
Other sectors	19,814,045	19,302,988
Other contingent commitments	453,167	231,996
	21,184,195	**20,456,587**

(*) 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 2016 and 2015 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 2016 and 2015 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 2016 and 2015 is as follows:

	Thousands of Euros			
	2016		2015	
	Notional Amount	Net Market Value: Debit/(Credit) Balance	Notional Amount	Net Market Value: Debit/(Credit) Balance
Trading derivatives:				
Interest rate risk-				
Interest rate swaps	10,000,739	(2,155)	3,451,562	(4,003)
Options and futures	102,430	(1,301)	-	-
Foreign currency risk-				
Currency swaps	1,132,439	7,561	2,202,707	7,049
Foreign currency exchange	145,506	(1,347)		
	11,381,114	2,758	5,654,269	3,046
Hedging derivatives (*):				
Interest rate risk-				
Interest rate swaps (*)	10,760,109	(41,059)	16,354,824	(228,927)
Foreign currency risk-				
Foreign currency purchases and sales	2,850,626	(2,600)	2,107,030	110,876
Currency swaps	4,297,138	(81,890)	3,425,767	48,873
	17,907,873	(125,549)	21,887,621	(69,178)
	29,288,987	(122,791)	27,541,890	(66,132)

(*) Includes hedging operations (Note 11) and micro-hedging operations (Note 19)

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 2016 and 2015 is as follows:

Trading derivatives-

	2016				
	Thousands of 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**

	2015				
	Thousands of Euros				
	Less than 1 Year	1 to 5 Years	5 to 10 Years	More than 10 Years	Total
Interest rate swaps (IRS's)	908,067	1,338,350	1,100,845	104,300	3,451,562
Currency swaps	1,100,753	1,101,954	-	-	2,202,707
Total	**2,008,820**	**2,440,304**	**1,100,845**	**104,300**	**5,654,269**

Hedging derivatives

	2016				
	Thousands of Euros				
	Less than 1 Year	1 to 5 Years	5 to 10 Years	More than 10 Years	Total
Interest rate swaps (IRS's)	[illegible]	[illegible]	1,721,623	1,909,799	[illegible]
Currency swaps	[illegible]	[illegible]	-	-	[illegible]
Total	**[illegible]**	**[illegible]**	**1,721,623**	**1,909,799**	**[illegible]**

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 2016 year-end, the Group held IRS contracts with a nominal amount of EUR 4,000 million (31 December 2015: EUR 3,700 million), the fair value of which represented a gain of EUR 9,674 thousand at that date (31 December 2015: 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 12,700 million at 31 December 2016 (2015: EUR 12,305 million)- recognised in “Gains/Losses on Financial Assets and Liabilities (Net)” in the accompanying consolidated income statement.

In 2016, the Group recognised losses amounting to EUR 11,257 thousand under “Gains or losses from hedge accounting, net” in the accompanying consolidated income statement for 2016 (2015: losses amounting to EUR 4,951 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 7,539 thousand at 31 December 2016 (31 December 2015: EUR 2,005 thousand). This amount was recognised in the Group’s consolidated equity at 31 December 2016 and 2015 (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 2016, the notional amount of the hedging instruments associated with these investments had a total euro equivalent value of EUR 1,117 thousand.

30. Interest income

"Interest Income" in the consolidated income statements for 2016 and 2015 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 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Balances with the Bank of Spain and other central banks	620	206
Loans and advances to credit institutions	25,980	33,430
Debt instruments	17,579	4,552
Loans and advances to customers	3,700,124	3,562,017
Non-performing assets	10,447	12,332
Rectification of income as a result of hedging transactions and other interest	(124,833)	(137,183)
	3,629,917	**3,475,354**

(*) Includes other interest on post-employment compensation and other long-term compensation relating to foreign companies totalling EUR 602 thousand - see Note 21

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 2016 and 2015 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 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Deposits from the Bank of Spain and other central banks	7,848	5,003
Deposits from credit institutions	65,400	100,665
Customer deposits	246,833	319,051
Marketable debt securities	182,672	246,132
Subordinated liabilities	30,676	35,717
Provisions for pensions (Notes 2-q, 2-r and 21) (*)	11,462	11,004
Rectification of expenses as a result of hedging transactions	(4,129)	(20,292)
Other interest	11,688	15,063
	552,450	712,343

(*) Includes the interest on post-employment and other long-term benefits of Spanish entities, amounting to EUR 293 thousand and EUR 524 thousand, respectively, in 2016 (2015: EUR 406 thousand and EUR 809 thousand, respectively), and of foreign entities, amounting to EUR 10,645 thousand (2015: EUR 9,789 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 2016 and 2015 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 2016 and 2015 is as follows (see Note 13):

	Thousands of Euros	
	2016	2015
Santander Consumer Bank S.A. (Polonia)	40,828	40,186
Fortune Auto Finance Co., Ltd.	18,703	4,796
Santander Consumer Multirent, S.A.	2,749	1,411
Transolver Finance, E.F.C., S.A. (*)	2,463	1,712
Bank of Beijing Consumer Finance Company	257	14,129
Konecta BTO, S.L.	-	4,130
Other companies	3,907	4,766
	68,907	**71,130**

(*) 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 2016 and 2015 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 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Collection and payment services:		
Bills	1,245	1,584
Demand accounts	13,612	14,011
Cards	77,367	83,859
Cheques and orders	25,283	28,491
	117,507	127,945
Marketing of non-banking financial products:		
Investment and pension funds	18,496	13,594
Insurance	789,333	712,187
Other	8,731	7,787
	816,560	733,568
Securities services:		
Securities trading	19,803	21,614
Administration and custody	3,993	3,783
	23,796	25,397
Other:		
Financial guarantees	4,547	4,480
Other fees and commissions	209,576	226,910
	214,123	231,390
	1,171,986	**1,118,300**

34. Commission expense

The balance of "Commission Expense" in the consolidated income statements for 2016 and 2015 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 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Brokerage fees on lending and deposit transactions	22,304	20,680
Fees and commissions assigned in respect of off-balance-sheet risks	141	30
Fees and commissions assigned for collection and return of bills	7,360	10,073
Fees and commissions assigned in other concepts	11,440	9,746
Fees and commissions assigned for cards	31,482	29,414
Fees and commissions assigned for securities	17,592	19,256
Fees and commissions assigned to intermediaries	57,762	50,566
Other fees and commissions for placement of insurance	124,182	65,437
Other fees and commissions	79,612	87,314
	351,875	**292,516**

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 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
	Income/(Expenses)	
Gains or losses on financial assets and liabilities held for trading, net	(3,677)	2,325
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net	19,549	(3,566)
Gains or losses from hedge accounting, net (Note 29)	(11,257)	(4,951)
	4,615	**(6,192)**

36. Exchange differences (net)

“Exchange Differences (Net)” in the consolidated income statements for 2016 and 2015 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 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Sales and income from the provision of non-financial services (*)	200,615	228,977
Other	58,946	56,903
	259,561	**285,880**

(*) Relates mainly to the income from vehicle operating leases in Spain in 2016 and 2015 from Santander Consumer Renting, S.L. and the subsidiary Santander Consumer Service, S.A. (formerly PSA Gestao - Comércio e Aluguer de Veículos, S.A.).

38. Other operating expenses

The detail of “Other Operating Expenses” in the consolidated income statements for 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Contributions to deposit guarantee funds and other national resolution funds (Note 1-g)	44,697	47,497
Changes in inventories (*)	189,673	217,208
Other	45,209	38,860
	279,579	**303,565**

(*) Relates mainly to the expenses associated with the vehicle operating lease business in Spain; as from 2015 this item also includes the expenses associated with the vehicle operating lease business of the subsidiary Santander Consumer Service, S.A. (formerly PSA Gestao - Comércio e Aluguer de Veículos, S.A.).

39. Staff costs

“Staff Costs” in the consolidated income statements for 2016 and 2015 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 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Wages and salaries	502,135	468,099
Social security costs	93,699	86,760
Additions to pension provisions (Note 21) (*)	14,140	14,490
Contributions to defined contribution pension funds (Note 21)	16,493	17,377
Contributions to plans - Spanish entities	*365*	*337*
Contributions to plans - foreign entities	*16,128*	*17,040*
Share-based payment costs	254	201
Other staff costs	66,552	52,914
Termination benefits	4,549	1,567
	697,822	**641,408**

(*) Of which:

- In 2016, EUR 153 thousand relate to “current service cost of defined benefit post-employment obligations - Spanish entities” (2015: EUR 82 thousand) (see Notes 2-q and 21).
- In 2016, EUR 10,996 thousand relate to “current service cost of defined benefit post-employment obligations - Germany” (2015: EUR 9,256 thousand) (see Notes 2-q and 21).
- In 2016, EUR 2,980 thousand relate to “current service cost of defined benefit post-employment obligations – foreign entities without Germany” (2015: EUR 5,142 thousand) (see Notes 2-q and 21).
- In 2016, EUR 11 thousand relate to “current service cost of other long-term defined benefit obligations - Spanish entities” (2015: EUR 10 thousand) (see Notes 2-r and 21).

The average number of employees at the Group in 2016 and 2015, by professional category, was as follows:

	Average Number of Employees	
	2016	2015
The Bank:		
Senior executives	1	1
Middle management	-	-
Clerical staff	5	7
	6	8
Other companies (*)	9,625	8,834
	9,631	**8,842**

The functional breakdown, by gender, of the number of employees at the Group at 31 December 2016 and 2015 is as follows:

	2016			2015		
	Total	Men	Women	Total	Men	Women
Senior executives	66	59	7	103	88	15
Middle management	920	609	311	681	485	196
Clerical staff and other	8,740	4,109	4,631	8,564	3,942	4,622
	9,726	**4,777**	**4,949**	**9,348**	**4,515**	**4,833**

At 31 December 2016 and 2015, 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 2016 y 2015, 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 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Property, fixtures and supplies	110,773	104,335
Other administrative expenses	24,690	37,157
Communications	49,364	48,460
Taxes other than income tax	31,679	26,448
Technology and systems	235,443	189,346
Public relations, advertising and publicity	89,307	86,862
Per diems and travel expenses	18,677	15,886
Outside services	217,537	229,775
Technical reports	66,415	56,062
Insurance premiums	4,999	3,925
Surveillance and cash courier services	326	398
	849,210	**798,654**

"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	
	2016	2015
Audit fees	7.5	5.4
Other attest services	0.6	4.4
Tax counselling services	-	0.4
Other services	0.7	0.8
Total	**8.8**	**11.0**

The services commissioned from the auditor of the Bank and of the consolidated financial statements meet the independence requirements stipulated in the Consolidated Spanish Audit Law (Legislative Royal Decree 1/2011, of 1 July) 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 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Tangible Assets (*)	826	498
Intangible Assets (Note 15)	652	934
Other	622	481
	2,100	**1,913**

(*) Of which at 31 December 2016, it has been registered an amount of EUR 9 thousands corresponding to losses due to impairments in tangible asset, not being identified impairments in 2015.

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 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
	Income/(Expenses)	
Gains:		
Property, plant and equipment and intangible assets (Note 14)	477	693
Investments (1)	727	69,526
	1,204	70,219
Losses:		
Property, plant and equipment and intangible assets (Note 14)	(7,869)	(4,801)
Investments (Note 3-b)	(9,726)	-
	(17,595)	(4,801)
	(16,391)	**65,418**

(1) The figure for 2015 relates to the gain of EUR 69,526 thousand on the sale of the Group's investments in the capital of Grupo Konectanet, S.L. and Konecta Activos Inmobiliarios, S.L. (see Note 3-b).

