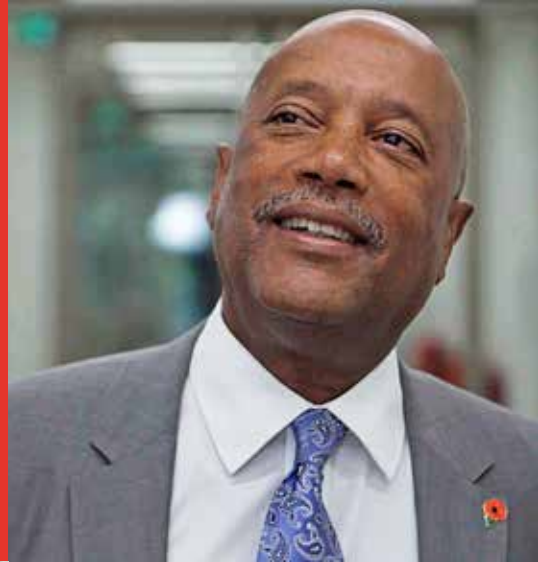




RELATÓRIO ANUAL
2016

Queremos contribuir
para que as pessoas e os
negócios prosperem



O Santander em 2016: avançamos para ser o melhor banco comercial,



Ana Botín,
Presidente do
Banco Santander

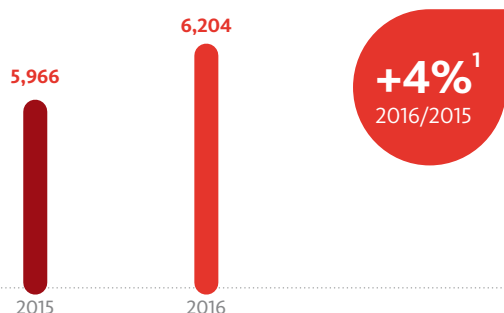


Em 2016, o Santander alcançou excelentes resultados e cumpriu seus objetivos estratégicos e de negócio: aumentamos o número de clientes vinculados, incrementamos o crédito e já oferecemos serviço a 125 milhões de clientes.



O Santander é um dos bancos mais rentáveis e eficientes graças ao talento e trabalho das nossas equipes, que conseguiram resultados excelentes ao fazerem as coisas de forma simples, pessoal e justa.