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 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
	Income/(Expenses)	
Net gains (losses) on disposals (Note 12):	(1,819)	(5,068)
Tangible assets	*(1,010)*	*(1,051)*
Other	*(809)*	*(4,017)*
Impairment losses (net) (Note 12)	(7,259)	(3,928)
	(9,078)	**(8,996)**

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 2016 and 2015 is as follows:

	2016								
	Thousands of Euros								
	On Demand	Less than 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	More than 5 Years	Undetermined or Undefined Maturity	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)	-	397	-	25,211	77,691	-	-	103,299	1.34%
Loans and advances-									
Central banks	10,200	-	-	-	-	-	-	10,200	0.00%
Credit institutions (Note 6)	62,194	90,203	1,239	422,449	4,273	23	-	580,381	0.86%
Customers (Note 10)	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**	

	2015								
	Thousands of Euros								
	On Demand	Less than 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	More than 5 Years	Undetermined or Undefined Maturity	Total	Average Interest Rate in 2015
Assets:									
Cash,cash balances at central banks and others deposits on demand	5,834,622	-	-	-	-	-	-	5,834,622	0.44%
Financial assets-available for sale- Debt instruments (Note 7)	1,667	132,953	280,667	2,287,396	450,716	1,001	-	3,154,400	1.68%
Loans and receivables – Debt Instruments (Note 7)	-	-	-	-	2,023	-	-	2,023	0.01%
Loans and advances-									
Central banks	-	15,051	-	-	-	-	-	15,051	0%
Credit institutions (Note 6)	-	127,490	118,871	381,430	464,663	52,460	-	1,144,914	0.86%
Customers (Note 10)	884,014	4,143,275	7,682,124	12,714,922	32,945,356	12,186,657	-	70,556,348	6.55%
	6,720,303	4,418,769	8,081,662	15,383,748	33,862,758	12,240,118	-	80,707,358	
Liabilities:									
Financial liabilities at amortised cost- Deposits									
Central banks (Note 17)	-	-	-	417	6,440,666	-	-	6,441,083	0.43%
Credit institutions (Note 17)	6,333,732	879,981	241,397	404,474	1,321,856	1,255,394	-	10,436,834	1.24%
Customer (Note 18)	15,670,843	4,837,898	1,580,077	4,100,036	3,207,167	1,640,590	-	31,036,611	0.74%
Marketable debt securities (Note 19)	1,130,376	2,597,931	3,576,519	2,959,436	6,296,921	8,767,771	-	25,328,954	2.13%
Other financial liabilities (Note 20)	193,355	389,291	10,539	1,736	10,574	34,710	-	640,205	3.00%
	23,328,306	8,705,101	5,408,532	7,466,099	17,277,184	11,698,465	-	73,883,687	
Difference (assets less liabilities)	**(16,608,003)**	**(4,286,332)**	**2,673,130**	**7,917,649**	**16,585,574**	**541,653**	**-**	**6,823,671**	

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 2016 and 2015, based on the nature of the related items, is as follows: 183

	Equivalent Value in Millions of Euros			
	2016		2015	
	Assets	Liabilities	Assets	Liabilities
Cash, cash balances at central banks and others deposits on demand	260	-	514	-
Financial assets/liabilities held for trading	39	32	118	113
Financial assets available-for-sale	1,024	-	940	-
Loans and receivables (*)	11,968	-	10,667	-
Hedging derivatives	27	10	114	1
Non-current assets held for sale	1	-	1	-
Investments	505	-	500	-
Tangible assets	23	-	7	-
Intangible assets	518	-	537	-
Tax assets/liabilities	26	94	40	92
Financial liabilities at amortised cost	-	8,723	-	8,674
Liabilities associated with non-current assets held for sale	-	-	-	-
Provisions	-	47		51
Other assets and liabilities		157	140	180
	14,574	**9,063**	**13,578**	**9,111**

(*) 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 2016 and 2015 of the Group's financial assets measured at other than fair value and their respective fair values at the end of 2016 and 2015:

	Millions of Euros									
	2016					2015				
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	10	10	-	10	-	15	15	-	15	-
Credit institutions	581	581	-	522	59	1,145	1,145	-	992	153
Customers	81,983	83,153	-	27,007	56,146	70,556	71,115	-	11,808	59,307
Debt instruments	103	103	-	103	-	2	2	-	2	-
	82,677	**83,847**	**-**	**27,642**	**56,205**	**71,718**	**72,277**	**-**	**12,817**	**59,460**

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:

	Millions of Euros									
	2016					2015				
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	10,002	9,995	-	-	9,995	6,441	6,417	-	-	6,417
Credit institutions	10,199	10,149	-	10,149	-	10,437	10,436	-	10,436	-
Customer	33,257	33,137	-	-	33,137	31,037	31,035	-	-	31,035
Marketable debt securities	27,866	27,934	2,914	25,020	-	25,329	25,354	2,578	22,776	-
Other financial liabilities	1,341	1,341	-	-	1,341	640	640	-	-	640
	82,665	**82,556**	**2,914**	**35,169**	**44,473**	**73,884**	**73,882**	**2,578**	**33,212**	**38,092**

iii. Valuation methods and inputs used

The main valuation methods and inputs used in the estimates at 31 December 2016 and 2015 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)	Thousands of Euros															
	2016								2015							
	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	12,118,380	6,893,263	33,819,202	13,394,60	9,350,17	3,143,781	3,263,766	81,983,168	10,803,121	4,820,586	30,575,569	11,808,256	8,359,538	3,575,830	613,448	70,556,348
Financial assets held for trading	2,515	237	2,972	14,379	4,91	(61,304)	92,317	56,035	135	-	2,458	57,961	-	-	65,253	125,807
Debt instruments	-	-	103,289	-	-	(41,266)	3,199,839	3,261,862	1,270,028	407,389	348,097	996,954	132,954	1,000	1	3,156,423
Loans and advances to central banks and credit institutions	1,989,475	536,917	536,675	1,720,749	504,36	4,066,601	(8,764,196)	590,581	13,950,905	449,170	1,545,772	1,173,407	699,458	539,331	(17,198,078)	1,159,965
Tangible and intangible assets	129,419	9,454	296,941	81,417	17,15	(198,676)	2,169,323	2,505,036	139,870	10,672	356,776	83,933	9,813	15,789	1,958,956	2,575,809
Other asset accounts	830,679	857,434	2,854,353	1,657,333	418,55	1,501,750	(275,283)	7,844,819	1,519,408	345,732	2,915,801	432,454	206,788	320,448	3,113,733	8,854,364
Total assets	**15,070,468**	**8,297,305**	**37,613,432**	**16,868,482**	**10,295,16**	**8,410,886**	**(314,234)**	**96,241,501**	**27,683,467**	**6,033,549**	**35,744,473**	**14,552,965**	9,408,551	**4,452,398**	**(11,446,687)**	**86,428,716**
Customer deposits	304,993	814,665	24,538,162	4,509,048	1,804,37	1,058,426	227,805	33,257,478	267,511	373,904	24,004,458	3,892,593	1,328,172	1,053,595	116,378	31,036,611
Marketable debt securities	3,945,118	812,483	1,201,103	4,662,253	1,967,06	3,140,545	12,137,088	27,865,655	15,426,508	300,044	505,433	4,329,293	1,543,141	358,192	2,866,343	25,328,954
Deposits from central banks and credit institutions	8,659,948	5,397,545	7,038,362	5,507,103	4,743,79	(265,711)	(10,879,608)	20,201,438	11,051,402	4,548,725	6,756,507	4,345,430	4,814,814	2,226,563	(16,865,524)	16,877,917
Other liability and equity accounts	1,229,507	542,899	1,259,122	311,368	1,275,31	2,514,880	(1,614,839)	5,518,248	1,154,735	242,900	895,703	397,304	1,162,418	203,038	243,814	4,299,912
Shareholders' equity	930,902	729,713	3,576,683	1,878,710	504,60	1,962,746	(184,680)	9,398,682	(216,689)	567,976	3,582,372	1,588,345	560,006	611,010	2,192,302	8,885,322
Total funds under management	**15,070,468**	**8,297,305**	**37,613,432**	**16,868,482**	**10,295,16**	**8,410,886**	**(314,234)**	**96,241,501**	**27,683,467**	**6,033,549**	**35,744,473**	**14,552,965**	9,408,551	**4,452,398**	**(11,446,687)**	**86,428,716**

Consolidated Income Statement (Condensed)	2016							2015						
	Spain	Italy	Germany	Nordics	France	Other (*)	Total	Spain	Italy	Germany	Nordics	France	Other (*)	Total
NET INTEREST INCOME	**502,098**	**292,615**	**970,090**	**690,109**	**344,839**	**277,716**	**3,077,467**	**429,409**	**215,457**	**943,921**	**684,040**	**330,372**	**159,812**	**2,763,011**
Share of results of entities accounted for using the equity method	9,872	689	14,592	597	714	42,443	68,907	4,990	525	8,267	112	281	56,955	71,130
Net fee and commission income	91,478	44,546	496,974	39,724	83,428	63,961	820,111	85,263	36,878	530,344	40,572	72,195	60,532	825,784
Gains/losses on financial assets and liabilities (net)	(1,806)	(3,167)	(3,158)	991	(5,213)	16,968	4,615	(1,778)	269	809	(3,926)	(6,623)	5,057	(6,192)
Other operating income and expenses	12,852	(2,722)	(32,486)	6,577	(301)	(455)	(16,535)	31,806	(1,675)	(28,557)	(775)	(46)	(23,387)	(22,634)
GROSS INCOME	**614,494**	**331,961**	**1,446,012**	**737,998**	**423,467**	**400,633**	**3,954,565**	**549,690**	**251,454**	**1,454,784**	**720,023**	**396,179**	**258,969**	**3,631,099**
Administrative expenses	(217,533)	(120,763)	(648,820)	(263,645)	(169,705)	(126,566)	(1,547,032)	(185,781)	(86,085)	(628,897)	(288,790)	(147,916)	(102,593)	(1,440,062)
Staff costs	(84,225)	(54,923)	(307,585)	(129,305)	(66,987)	(54,797)	(697,822)	(71,441)	(39,881)	(293,118)	(141,505)	(59,233)	(36,230)	(641,408)
Other general administrative expenses	(133,308)	(65,840)	(341,235)	(134,340)	(102,718)	(71,769)	(849,210)	(114,340)	(46,204)	(335,779)	(147,285)	(88,683)	(66,363)	(798,654)
Depreciation and amortisation charge	(7,311)	(5,201)	(130,685)	(21,439)	(4,256)	(20,389)	(189,281)	(4,151)	(6,383)	(131,294)	(15,206)	(2,228)	(17,943)	(177,205)
Provisions (net)	(423)	957	-	(1,395)	(928)	(22,557)	(24,346)	(5,685)	(31,137)	37,809	(1,497)	(2,244)	(490,432)	(493,186)
Impairment losses on financial assets (net)	(19,636)	(58,095)	(116,583)	(73,412)	(20,574)	(39,948)	(328,248)	(72,365)	(93,842)	(150,538)	(105,340)	(22,296)	371,151	(73,230)
PROFIT OR LOSS FROM OPERATIONS	**369,591**	**148,859**	**549,924**	**378,107**	**228,004**	**191,173**	**1,865,658**	**281,708**	**34,007**	**581,864**	**309,190**	**221,495**	**19,152**	**1,447,416**
Other gains and losses	(26,930)	(5,226)	(16,514)	(2,877)	(970)	24,948	(27,569)	(471)	(165)	-	(934)	(405)	56,484	54,509
PROFIT OR LOSS BEFORE TAX	**342,661**	**143,633**	**533,410**	**375,230**	**227,034**	**216,121**	**1,838,089**	**281,237**	**33,842**	**581,864**	**308,256**	**221,090**	**75,636**	**1,501,925**
Tax expense or income from continuing operations	(87,930)	(44,700)	(173,988)	(94,163)	(93,553)	(120,220)	(614,554)	(74,616)	(7,656)	(189,121)	(74,001)	(76,146)	90,390	(331,150)
PROFIT OR LOSS FOR THE YEAR FROM CONTINUING OPERATIONS	**254,731**	**98,933**	**359,422**	**281,067**	**133,481**	**95,901**	**1,223,535**	**206,621**	**26,186**	**392,743**	**234,255**	**144,944**	**166,026**	**1,170,775**
Loss from discontinued operations (net)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CONSOLIDATED PROFIT OR LOSS FOR THE YEAR	**254,731**	**98,933**	**359,422**	**281,067**	**133,481**	**95,901**	**1,223,535**	**206,621**	**26,186**	**392,743**	**234,255**	**144,944**	**166,026**	**1,170,775**
Profit or loss attributable to the Parent	**202,160**	**85,514**	**346,869**	**281,067**	**60,250**	**79,393**	**1,055,253**	**167,901**	**26,233**	**392,743**	**234,255**	**67,007**	**282,636**	**1,170,775**

(*) 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 2016 and 2015:

	Thousands of Euros	
	2016	2015
Spain	552,599	497,655
Abroad:		
European Union	2,428,931	2,348,964
OECD countries	648,387	628,736
Other countries	-	-
	3,077,318	2,977,700
Total	**3,629,917**	**3,475,355**

2. Of revenue, by the geographical segments used by the Group. For the purposes of the table below, for 2016 and 2015:

	Revenue (Thousands of Euros)					
	Revenue from External Customers		Inter-Segment Revenue		Total Revenue	
	2016	2015	2016	2015	2016	2015
Spain and Portugal	1,007,824	957,192	300,122	280,450	1,307,946	1,237,642
Italy	484,059	376,696	300	480	484,359	377,176
Germany	1,818,348	1,868,194	284,228	259,819	2,102,576	2,128,013
Scandinavia	793,271	802,576	123,870	158,957	917,141	961,533
France	498,435	474,112	388,906	413,148	887,341	887,260
Other	464,201	394,651	88,690	36,857	552,891	431,508
Inter-segment revenue adjustments and eliminations	-	-	(1,186,116)	(1,149,711)	(1,186,116)	(1,149,711)
Total	**5,066,138**	**4,873,421**	**-**	**-**	**5,066,138**	**4,873,421**

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 2016 and 2015, by business, are as follows:

Consolidated Income Statement (Condensed)	Thousands of 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**

Consolidated Income Statement (Condensed)	Thousands of Euros			
	2015			
	Automotive	Consumer	Other (*)	Total
NET INTEREST INCOME	**1,251,133**	**1,169,506**	**342,372**	**2,763,011**
Share of results of entities accounted for using the equity method	2,782	618	67,730	71,130
Net fee and commission income	365,087	384,844	75,853	825,784
Gains/losses on financial assets and liabilities (net)	(6,578)	(48)	434	(6,192)
Other operating income (expenses)	15,977	2,928	(41,539)	(22,634)
GROSS INCOME	**1,628,401**	**1,557,848**	**444,850**	**3,631,099**
Administrative expenses	(524,243)	(500,525)	(415,294)	(1,440,062)
Staff costs	(242,196)	(231,238)	(167,974)	(641,408)
Other general administrative expenses	(282,047)	(269,287)	(247,320)	(798,654)
Depreciation	(57,453)	(54,853)	(64,899)	(177,205)
Provisions	(146,514)	(284,762)	(61,910)	(493,186)
Impairment losses on financial assets (net)	(408)	(50)	(72,772)	(73,230)
PROFIT (LOSS) FROM OPERATIONS	**899,783**	**717,658**	**(170,025)**	**1,447,416**
Other gains/(losses)	(6,513)	(6,006)	67,028	54,509
PROFIT (LOSS) BEFORE TAX	**893,270**	**711,652**	**(102,997)**	**1,501,925**
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**618,504**	**503,153**	**49,118**	**1,170,775**
Profit/Loss from discontinued operations (net)	-	-	-	-
CONSOLIDATED PROFIT (LOSS) FOR THE YEAR	**618,504**	**503,153**	**49,118**	**1,170,775**

(*) "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 2016 and 2015, 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 2016 and 2015. Related party transactions were made on terms equivalent to those prevailing in arm's-length transactions.

	Thousands of Euros							
	2016				2015			
	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	-	644,342	-	-	-	313,227	-	-
Debt instruments	5,584	-	-	-	-	-	-	-
Loans and advances								
Customers	1,983	220,331	-	2	287,679	350	-	3
Credit institutions	369,512	16,205	-	-	271,930	743,823	-	-
Trading derivatives (Note 9)	-	30,878	-	-	-	65,388	-	-
Hedging derivatives	-	107,782	-	-	-	137,444	-	-
Other assets	1,625	1,608	-	-	694	1,398	-	-
Liabilities:								
Financial liabilities at amortised cost								
Deposits from credit institutions (Note 17)	(1,211)	7,123,440	-	-	-	8,271,741	-	-
Customer deposits	64,205	58,863	-	274	35,531	68,213	-	196
Marketable debt securities	(418,641)	822,547	-	-	310,191	2,582,059	-	-
Other financial liabilities	5,935	542,013	-	-	2,053	225,773	-	-
Trading derivatives (Note 9)	-	26,555	-	-	-	65,871	-	-
Hedging derivatives	-	219,446	-	-	-	287,759	-	-
Other liabilities	-	4,835	-	-	352	3,870	-	-
Income statement:								
Interest income	5,295	2,097	-	-	4,769	19,285	-	-
Interest expense	(14,842)	(53,297)	-	3	(57)	(135,362)	-	2
Share of results of entities accounted for using the equity method (Note 32)	68,702	205	-	-	64,699	6,431	-	-
Commission income	484	79	-	-	1,662	1,410	-	-
Commission expense	(1,094)	(3,131)	-	-	(6,740)	(2,071)	-	-
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net	28	(28)	-	-	-	(360)	-	-
Gains or losses on financial assets and liabilities held for trading, net	-	275	-	-	-	(27,439)	-	-
Gains or losses from hedge accounting, net	-	101,460	-	-	-	50,244	-	-
Exchange differences	(26)	(61,957)	-	-	-	50,870	-	-
Other operating income	144	1,003	-	-	1,666	994	-	-
Other administrative expenses	(250)	(231,314)	-	-	(6,747)	(240,753)	-	-
Gains (losses) on disposal of assets not classified as non-current assets held for sale	-	-	-	-	-	-	-	-
Memorandum items:								
Contingent liabilities	330,363	183,424	-	-	365,920	166,235	-	-
Contingent commitments	349,863	569,631	-	-	337,989	586,319	-	-

(*) 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 2016 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.

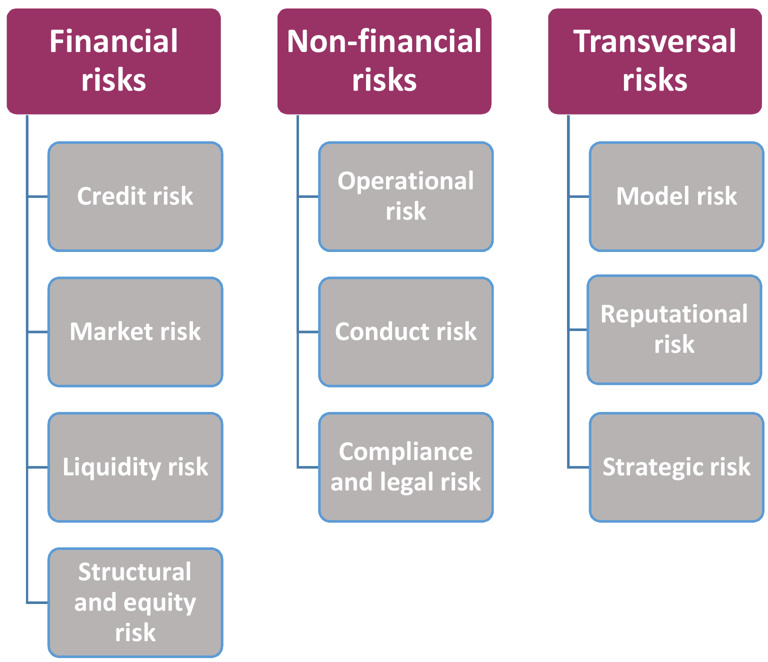
4. The independence of the risk function encompasses all risks and establishes an appropriate separation of the risk generating units from those responsible for risk control. Implies having sufficient authority and direct access to management and governing bodies responsible for setting and supervising 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 should seek 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 deadlines 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 - 2016

The following table details, by borrower geographical area, the Group's global credit risk map:

SCF Group - Gross Credit Risk Exposure			
	2016 (Millions of Euros)	Change on December 2015	% of Portfolio
Spain and Portugal	14,160	12.72%	16.83%
Italy	7,078	41.17%	8.41%
France	9,529	11.02%	11.33%
Germany and Austria	36,418	9.87%	43.28%
Scandinavia	13,717	13.24%	16.30%
Other	3,237	106.12%	3.85%
SCF Group	**84,139**	**15.27%**	**100.00%**

Credit risk exposure rose by 15.27% in year-on-year terms. This increase is mainly attributable to the inorganic growth generated through the gradual inclusion of certain companies (JVs) based on the agreement with the PSA Group in 2016:

- Italy: January 2016 (EUR 1,953 millions)
- The Nederlands: May 2016 (EUR 1,600 millions)
- Germany and Austria: July 2016 (EUR 2,673 millions)

The largest proportion of credit risk exposure continues to be concentrated in Germany, representing 43.28% of the total if Austria is included. For their part, the Nordic countries accounted for slightly more than 16% of the Group's total credit risk in 2016.

b) Variations in main aggregates in 2016

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 a very high hedge rate that is adequate to cover the expected loss in the credit risk portfolios it manages.

The non-performing loans ratio was 2.41% at 31 December 2016 (31 December 2015: 3.14%), a 73 basis point decrease in year-on-year terms, mainly as a result of using a different criteria for write-offs in SC Germany and supported by the continuous improvement of collection procedures, both in situations of early non-payment and advanced impairment. The NPL coverage ratio stood at 107%.

Following is a detail, by activity, of the loans and advances to customers at 31 December 2016(*):

	Thousands of 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	*128,818*	-	-	-	-	-	-	-	*128,818*
Other financial institutions	*140,331*	-	-	-	-	-	-	-	*140,331*
Non-financial companies and individual traders	*15,091,547*	*1,206,933*	*287,360*	*290,085*	*183,899*	*130,820*	*302,670*	*586,819*	*16,585,840*
Of which:									
Construction and property development	*53,444*	-	-	-	-	-	-	-	*53,444*
Civil engineering construction	*6,477*	-	-	-	-	-	-	-	*6,477*
Large companies	*7,659,652*	*616,140*	-	*120,359*	*95,597*	*56,114*	*19,741*	*324,329*	*8,275,792*
SMEs and individual traders	*7,371,974*	*590,793*	*287,360*	*169,726*	*88,302*	*74,706*	*282,929*	*262,490*	*8,250,127*
Other households and non-profit institutions serving households	*58,389,212*	*6,245,873*	*84,624*	*1,796,219*	*1,472,785*	*1,847,592*	*445,886*	*768,015*	*64,719,709*
Of which:									
Residential	*8,126*	*6,245,873*	-	*1,711,595*	*1,472,785*	*1,847,592*	*445,886*	*768,015*	*6,253,999*
Consumer loans	*55,359,782*	-	*84,624*	*84,624*	-	-	-	-	*55,444,406*
Other purposes	*3,021,304*	-	-	-	-	-	-	-	*3,021,304*
Total	*73,749,908*	*7,452,806*	*371,984*	*2,086,304*	*1,656,684*	*1,978,412*	*748,556*	*1,354,834*	*81,574,698*
Memorandum item									
Refinancing, refinanced and restructured transactions (**)	*509,092*	*193,523*	*135*	*26,928*	*18,331*	*50,598*	*26,956*	*70,845*	*702,750*

(*) The distribution of credit does not include EUR 408,470 thousands 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 2016 and 2015, taking into consideration the above criterials:

Current restructuring balances at 31 December 2016 (a)

Amounts in millions of euros, except number of operations that are in units.	31-12-2016													
	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.		
					Real estate guarantee	Rest of real guarantees						Real estate guarantee	Rest of real guarantees	
Credit entities	-	15	-	47	-	-	-	-	-	-	-	-	-	-
Public sector		4	-	7	-	-	-	-	-				-	
Other financial institutions and: individual shareholder	8	148	-	-	-	-	25	3	103					
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
Of which: Financing for constructions and property development	45	191	-	-	-	-	74	19	103	-	-	-	-	72
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
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
Financing classified as non-current assets and disposable groups of items that have been classified as held for sale	-	2,598	-	-	-	-	-	-	1,159	-	-	-	-	-

Current restructuring balances at 31 December 2015 (a)

	Thousands of Euros																						
	Standard (b)						Substandard							Non-Performing							Total		
	Full Property Mortgage Guarantee		Other Collateral (c)		Without Collateral		Full Property Mortgage Guarantee		Other Collateral (c)		Without Collateral			Full Property Mortgage Guarantee		Other Collateral (c)		Without Collateral					
	Number of Transactions	Gross Amount	Number of Transactions	Gross Amount	Number of Transactions	Gross Amount	Number of Transactions	Gross Amount	Number of Transactions	Gross Amount	Number of Transactions	Gross Amount	Specific Allowance	Number of Transactions	Gross Amount	Number of Transactions	Gross Amount	Number of Transactions	Gross Amount	Specific Allowance	Number of Transactions	Gross Amount	Specific Allowance
Public sector	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	410	410	**-**	**410**	**410**
Other legal entities and individual traders	49	4,275	33	2,982	1,693	17,357	35	5,908	25	4,153	800	10,475	2,405	30	3,633	25	3,212	1,515	16,110	12,831	**4,205**	**68,105**	**15,236**
Of which: Financing for construction and property development	-	-	-	-	*15*	*94*	-	-	-	-	*10*	*65*	*4*	-	-	-	-	*33*	*234*	*203*	***58***	***393***	***207***
Other individuals	601	42,184	2,772	60,279	69,292	347,249	456	61,740	403	51,377	20,525	155,105	30,890	301	26,799	537	32,441	75,186	341,573	212,998	**170,073**	**1,118,747**	**243,888**
Total	**650**	**46,459**	**2,805**	**63,291**	**70,985**	**364,606**	**491**	**67,648**	**428**	**55,530**	**21,325**	**165,580**	**33,295**	**301**	**30,432**	**562**	**35,653**	**76,701**	**358,093**	**226,239**	**174,278**	**1,187,262**	**259,534**

(a) Including all refinancing, refinanced or restructured transactions as defined in section 1.g) of Annex IX of Bank of Spain Circular 4/2004.
(b) Standard risks classified as under special monitoring pursuant to section 7.a) of Annex IX of Bank of Spain Circular 4/2004.
(c) Including transactions without a full property mortgage guarantee, i.e. with a loan-to-value ratio of more than 1, and transactions with collateral other than a real estate mortgage, irrespective of their loan-to-value ratio.