Lucro atribuído Bilhões de euros

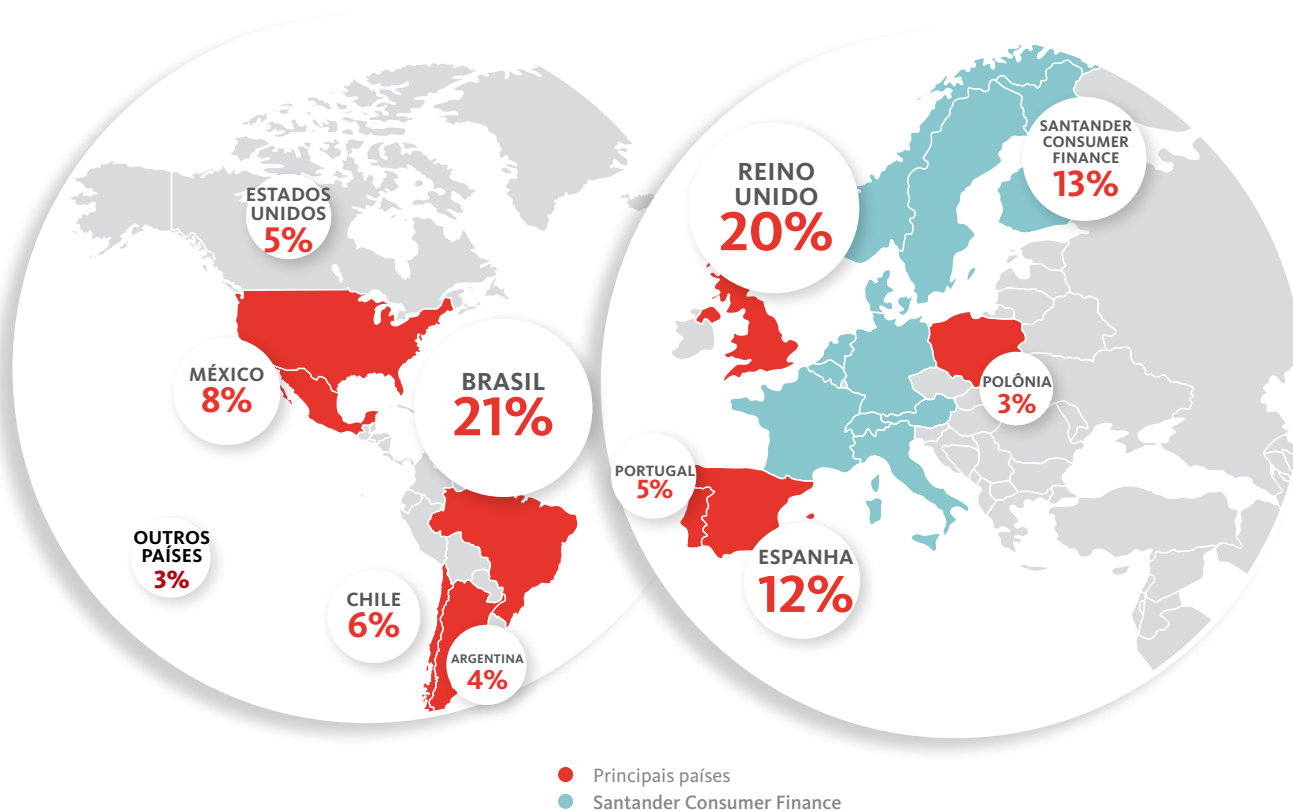


1. +15% a taxas de câmbio constantes.

Retorno sobre capital tangível (ordinário) **11,1%**

Índice capital CET1 fully loaded **10,55%**
(+50pb 2016/2015)

Diversificação geográfica (contribuição para o lucro ordinário do Grupo, %)



contribuindo para que as pessoas e os negócios prosperem



Nosso investimento em tecnologia, aliado a vantagens de trabalhar como Grupo, permite que sejamos líderes em eficiência, ao mesmo tempo em que melhoramos a experiência do cliente. O Santander está no top 3 do setor por satisfação de cliente em 8 dos seus 9 países principais.



Com a solidez do nosso balanço, somos capazes de financiar o nosso crescimento, ao mesmo tempo em que aumentamos o dividendo em dinheiro e acumulamos mais capital.



79%

dos funcionários percebem o Banco como Simples, Pessoal e Justo



78%

dos funcionários engajados



15,2 (+10%)

milhões de clientes vinculados



20,9 (+26%)

milhões de clientes digitais



36.684

bolsas de estudo concedidas em 2016



1.183

acordos com universidades e instituições acadêmicas de 21 países



3,363

bilhões de euros de capital CET1 gerados



+8%

dividendo em dinheiro por ação

Simples | Pessoal | Justo

RELATÓRIO ANUAL 2016



1

2

24 Modelo de negócio e estratégia

40 Resultados em 2016

-
- 6 Mensagem de Ana Botín, presidente
 - 14 Mensagem de José Antonio Álvarez, CEO
 - 20 Governança corporativa

- 26 Propósito e modelo de negócio
- 28 Visão e criação de valor
- 30 Funcionários
- 32 Clientes
- 36 Acionistas
- 38 Sociedade

- 42 Contexto econômico, bancário e regulatório
- 46 Resultados Grupo Santander
- 49 Países
- 57 Global Corporate Banking



3

58 Relatório de governança corporativa

- 60 Resumo executivo
- 62 Introdução
- 63 Estrutura da propriedade
- 66 O conselho do Banco Santander
- 86 Estrutura do Grupo e sistema de governança
- 89 Os direitos dos acionistas e a assembleia geral
- 91 A diretoria do Grupo Santander
- 93 Transparência e independência
- 95 Desafios para 2017



4

96 Relatório econômico e financeiro

- 98 Relatório financeiro consolidado
- 98 Resumo do exercício 2016 para o Grupo Santander
- 100 Resultados do Grupo Santander
- 106 Balanço do Grupo Santander
- 111 Recursos próprios e índices de solvência do Grupo Santander
- 114 Negócios por regiões
- 116 Europa continental
- 130 Reino Unido
- 133 América Latina
- 147 Estados Unidos
- 150 Centro Corporativo
- 152 Negócios globais
- 152 Banco Comercial
- 155 Global Corporate Banking



5

158 Relatório de gestão de risco

- 160 Resumo executivo
- 164 A. Pilares da função de riscos
- 165 B. Modelo de controle e gestão de riscos - *Advanced Risk Management*
- 166 1. Mapa de riscos
- 166 2. Governança de riscos
- 169 3. Processos e ferramentas de gestão
- 175 4. Cultura de riscos - *Risk Pro*
- 177 C. Ambiente e próximos objetivos
- 183 D. Perfil de risco
- 183 1. Risco de crédito
- 215 2. Risco de mercado de negociação e estruturais
- 235 3. Risco de liquidez e financiamento
- 243 4. Risco operacional
- 254 5. Risco de compliance e conduta
- 263 6. Risco de modelo
- 265 7. Risco estratégico
- 266 8. Risco de capital
- 275 Anexo: transparência EDTF
- 278 Dados históricos
- 280 Glossário
- 284 Informação geral

Mensagem de Ana Botín

O propósito do Banco Santander é contribuir para que as pessoas e os negócios prosperem. E é isso que fazemos cada dia.

Um ano mais, cumprimos mais uma vez todos os nossos compromissos da forma correta e conseguindo um excelente progresso na nossa estratégia.

Em 2016, aumentamos os créditos e a qualidade do serviço aos clientes, geramos mais valor aos acionistas e apoiamos os nossos funcionários e a sociedade de forma sustentada e inclusiva.