The transactions presented in the foregoing table were classified at 31 December 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 in 2016 in the Spanish forborne loan portfolio:

	Thousands of Euros
Balance at beginning of year	**918,267**
Refinancing and restructuring of the period	266,195
Debt repayment	(251,387)
Foreclousure	-
Derecognised from the consolidated balance sheet	(33,872)
Others variations	(196,453)
Balance at end of year	**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 2016 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.

At Santander Consumer Finance, as part of the Santander Group, the cost of credit risk is measured using different approaches: change in non-performing loans (ending non-performing assets - beginning non-performing assets + assets written off - recovery of assets written off); net credit loss provisions (gross provisions to specific allowances - recovery of assets written off); and net assets written off (assets written off - recovery of assets written off).

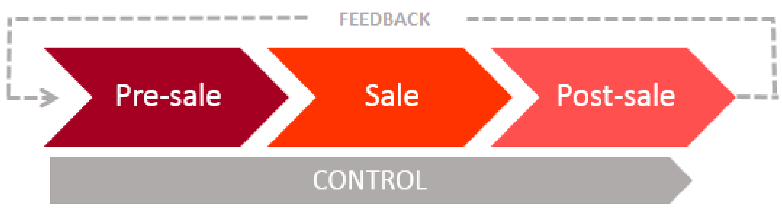
The three approaches measure the same reality and, consequently, converge in the long term although they represent successive moments in credit cost measurement: flows of non-performing loans (VMG), coverage of non-performing loans (net credit loss provisions) and classification as write-offs (net write-offs), 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.

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.

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 programmes.

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 (defined as those exceeding 10% of eligible capital). In accordance with Bank of Spain Circular 3/08, no exposure to a single individual or economic group, including all types of credit and equity risks, should exceed 25% of the Group’s capital. Also, the total amount of large exposures may not exceed eight times the Group’s capital. Exposures to governments and central banks belonging to the OECD are excluded from this treatment.

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 2016 is as follows:

	Thousands of Euros				
	Spain	Other EU Countries	Americas	Rest of the World	Total
Credit institutions	1,577,933	5,425,543	-	283,627	7,287,103
Public sector	1,253,079	1,183,073	-	34,506	2,470,658
Of which:					
Central government	1,202,453	911,256	-	-	2,113,709
Other	50,626	271,817	-	34,506	356,949
Other financial institutions	5,706	179,152	4,832	90,481	280,171
Non-financial companies and individual traders	2,741,714	13,435,293	-	1,093,308	17,270,315
Of which:					
Construction and property development	-	53,698	-	-	53,698
Civil engineering construction	-	7,406	-	-	7,406
Large companies	579,465	7,431,184	-	652,530	8,663,179
SMEs and individual traders	2,162,249	5,943,005	-	440,778	8,546,032
Other households and non-profit institutions serving households	9,777,645	50,577,982	53	4,433,063	64,788,743
Of which:					
Residential	2,191,619	4,070,881	-	-	6,262,500
Consumer loans	7,521,278	43,550,545	53	4,433,063	55,504,939
Other purposes	64,748	2,956,556	-	-	3,021,304
Total					**92,096,990**

(*) 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 2016 (*)								
	Thousands of Euros							
	Debt Instruments				Loans and Advances to Customers (**)	Total Net Direct Exposure	Derivatives (***)	
	Financial Assets Held for Trading and Other Financial Assets at FVTPL	Short Positions	Available-for-Sale Financial Assets	Loans and Receivables			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 EUR 4,475 million (EUR 12 thousand and EUR €4,463 million with Spain and Portugal, respectively).

(**) Presented without taking into account the valuation adjustments recognised (EUR 4 thousand).

(***) "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 2015 (*)								
	Thousands of Euros							
	Debt Instruments				Loans and Advances to Customers (**)	Total Net Direct Exposure	Derivatives (***)	
	Financial Assets Held for Trading and Other Financial Assets at FVTPL	Short Positions	Available-for-Sale Financial Assets	Loans and Receivables			Other than CDSs	CDSs
Spain	-	-	1,268,006	-	568	1,268,574	-	-
Portugal	-	-	-	-	357	357	-	-
Italy	-	-	407,389	-	-	407,389	-	-
Ireland	-	-	-	-	233	233	26,478	-

(*) Information prepared under EBA standards.

(**) Presented without taking into account the valuation adjustments recognised (EUR 4 thousand).

(***) "Other than CDSs" refers to the exposure to derivatives, if any, 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 2016 and 2015 is as follows:

Exposure to Other Counterparties by Country of Issuer/Borrower at 31 December 2016 (*)									
	Thousands of 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 EUR 16,714,868 thousand, EUR 347,231 thousand and EUR 112,961 thousand to counterparties in Spain, Portugal and Italy, respectively.

(**) Presented without taking into account valuation adjustments and impairment losses recognised (EUR 694,393 thousand).

(***) "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 2015 (*)									
	Thousands of 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	1,071,860	-	-	-	2,022	11,292,770	12,366,652	(29,436)	-
Portugal	-	-	-	-	-	1,270,561	1,270,561	-	-
Italy	4,711	-	-	-	-	5,013,896	5,018,607	-	-
Ireland	-	-	-	61,374	-	-	61,374	-	-

(*) Also, the Group had off-balance-sheet exposure other than derivatives –contingent liabilities and commitments– amounting to EUR 16,376,450 thousand, EUR 284,069 thousand and EUR 119,365 thousand to counterparties in Spain, Portugal and Italy, respectively.

(**) Presented without taking into account valuation adjustments and impairment losses recognised (EUR 821,644 thousand).

(***) "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 2016 and 2015, 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 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, 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.

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.

4. 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".

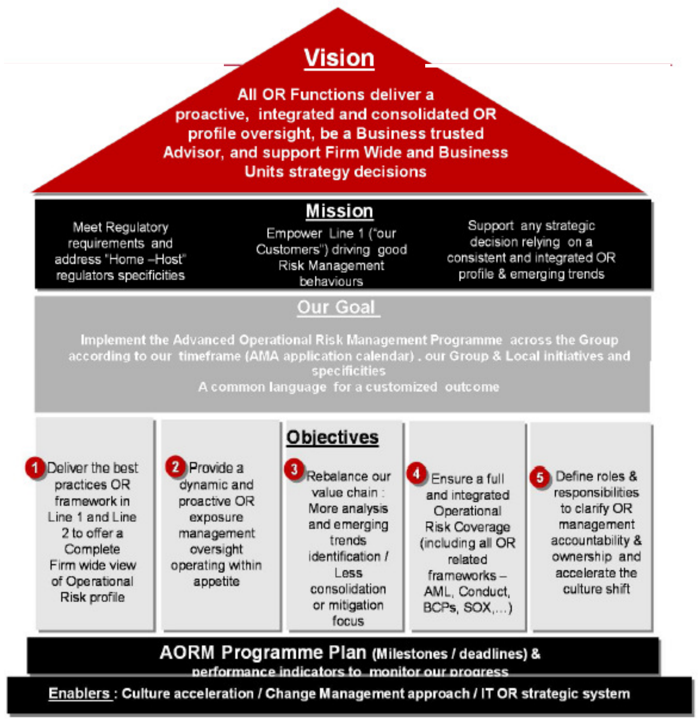
Operational risk is inherent in all products, activities, processes and systems, and is generated in all the business and support areas. Accordingly, all employees are responsible for managing and controlling the operational risks generated in their area of activity.

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 2016 the Group commenced a project aimed at shifting to an advanced operational risk management (AORM) approach.


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.).
- 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

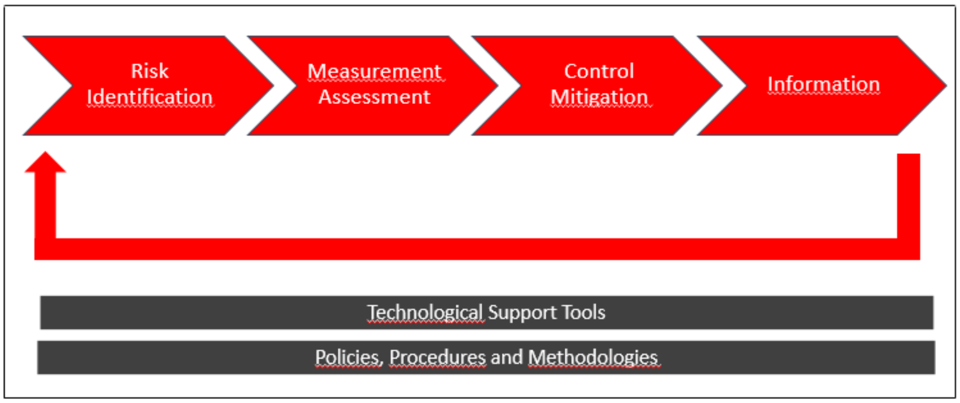
Since November 2014 Santander Consumer Finance has adopted the new Santander Group management system in which three lines of defence were defined:

- 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 2015 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

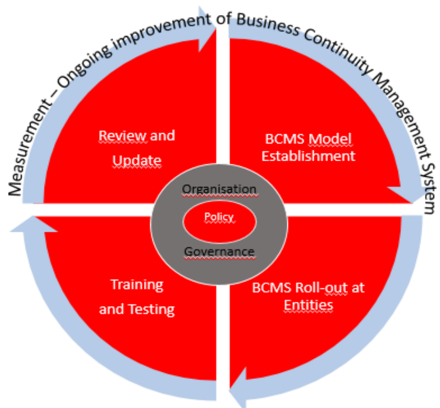
- Other specific instruments that permit a more detailed analysis of technology risk, such as the control of critical incidents in the systems and cyber-security events.

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.

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.

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 2016, the European Central Bank (ECB) informed each institution of the minimum prudential capital requirements for the following year. In 2017, the Santander Consumer Finance Group must maintain a minimum phase-in CET1 of 7.69% on a consolidated basis (Pillar I requirement of 4.5%, Pillar 2 requirement of 1.75%, a capital conservation buffer of 1.25% and a countercyclical capital buffer of 0.19%). Santander Consumer Finance must also maintain a minimum phase-in Tier 1 capital of 9.19% and a minimum phase-in Total Tier ratio of 11.19%.

At 2016 year-end, the Bank surpasses the prudential requirement defined by the ECB, with a ratio CET1 (Fully Loaded) of 11.88% (ratio phase-in of 12.48%) and ratio capital of 13.17%.

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. In 2016 authorisation was obtained for the Santander Consumer Nordics auto loan portfolios to switch from the standardised approach to the AIRB approach, while the IRB approach was maintained for the corporate and retail portfolios of PSA France, following the acquisition of this investee.

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% and at December 2016 Santander Consumer Finance had a fully-loaded leverage ratio of 7.59% at sub-consolidated level (7.85 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.

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	2016	2015		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	91	1	27
Auto ABS DFP Master Compartment France 2013 (d)	-	France	-	(d)	-	-	Securitisation	-	-	-
Auto ABS FCT Compartiment 2012-1 (d)	-	France	-	(d)	-	-	Securitisation	-	-	-
Auto ABS FCT Compartiment 2013-2 (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 ABS2 FCT Compartiment 2013-A (d)	-	France	-	(d)	-	-	Securitisation	-	-	-
Auto ABS3 FCT Compartiment 2014-1 (d)	-	France	-	(d)	-	-	Securitisation	-	-	-
Banca PSA Italia S.p.a.	Via Gallarate 199, 20151 Milano	Italy	-	50%	50%	50%	Banking	193	26	96
Banco Santander Consumer Portugal, S.A.	Rua Castilho 2/4 1269-073, Lisboa	Portugal	80%	20%	100%	100%	Banking	137	26	128
BCLF 2013-1 B.V. (d)	-	Nederland	-	(d)	-	-	Securitisation	-	-	-
Bilkreditt 3 Designated Activity Company (d)	-	Ireland	-	(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	-	-	-

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)
Compagnie Generale de Credit Aux Particuliers - Credipar S.A.	12 av. André Malraux 92300 Levallois-Perret	France	-	50%	50%	50%	Banking	363	185	428
Compagnie Pour la Location de Vehicules - CLV	12 av. André Malraux 92300 Levallois-Perret	France	-	50%	50%	50%	Finance	33	7	22
Dansk Auto Finansiering 1 Designated Activity Company (d)	-	Ireland	-	(d)	-	-	Securitisation	-	-	-
Finance Professional Services, S.A.S.	26 quai michelet, 92300 Levallois-Perret	France	100%	-	100%	100%	Services	2	-	2
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Av. António Augusto Aguiar, 31 1069-413 Lisboa	Portugal	-	51%	51%	-	Finance	8	-	4
Financiera El Corte Inglés, E.F.C., S.A.	C/ Hermosilla 112, 28009, Madrid	Spain	51%	-	51%	51%	Finance	214	66	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	400	33	199
PSA Banque France	29 rue Ernest Cognacq 92300 Levallois-Perret	France	-	50%	50%	50%	Banking	790	282	463
PSA Finance Belux S.A.	8 boîte 2, Braine-l'Alleud, Avenue de Finlande, 1420 Braine-l'Alleud	Belgium	-	50%	50%	-	Finance	84	15	41
PSA Finance Suisse, S.A.	Brandstrasse 24, 8952 Schlieren	Switzerland	-	50%	50%	50%	Leasing	30	3	15
PSA Financial Services Nederland B.V.	Hoofdweg 256, 3067 GJ Rotterdam	Netherland	-	50%	50%	-	Finance	52	9	22
PSA Financial Services Spain, E.F.C., S.A.	C/ Eduardo Barreiros Nº 110. 28041, Madrid	Spain	50%	-	50%	50%	Finance	357	34	174
Santander Benelux, S.A./N.V.	Avenue des Nerviens 85, 1040 Bruxelles	Belgium	100%	-	100%	-	Banking	1,164	22	1,170
Santander Consumer Bank AG	Santander Platz I, 41061 (Mönchengladbach)	Germany	-	100%	100%	100%	Banking	3,063	530	4,820
Santander Consumer Bank AS	Strandveien 18, 1366 Lysaker, 0219 (Baerum)	Norway	100%	-	100%	100%	Finance	1,507	268	1,814
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	2016	2015		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	2016	2015		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 Ajoneuvohallinta Limited (d)	-	Ireland	-	(d)	-	-	Securitisation	-	-	-
SCF Ajoneuvohallinto I Limited (d)	-	Ireland	-	(d)	-	-	Securitisation	-	-	-
SCF Ajoneuvohallinto II Ltd (d)	-	Ireland	-	(d)	-	-	Securitisation	-	-	-
SCF Ajoneuvohallinto Limited (d) (e)	-	Ireland	-	(d)	-	-	Securitisation	-	-	-
SCF Rahoituspalvelut 2013 Designated Activity Company (d)	-	Ireland	-	(d)	-	-	Securitisation	-	-	-
SCF Rahoituspalvelut I Designated Activity Company (d) (e)	-	Ireland	-	(d)	-	-	Securitisation	-	-	-
SCF Rahoituspalvelut II DAC (d)	-	Ireland	-	(d)	-	-	Securitisation	-	-	-
SCF Rahoituspalvelut Limited (d) (e)	-	Ireland	-	(d)	-	-	Securitisation	-	-	-
SCFI Ajoneuvohallinto Limited (d)	-	Ireland	-	(d)	-	-	Securitisation	-	-	-
SCFI Rahoituspalvelut Designated Activity Company (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 2012-1 (d)	-	Spain	-	(d)	-	-	Securitisation	-	-	-
Fondo de Titulización de Activos Santander Consumer Spain Auto 2013-1 (d)	-	Spain	-	(d)	-	-	Securitisation	-	-	-
Fondo de Titulización de Activos Santander Consumer Spain Auto 2014-1 (d)	-	Spain	-	(d)	-	-	Securitisation	-	-	-
Fondo de Titulización de Activos Santander Consumer Spain Auto 2016-1 (d)	-	Spain	-	(d)	-	-	Securitisation	-	-	-
Golden Bar Stand Alone 2012-1 (d)	-	Italy	-	(d)	-	-	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)	-	-	Titulización	-	-	-
Golden Bar Whole Loan Note VFN 2013-1 (d)	-	Italy	-	(d)	-	-	Titulización	-	-	-
Suzuki Servicios Financieros, S.L.	C/Carlos Sainz 35, Pol. Ciudad del Automóvil, Leganés - Madrid	Spain	-	51%	51%	51%	Intermediación	4	-	-
Svensk Autofinans 1 Limited (d)	-	Ireland	-	(d)	-	-	Titulización	-	-	-
Svensk Autofinans WH 1 Designated Activity Company (d)	-	Ireland	-	(d)	-	-	Titulización	-	-	-
Transolver Finance EFC, S.A.	Av. Aragón 402, Madrid	Spain	51%	-	51%	50%	Leasing	34	5	17

(a) Data obtained from the financial statements of each subsidiary for 2016. 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	2016	2015		Assets	Capital and Reserves	Profit (Loss)
AKB Marketing Services Sp. z.o.o. w likwidacji	Jointly controlled entity	Poland	-	40%	40%	40%	Marketing	6	6	0
Bank of Beijing Consumer Finance Company	Asociada	China	20%	-	20%	20%	Financiera	2,166	301	1
Fortune Auto Finance Co., Ltd	Jointly controlled entity	China	50%	-	50%	50%	Financiera	1,771	142	42
Hyundai Capital Germany GmbH	Jointly controlled entity	Germany	-	50%	50%	50%	Servicios	5	2	0
PSA Insurance Europe Limited	Jointly controlled entity	Malta	50%	-	50%	50%	Seguros	80	47	4
PSA Life Insurance Europe Limited	Jointly controlled entity	Malta	50%	-	50%	50%	Seguros	23	9	3
Santander Consumer Bank S.A.	Jointly controlled entity	Poland	40%	-	40%	40%	Banca	4,335	511	102
Santander Consumer Finanse Sp. z o.o.	Jointly controlled entity	Poland	-	40%	40%	40%	Servicios	18	15	1
PSA Finance Polska Sp. z o.o.	Jointly controlled entity	Poland	-	20%	20%	-	Financiera	223	28	1
PSA Consumer Finance Polska Sp. z o.o.	Jointly controlled entity	Poland	-	20%	20%	-	Financiera	4	-	-
Santander Consumer Multirent Sp. z o.o.	Jointly controlled entity	Poland	-	40%	40%	40%	Leasing	193	14	6
VCFS Germany GmbH	Jointly controlled entity	Germany	-	50%	50%	50%	Marketing	0	0	0

(a) Data obtained from the financial statements of each associate and/or jointly controlled entity for 2015. 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 2016

(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 2016:				
Banca PSA Italia S.p.A. (Italy)	Banking	50%	50%	01-01-2016
PSA Financial Services Nederland B.V. (Nederland)	Finance	50%	50%	01-02-2016
Santander Benelux, S.A. / N.V. (Belgium)	Banking	100%	100%	29-04-2016
PSA Finance Belux S.A. / N.V. (Belgium)	Finance	50%	50%	02-05-2016
PSA Bank Deutschland GmbH (Germany)	Banking	50%	50%	01-07-2016
PSA Finance Polska Sp. z o.o. (Poland)	Finance	20%	20%	02-10-2016
Transolver, E.F.C., S.A. (Spain)	Leasing	1%	51%	22-12-2016
Sales in 2016:				
Santander Consumer Finance, Z.R.T. (Hungary)	Finance	(100%)	0%	06-10-2016

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 2016

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 398 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 2016.

The detail of the information for 2016 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	1,384	3,402	503	5
Austria	143	373	63	10
Belgium	87	170	53	5
China	19	-	19	-
Spain	635	1,457	341	29
Denmark	145	215	77	21
Finland	92	147	56	17
France	424	828	228	91
Hungary	-	21	-	-
Ireland	(1)	-	(6)	-
Italy	328	590	143	(14)
Luxemburg	-	-	-	-
Malta	3	-	3	-
Norway	322	490	154	34
The Netherlands	82	269	40	27
Poland	43	-	42	-
Portugal	68	195	42	33
United Kingdom	-	-	-	-
Sweden	159	317	67	2
Switzerland	22	50	13	3
Total	3,955	8,524	1,838	263

At 31 December 2016, the return on assets (ROA) of the Group was estimated to be 1.27%.

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 2016 and 2015, indicating the annual interest rate and the maturity date of each issue, is as follows:

Currency of Issue	Thousands of Euros(*) 2016	Thousands of Euros(*) 2015	Annual Interest Rate (%)	Maturity Date
Euro:				
March 2006 issue	-	1,200,000	3.875	March 2016
July 2007 issue	150,000	150,000	5.135	July 2022
May 2016 issue	500,000	-	0.125	May 2019
Balance at end of year	**650,000**	**1,350,000**		

(*) Nominal value.

At 31 December 2016 and 2015, the detail of the mortgage loans and credits, indicating their eligibility and computability for mortgage market regulatory purposes, was as follows:

	Thousands of Euros Nominal Value 2016	Thousands of Euros Nominal Value 2015
Total mortgage loans and credits	2,212,522	2,403,617
Mortgage participation certificates issued	-	-
Mortgage transfer certificates issued	-	-
Mortgage loans securing borrowings	-	-
Mortgage loans backing mortgage and mortgage-backed bond issues (*)	2,212,522	2,403,617
i) Non-eligible mortgage loans and credits	908,782	962,326
- Which comply with the requirements to become eligible, except for the limit established in Article 5.1 of Royal Decree 716/2009	-	-
- Other	908,782	962,326
ii) Eligible mortgage loans and credits	1,303,740	1,441,291
- Non-computable amounts	-	-
- Computable amounts	1,303,740	1,441,291
a) Mortgage loans and credits covering mortgage bond issues	-	-
b) Mortgage loans and credits eligible to cover mortgage-backed bond issues	1,303,740	1,441,291

(*) At 31 December 2016 and 2015, 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:

	Thousands of Euros			
	2016		2015	
	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	2,212,522	1,303,740	2,403,617	1,441,291
Subrogations from other entities	-	-	-	-
Other	-	-	-	-
Currency				
Euro	2,212,522	1,303,740	2,403,617	1,441,291
Other currencies	-	-	-	-
Payment status				
Current	2,115,766	1,263,519	2,312,639	1,405,938
Past due	96,756	40,221	90,978	35,353
Average term to maturity				
Less than 10 years	146,941	143,519	149,139	143,304
10 to 20 years	794,312	609,535	828,547	645,441
20 to 30 years	876,954	424,384	866,247	473,043
More than 30 years	394,315	126,302	559,684	179,503
Interest rate				
Fixed	30	30	33	33
Floating	2,212,492	1,303,710	2,403,584	1,441,258
Hybrid	-	-	-	-

(*) Including EUR 616,609 thousand at 31 December 2016 (2015: EUR 680,790 thousand) relating to mortgage participation certificates acquired from Banco Santander, S.A.

	Thousands of Euros			
	2016		2015	
	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	123,043	80,525	138,572	85,346
Of which: Property developments	-	-	-	-
Other individuals and non-profit institutions serving households (NPISHs)	2,089,479	1,223,215	2,265,045	1,355,945
Type of guarantee				
Completed buildings				
- Residential	2,156,162	1,270,547	2,341,032	1,409,002
Of which: Officially sponsored housing	-	-	-	-
- Commercial	56,360	33,193	62,585	32,289
- Other	-	-	-	-
Buildings under construction				
- Residential	-	-	-	-
Of which: Officially sponsored housing	-	-	-	-
- Commercial	-	-	-	-
- Other	-	-	-	-
Land				
- Developed	-	-	-	-
- Other	-	-	-	-
	2,212,522	**1,303,740**	**2,403,617**	**1,441,291**

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 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*

	LTV Ranges 2015 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*	*277*	*399*	*695*	*38*	*1,409*
- *Other mortgages*	*9*	*22*	*1*	-	*32*

Following is a detail of the changes in 2016 and 2015 in the nominal value of eligible and non-eligible mortgage loans and credits pursuant to Royal Decree 716/2009:

	Thousands of Euros	
	Eligible Mortgage Loans and Credits	Non-Eligible Mortgage Loans and Credits
Balance at 1 January 2015	**1,706,065**	**883,783**
Disposals in the year	(327,073)	(109,705)
Repaid on maturity	-	-
Early repayment	*(119,496)*	*(58,008)*
Subrogations by other entities	-	-
Other	*(207,577)*	*(51,697)*
Additions in the year	62,299	188,248
Originated by the Bank	*10,602*	*32,368*
Subrogations from other entities	-	-
Other	*51,697*	*155,880*
Balance at 31 December 2015	**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**

The detail of the nominal value of the Bank's mortgage securities outstanding at 31 December 2016 and 2015 is as follows:

	Millions of Euros		Average Term to Maturity
	Nominal Value		
	2016	2015	
Mortgage bonds outstanding	-	-	-
Mortgage-backed bonds	650	1,350	-
Of which: Not recognised in liabilities	-	-	-
i) Debt instruments. Issued through a public offering	650	1,350	-
- Term to maturity of up to 1 year	-	1,200	-
- Term to maturity of 1 to 2 years	-	-	-
- Term to maturity of 2 to 3 years	-	-	-
- Term to maturity of 3 to 5 years	500	-	-
- Term to maturity of 5 to 10 years	150	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)

2016 Consolidated Directors' Report

Economic, banking and regulatory environment

International economic environment

2016 was marked by high market volatility, triggered by unexpected economic and political news. At the same time, the competitive environment and a demanding regulatory agenda continued to condition the recovery of banks' profitability.

International economic context

In 2016 global economic growth was slightly down on the previous year (3.0% compared with 3.2%) due to sluggish growth in advanced economies. There was a slow start to the year because of the sum of a series of specific factors (financial instability, weather conditions etc.).

- **UK:** The initial impact of the Brexit referendum was less than expected. The unemployment rate continued to fall (to 4.8%), practically approaching full employment. Despite the rise in inflation and the depreciation of sterling, the Bank of England cut the bank rate by 25 pb to 0.25% and adopted new measures to support lending.

- **Eurozone:** Moderate but resilient growth. Performance varied by country although the leading economies posted positive rates. The risk of deflation was averted but inflation is still below 2% which led the ECB to cut rates to record lows and adopt new measures in the form of quantitative easing.

- **Spain:** Broad-based growth driven largely by domestic demand. Employment continued to show notable dynamism and the unemployment rate fell to 19%. A balanced recovery and sustained growth with moderate inflation, a trade surplus and improved public deficit.

- **Portugal:** As in the past few years, unemployment continued to fall, ending at slightly more than 10%. Inflation stood at 0.6%, similar to 2015.

- **Poland**: Slowdown of growth, unemployment rate at historic lows (5.99%), inflation again at positive rates in December (0.8%) and a stable official interest rate of 1.5% throughout the year.

Europe's main markets where SCF operates saw their economies grow at rates of between 0.9% for Italy and 3.3% for Spain. This growth was fuelled by the recovery in both common consumption indicators and vehicle registrations (+8% year - on - year).

Financial markets and exchange rates

Right at the start of the year, symptoms of an economic slowdown in China and doubts concerning the robustness of advanced economics triggered a sharp increase in risk aversion, with a knock-on effect on stock markets that posted falls and oil prices which dropped to levels not seen since 2003. As from the second half of February, the tone on financial markets turned more positive, and volatility declined with the Chinese economy showing signs of stabilisation, oil prices recovering and the US economy improving.

In March the ECB cut interest rates and expanded its public and private debt purchase programme which triggered a sharp fall in the yield on fixed- income securities in euro. Short and medium-term rates on public debt were negative in most Eurozone countries.

In June, the outcome of the UK referendum in favour of Brexit resulted in volatility, particularly in exchange rates. Stock markets responded with falls, there was a stampede to safe-haven assets while sterling and the euro dropped. The impact did not last long as over the following few months volatility declined, equities recovered and risk aversion decreased.

In November, the outcome of the US presidential elections again increased volatility in emerging currency markets, drove increases in stock markets and long-term interest rates in light of expectations of a more expansionary policy in the short term while dollar increased in value compared with the euro.

Towards the end of the year, the upward trend in long-term interest rates was strengthened by the rise in interest rates by the Federal Reserve and the increase in oil prices and the economic improvement of the leading economies. Nonetheless, in late 2016 the tone of monetary policies of advanced economies was still basically expansionary.

Banking sector scenario

In developed countries, banks continued to strengthen their balance sheets with a general increase in solvency levels. Specifically, the highest quality solvency indicator (CET1) of European entities according to the EBA stood at 14.1% in Q3 2016, up more than one percentage point on last year. Barring specific exceptions, the banking system has notably improved its ability to absorb adverse shocks, as is borne out by the stress tests presented by the EBA.

Nonetheless, banks continue to face major challenges to drive profitability, Interest rates have remained at record lows; business remains sluggish; and competitive pressure in most markets has grown significantly among banks, in view of the new forms of financing and new competitors.

Shadow banking continued to grow in importance while non-banking financial institutions focusing on sector niches such as payment means, financial advice or lending continued to increase.

The vast majority of entities are undertaking cultural changes in order to win back society's trust and in general, all are looking to adapt to the digital revolution, which will establish how entities relate to customers, the level of services provided and process efficiency.

In addition, international banks are currently faced with divergent sociodemographic trends, including a marked ageing of the population in developed countries and a sharp increase in the middle classes in emerging economies, which will make it necessary to apply different strategies in the various markets.

Supervisory and regulatory context

In 2016 the regulatory environment remained demanding with significant novelties, specifically the review of Basel III and the European Commission's resolution proposal.

Basel III aims to simplify and make ratios more comparable and risk sensitive, without significantly increasing bank capital requirements.

Discussion is also under way as to whether capital floors will be established for entities applying internal models. Floors based on standard methods will entail a lower limit as compared with those calculated based on internal models.

Although there is still significant uncertainty, the new framework is expected to be approved in the first few months of the year and is set to come into effect in 2021.

In November the European Commission published a proposal reforming capital legislation and resolution. These reforms include:

- Introduction of new Basel international standards within the capital framework.
- Changes to the resolution framework. The Single Resolution Board (SRB) has been fully operational since 1 January 2016. During 2017 indicative loss absorbing capacity will be laid down (MREL (TLAC for GSIBs)) for each bank.

The Commission's resolution proposal is the first step in a long legislative process. It is expected to come into effect in the period 2019 to 2021.

The European Banking Authority (EBA) and the European Central Bank are conducting a review of the internal models used by banks in Europe.

Banking supervision through the Single Supervisory Mechanism (SSM)

The number of entities supervised by the European Central Bank stood at 126 banking groups in late 2016.

Of the SSM's supervisory activities, noteworthy is the Supervisory Review and Evaluation Process (SREP). The supervisory team assigned to Santander had more than 100 meetings with the Bank in 2016.

<u>Strategy</u>

The Santander Consumer Finance Group is the leading player in consumer finance in Europe and is present in 15 countries, offering financing and services through almost 90,000 points of sales (car dealers and stores). In addition, it has a significant number of financing agreements with car and motorcycle manufacturers and retail distribution groups.

In 2016, Santander Consumer Finance continued to grow its market share, based on a solid business model: significant geographical diversification and critical mass in key products, increased efficiency compared with competitors and a system of risk control and recovery ensuring high credit quality.

Management's focus for the year was as follows:

- Completing agreements with Banque PSA Finance (BPF)
- Increasing car financing and consumer financing by entering into agreements with main players.
- Encouraging digital channels.

The agreement with BPF was completed within the forecast timeline. Following the inclusion in 2015 of Spain, Portugal, France and Switzerland, six more countries were included in 2016: Italy and the Netherlands (first quarter), Belgium (second quarter), Germany and Austria (third quarter) and lastly, Poland (fourth quarter).

Activity

In addition to the BPF agreement, progress continued on the signing and development of new agreements with retail distributors and manufacturers, triggering growth of new production in all countries, largely underpinned by the car business.

Loans and discounts amounted to EUR 81,984 million in 2016, up 16.2% on the year, new production growing by 16% compared with 2015. This growth was driven by the new additions for the year and the car business which was up 28% on the previous year. By country, growth was generally observed in all units.

With respect to liabilities specifically, customer deposits remained stable (+7.2%), differentiating us from competitors. The volume of wholesale financing raised through senior bond issues and securitization and other long-term issues in the year amounted to EUR 12,484 million.

Results

In 2016 attributable profit amounted to EUR 1,055.3 million in line with 2015 as a result of the extraordinary effect of the impacts of the tax measures adopted by the regulator in the past two years.

Recurring profit was favoured, by both the current low interest rate environment, which is highly positive for the consumer finance business, affecting revenues and allowances, and the impact of the units included, translating into growth of the main account lines.

Revenues grew mainly due to net interest income (78% of income) which was up 11% on the previous year.

Costs also increased (7.4%) in line with the business and new units added under the BPF agreement. The efficiency ratio remained at around 44% like in the previous year.

Provisions fell by 33%, following a substantial improvement in the cost of borrowing, which fell to very low levels for the consumer finance business. This was possible thanks to the solid performance of portfolios and a fall in the NPL ratio to 2.4% following a 73 bp fall compared with 2015. Coverage remained unchanged at 107.4%.

By unit, noteworthy was the robust performance of attributable profit for Spain (+20.4%), Nordic countries (+20%) and Italy (+226%).

In short, robust organic growth and the successful completion of the BPF agreements offer enhanced potential to continue growing in 2017, building market share and ensuring high profitability and efficiency.

I. Risk management

Corporate principles

The Santander Group, which Snatander Consumer Finances is part of it, has set itself the strategic objective of achieving excellence in risk management. This has been a focal point of the Group's activities throughout its history spanning more than 150 years.

The pace of change in risk management increased in 2016 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.

The 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.

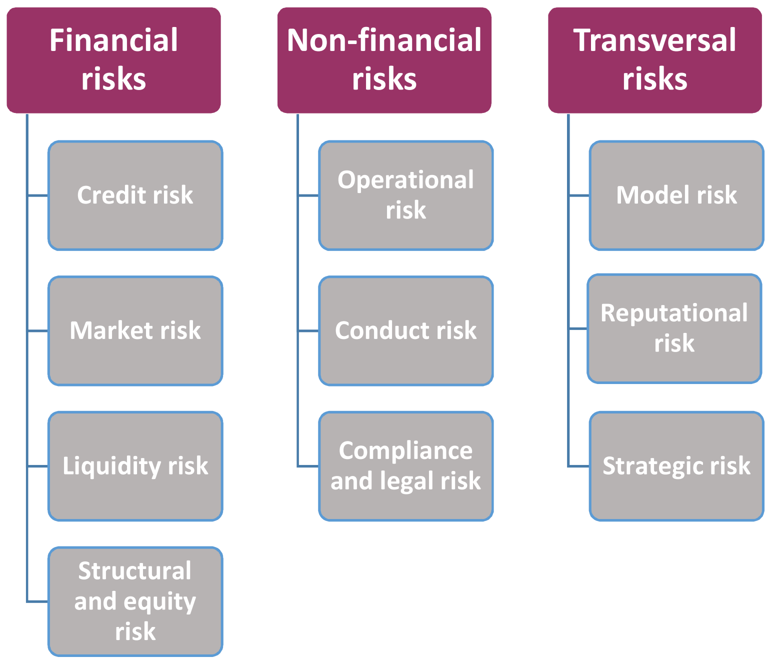
4. The independence of the risk function encompasses all risks and establishes an appropriate separation of the risk generating units from those responsible for risk control. Implies having sufficient authority and direct access to management and governing bodies responsible for setting and supervising 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 should seek 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 that ensures:
    - 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 deadlines 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 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 Bank'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 Bank's risk 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 Bank's executives and the risk, financial, management control and compliance functions are represented, among others.

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. In line with the best standards of corporate governance, homogeneous with those existing in the Group and included in the corporate framework, which 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 the Group, which are as follows: credit risk, market risk, operational risk and compliance and conduct risk

IV. 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 the Group'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 - 2016

The following table details, by borrower geographical area, the Group's global credit risk map:

SCF Group - Gross Credit Risk Exposure			
	2016 (Millions of Euros)	Change on December 2015	% of Portfolio
Spain and Portugal	14,160	12.72%	16.83%
Italy	7,078	41.17%	8.41%
France	9,529	11.02%	11.33%
Germany and Austria	36,418	9.87%	43.28%
Scandinavia	13,717	13.24%	16.30%
Other	3,237	106.12%	3.85%
SCF Group	**84,139**	**15.27%**	**100.00%**

Credit risk exposure rose by 15.27% in year-on-year terms. This increase is mainly attributable to the inorganic growth generated through the gradual inclusion of certain companies (JVs) based on the agreement with the PSA Group in 2016:

- Italy: January 2016 (EUR 1,953 millions)
- The Nederlands: May 2016 (EUR 1,600 millions)
- Germany and Austria: July 2016 (EUR 2,673 millions

The largest proportion of credit risk exposure continues to be concentrated in Germany, representing 43.28% of the total if Austria is included. For their part, the Nordic countries accounted for slightly more than 16% of the Group's total credit risk in 2016.

b) Variations in main aggregates in 2016

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 has very high coverage level which is adequate to cover expected losses on the credit risk portfolios managed.

The non-performing loan ratio dropped to 2.41% at 31 December 2016 compared with 3.14% at 31 December 2015, falling by 73 bp in the year, largely as a result of changes to the scope of SC Germany in terms of default classification, and backed by an on-going improvement in recovery procedures in tranches affected by both early irregularity and advanced stages of impairment. Coverage stood at over 107% at year -end 2016.

Distribution of lending

The Group is geographically diversified, since it is present in twelve countries, and concentrates its activities on its core markets. The Group has a mainly retail profile (consumer loans represent 88.7% and inventory financing for dealers 11.3%) as it engages principally in vehicle financing.

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.

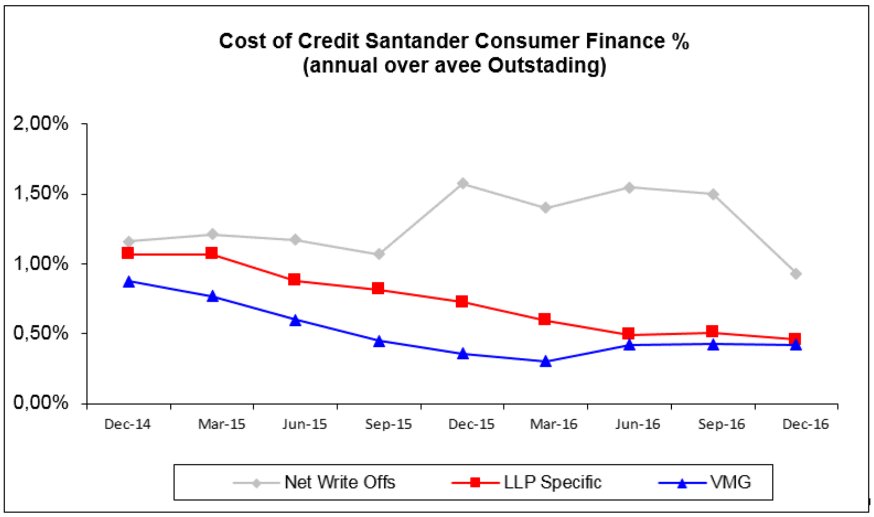
The Board of Directors, by reference to the risk appetite, determines the maximum levels of concentration, and the executive risk committee establishes the risk policies and reviews the appropriate exposure limits to ensure the adequate management of credit risk concentration.

Management metrics

Additional metrics are used in credit risk management, including most notably the change in non-performing loans (VMG, to use the Spanish acronym), net credit loss provisions (gross provisions to specific allowances - recovery of assets written off), net assets written off (assets written off - recovery of assets written off) and expected loss. Taken together, these metrics enable risk managers to form a complete idea of the evolution and future outlook of the portfolio.

Unlike the NPL ratio, the **change in non-performing loans** (VMG) (ending non-performing assets - beginning non-performing assets + assets written off - recovery of assets written off) refers to the total amount of the portfolio that has become impaired in a given period, irrespective of its status (non-performing or written off). Consequently, this metric is one of the main drivers used when establishing measures for managing the portfolio.

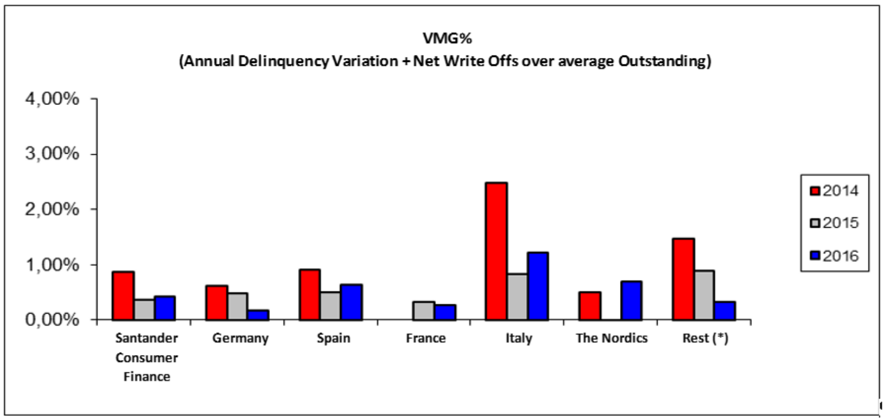
VMG is often considered in relation to the average investment generating it, giving rise to what is known as the **risk premium**, the evolution of which is shown below.

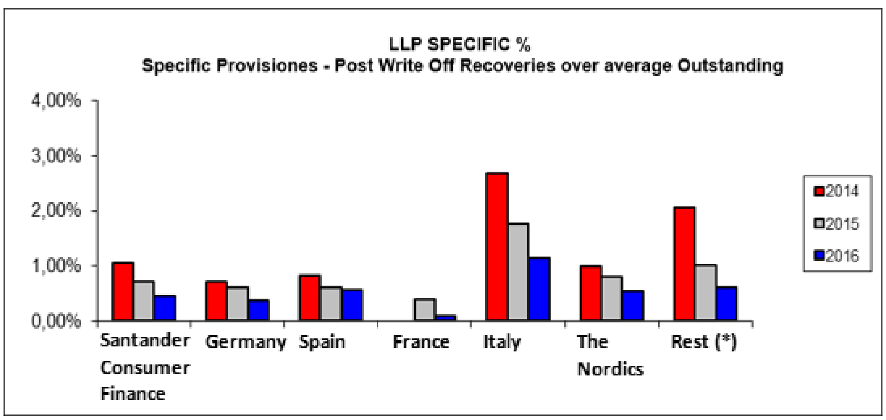


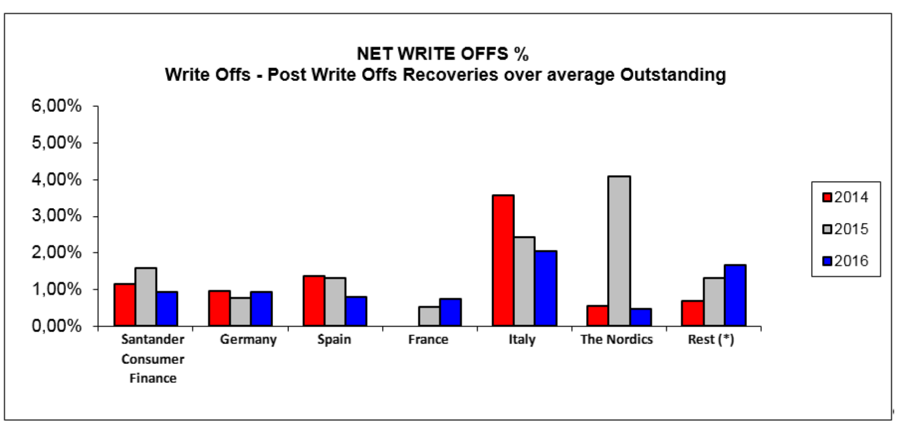
The three indicators measure the same reality and, consequently, converge in the long term although they represent successive moments in credit cost measurement: flows of non-performing loans (change in NPLs), coverage of non-performing loans (net credit loss provisions) and classification as write-offs (net write-offs), 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. These differences are due to the different timing of recognition of losses, which is basically determined by accounting rules (for example, mortgage loans have a longer coverage schedule and are classified as write-offs more "slowly" than consumer loans). In addition, the analysis can be complicated due to changes in the policy of coverage and classification as write-offs, the composition of the portfolio, non-performing loans of entities acquired, changes in accounting rules, sale of portfolios, etc.

In 2016 while the trend in net allowances and managed NPL is positive and convergent over time, net NPL are contingent on extraordinary one-off events arising during the year such as the change in criteria for classification as NPL in the German Unit in April 2016, bringing such classification forward and increasing the relationship between NPL classification and recovery. This change in tendency in the Net NPL line is not transferred to Bad Debts given the significant percentage provisioned.

The following charts reflect the cost of Santander Consumer Finance's credit risk in its main areas of activity in 2016 and prior years, measured using the different approaches: (*) "Other" includes Austria, Benelux, Financiera El Corte Inglés, Switzerland and Portugal.


VMG%
(Annual Delinquency Variation + Net Write Offs over average Outstanding)
4,00%
3,00%
2,00%
1,00%
0,00%
Santander Consumer Finance
Germany
Spain
France
Italy
The Nordics
Rest (*)
2014
2015
2016


LLP SPECIFIC %
Specific Provisiones - Post Write Off Recoveries over average Outstanding
4,00%
3,00%
2,00%
1,00%
0,00%
Santander Consumer Finance
Germany
Spain
France
Italy
The Nordics
Rest (*)
2014
2015
2016


NET WRITE OFFS %
Write Offs - Post Write Offs Recoveries over average Outstanding
6,00%
5,00%
4,00%
3,00%
2,00%
1,00%
0,00%
Santander Consumer Finance
Germany
Spain
France
Italy
The Nordics
Rest (*)
2014
2015
2016

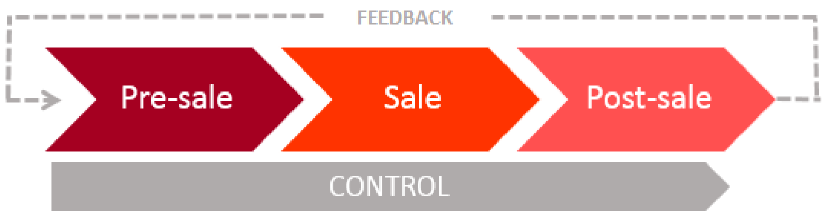
As shown above, the general trend in recent years has been for Santander Consumer Finance to keep its cost of credit at low levels. At the end of 2016, the three indicators converge at an average value equal to that of the ratio of net provisions to average loans. In 2016 Santander Consumer Finance achieved a slight reduction in the ratio of net write-offs to average loans (until the last quarter) and reductions in the ratio of net provisions to average loans and in that of change in non-performing loans to average loans, as compared with the figures for 2015.

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.

- **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.

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 programmes.

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 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.

V. Market, structural and liquidity risk

5. 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 Interest 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.

4. 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:

6. 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 structural risks management limits at Santander Consumer Finance consolidated level are as follows:

- Limit on sensitivity of net interest income at one year

- Limit on sensitivity of the economic value of equity

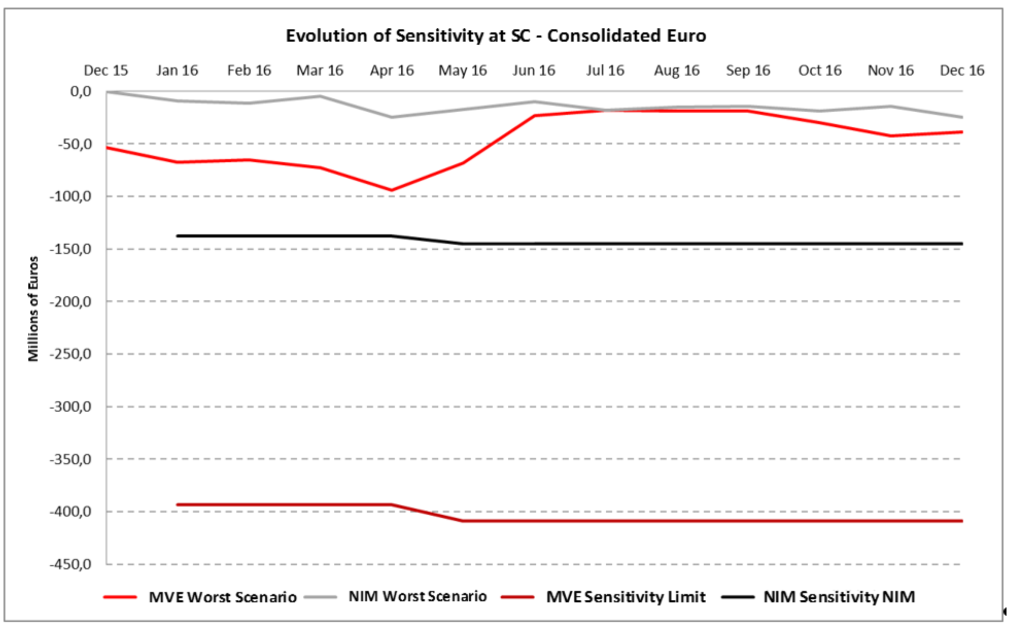
The limits are compared with the sensitivity resulting in the highest loss, of those calculated for eight different scenarios (parallel increases and decreases of 25, 50, 75 and 100 basis points in the yield curve). The use of several scenarios improves interest rate risk control. In scenarios of falling interest rates, negative interest rates are not envisaged, although, in view of the current interest rate levels, this assumption is being reviewed.

During 2016 and in the consolidated management scope, the exposure level of both net interest income and the economic value of equity is moderate in respect of the budget and equity levels, respectively. Both exposures were within the established limits.

At the 2016 reporting date, net interest income risk at one year, measured as the sensitivity of net interest income to a parallel 100 bp increase, is EUR 24.5 million.

During the year ended 31 December 2016, the sensitivity of the economic value of equity to a parallel decrease of 75 bp was EUR -38.3 million.

The chart below shows the changes in the sensitivity of the net interest margin and of the market value of equity in 2016 (data until December 2016):



7. 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

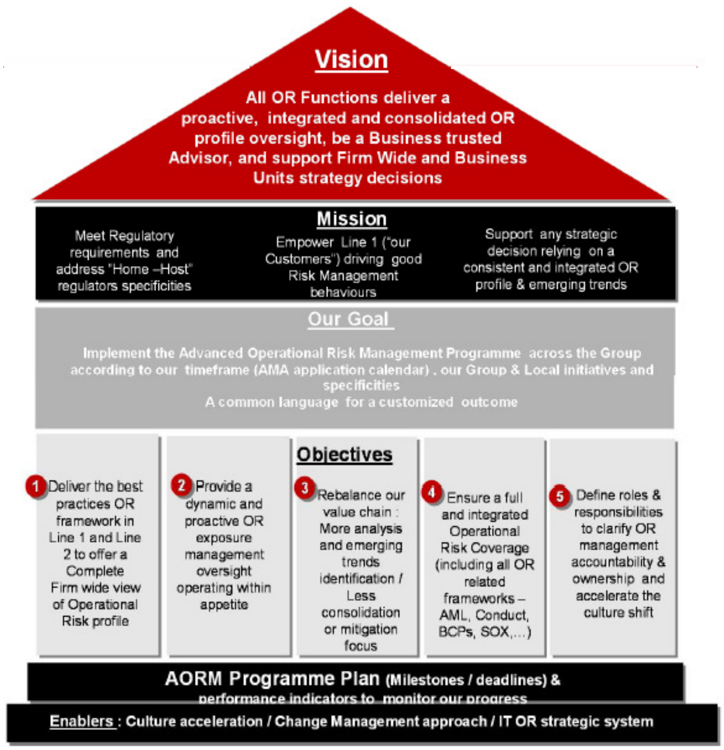
The Group defines operational risk (OR) as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events".

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.

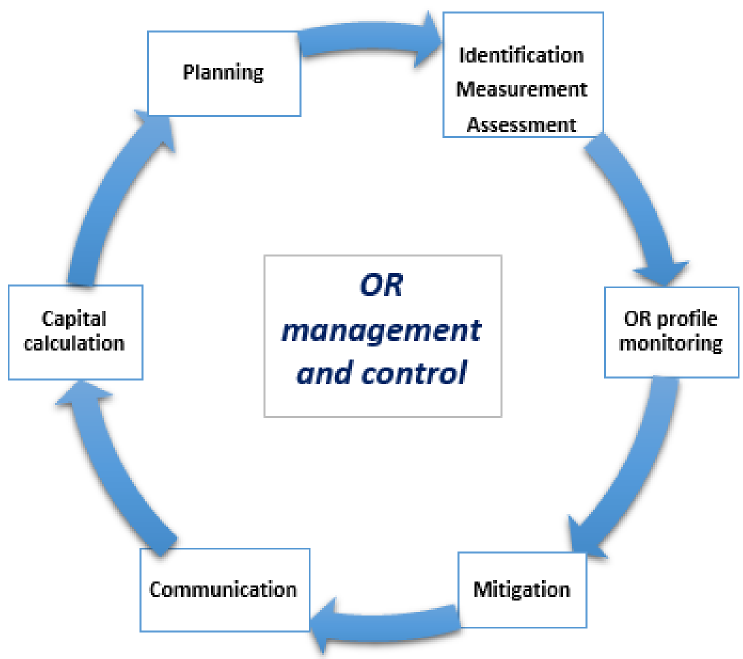
For the purpose of calculating regulatory capital for operational risk, the Group has been applying the Standardised Approach provided for under Basel II standards.


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

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

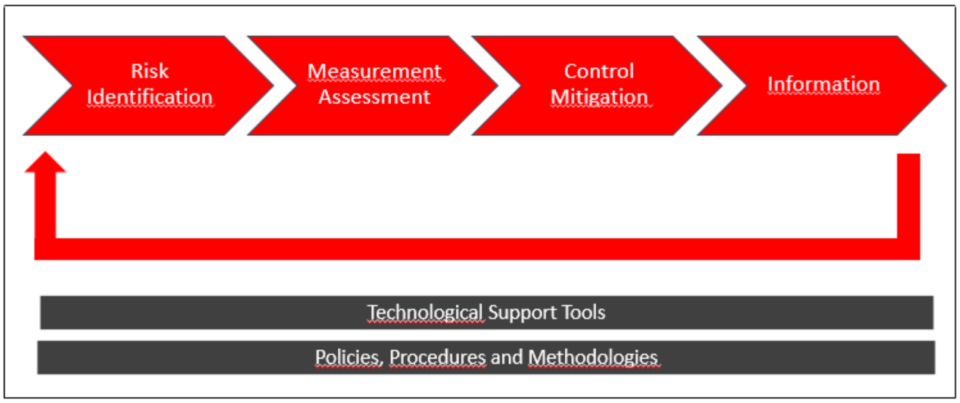
Since November 2014, the Group Santander Consumer Finance has adopted the new Santander Group management system in which three lines of defence were defined:

- 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

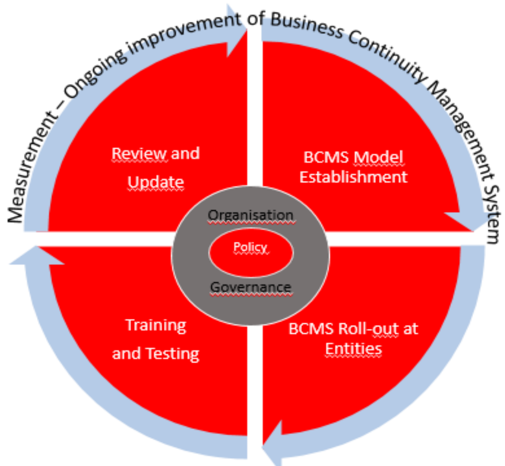
- Other specific instruments that permit a more detailed analysis of technology risk, such as the control of critical incidents in the systems and cyber-security events.

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 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 2016, the European Central Bank (ECB) informed each institution of the minimum prudential capital requirements for the following year. In 2017, the Santander Consumer Finance Group must maintain a minimum phase-in CET1 of 7.69% on a consolidated basis (Pillar I requirement of 4.5%, Pillar 2 requirement of 1.75%, a capital conservation buffer of 1.25% and a countercyclical capital buffer of 0.19%). Santander Consumer Finance must also maintain a minimum phase-in Tier 1 capital of 9.19% and a minimum phase-in Total Tier ratio of 11.19%.

With regard to credit risk, Santander Consumer Finance 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 Santander Consumer Finance 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. In 2016 authorisation was obtained for the Santander Consumer Nordics auto loan portfolios to switch from the standardised approach to the AIRB approach, while the IRB approach was maintained for the corporate and retail portfolios of PSA France, following the acquisition of this investee.

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 to 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 rate was set at 3% and at December 2016 Santander Consumer Finance had a fully-loaded leverage ratio of 7.59% at sub-consolidated level.

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 2016, amounting to EUR 413,995 thousand, that will be submitted for approval by the Annual General Meeting is as follows:

Dividends: EUR 541,309 thousand.

Legal reserve: EUR 62,650 thousand.

Voluntary reserve: EUR 22,539 thousand.

Share capital and treasury shares

The Group did not perform any transactions involving treasury shares in 2016 and it did not have any treasury share balance in its balance sheet as at 31 December 2016.

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 2016 year-end are detailed in Note 1-i to the consolidated financial statements.

Outlook

The management report contains certain forward-looking information reflecting the plans, forecasts or estimates of the Directors, based on assumptions they consider reasonable. Users of this report should, however, take into account that such forward-looking 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 International Monetary Fund (IMF) expects global growth to rise from 3.1% in 2016 to 3.4% in 2017. This improvement will be driven by both advanced and emerging economies. Global growth remains lacklustre compared with the years prior to 2008, although it has shown notable resilience to the head winds that have arisen in recent quarters

Advanced economies are expected to grow by 1.9% in 2017 (up from 1.6% in 2016) primarily owing to the revitalisation of the US economy. The euro area can be expected to grow at a rate similar to 2016. Within the euro area, there are likely to be significant differences in growth and in countries' positions in the business cycle, but in broad strokes, the situation is more even than in previous years.

According to IMF forecasts, emerging economies will grow by 4.5% in 2017 (compared with an estimated 4.1% in 2016). These projections are based on the improved credibility of policies, on commodities prices, on sustained growth in China, and on the improvement in certain relevant countries that experienced a complicated situation over the last year.

In Latin America on the whole, after two years of recession in the region, growth of 1.2% is expected in 2017 (vs. -0.7% in 2016), primarily as a result of the recoveries in Brazil and Argentina. Mexico will be beset by uncertainty resulting from a possible change in US economic policy and will experience lower growth, but the rest of the region will grow at a pace similar to or somewhat higher than that seen in 2016.

Annual Corporate Governance Report

The Bank, an entity with registered office in Spain whose voting rights correspond, directly and/or indirectly, to Banco Santander, S.A., in compliance with Article 9.4 of Ministry of Economy and Competitiveness Order ECC/461/2013, of 20 March, does not prepare an Annual Corporate Governance Report, since this is prepared and presented to the CNMV by Banco Santander, S.A. as the parent of the Santander Group.

Capital structure and significant holdings

Banco Santander, S.A.	1,187,741,718	Percentage of ownership: 63.19%
Holneth, B.V.	469,886,543	Percentage of ownership: 25.00%
Fomento e Inversiones, S.A.	221,917,911	Percentage of ownership: 11.81%
Total number of shares	1,879,546,172	
Par value	3.00	
Share capital	5,638,638,516	

Accordingly, at 31 December 2016, the Bank's share capital 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.

Restrictions on the transferability of securities

Not applicable.

Significant direct and indirect ownership interests

The most significant transactions performed in relation to investments in subsidiaries are described in Note 3 to the consolidated financial statements. A detail of the Group companies, jointly controlled entities and associates is included in Appendices I and II to the notes to the consolidated financial statements for the year ended 31 December 2016.

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.