Nossas conquistas de 2016 refletem a solidez do nosso modelo de negócio, bem como o compromisso dos nossos 190.000 funcionários:

- Os empréstimos a clientes aumentaram em 16 bilhões de euros.
- O investimento em tecnologia permite que sejamos líderes em eficiência e, ao mesmo tempo, que melhoremos o serviço ao cliente.
- Nossa governança corporativa e modelo de riscos foram fortalecidos. O capital (CET1 fully loaded) aumentou em 3,3 bilhões de euros, alcançando um índice de 10,55% acima do nosso objetivo.
- Somos, um ano mais, um dos bancos mais rentáveis do mundo, com RoTE ordinário de 11,1%, um lucro por ação de 0,41 euro (+1%) e um dividendo em efetivo por ação de 0,17 euro (+8%). Em 2016, o valor contábil líquido por ação aumentou 15 centavos de euros, até atingir 4,22 euros.

O mercado reconheceu essa boa evolução. O retorno total ao acionista aumentou 14% em 2016.

Também melhoramos a forma como trabalhamos.

Mais colaboração entre países e pessoas é fundamental para contribuir para o progresso de todos.

Em 2016, fortalecemos os vínculos entre os nossos principais mercados e a colaboração entre países já gera benefícios tangíveis aos nossos clientes e acionistas.

Em uma época de mudança exponencial como a atual, a chave do nosso sucesso está em contar com uma cultura forte, na qual o cliente é o primeiro em todos os nossos bancos e negócios.

Queremos fazer as coisas de um modo mais Simples, Pessoal e Justo.

Avanços estratégicos em 2016

Nossa visão é ser o melhor banco comercial do mundo, por conquistar a lealdade das pessoas, clientes, acionistas e comunidades.

Clientes

Em 2016, 4 milhões de novos clientes confiaram em nós, fazendo com que o número total de clientes do Banco chegasse a 125 milhões. Devemos isso à melhora dos serviços e aos produtos que oferecemos em cada um dos nossos dez mercados principais.

O elemento principal da nossa estratégia 1|2|3 é agregar valor ao cliente para, assim, melhorar sua relação com o Banco e, conseqüentemente, aumentar nossa receita.

Não é uma estratégia de produto nem busca somente ganhar cota de mercado. Representa uma mudança fundamental com relação ao passado. O que buscamos é que, cada vez mais, clientes escolham o Santander como seu banco principal.

A estratégia 1|2|3 foi um sucesso no Reino Unido. Em somente 5 anos, passamos da dependência de depósitos voláteis e caros ao desenvolvimento de relações com os clientes baseadas na confiança.

O melhor exemplo disso é que os saldos das contas correntes do Santander UK passaram de 12 bilhões de libras para mais de 65 bilhões, após vários anos praticamente estancados e atraímos em média 420.000 clientes vinculados por ano desde 2012.

Além disso, com os clientes 1|2|3 conseguimos reduzir o custo do crédito em um quarto do que era em 2011 e aumentar as margens de passivo, já que os saldos desses clientes requerem um menor custo financeiro para o Banco.

Em 2016, conquistamos todos os nossos objetivos

Crédito a clientes

+16
bilhões de euros

Líderes em eficiência

48%
índice de eficiência

Índice capital CET1 FL

10,55%
(+50 pb)

RoTE recorrente

11,1%

Dividendo em efetivo por ação

0,17 euro
(+8%)



Hoje, o Santander está entre os 3 primeiros bancos por satisfação de cliente em 8 dos seus 9 países principais. Esse era um dos objetivos para 2018 que já conquistamos em 2016



Nosso círculo virtuoso



Na Espanha, a estratégia é parecida: cada dia, temos mais clientes que adotam o Santander como o seu banco principal, o que reflete no aumento das receitas em um mercado em queda. Não se trata de aumentar as comissões, mas sim de ter mais clientes que contratem mais os nossos produtos e serviços.

Em 2016, o número de clientes vinculados cresceu 32%, o que permitiu um aumento de 6% das receitas por comissões com 50% da atividade comercial concentrada em clientes 1213, que utilizaram 1,7 vezes mais do que os demais clientes nossos produtos e serviços.

No México, Brasil, Portugal e outros mercados, lançamos estratégias similares adaptadas às condições locais e nos baseamos nos mesmos princípios de criação de valor, transparência e excelência de serviço. Esse é o segredo da nossa estratégia de vinculação e digitalização de clientes e a forma de garantir uma rentabilidade sustentável.

Graças ao nosso investimento em tecnologia, o número de clientes digitais aumentou 25% em 2016, até quase 21 milhões.

Hoje, o Santander está entre os 3 primeiros bancos por satisfação de cliente em 8 dos seus 9 países principais. Esse era um dos objetivos para 2018 que já conquistamos em 2016.

A tecnologia nos permite melhorar o serviço ao cliente, ao mesmo tempo em que melhora a eficiência. De fato, nosso índice de custos sobre receitas se mantém entre os melhores do setor.

Bons produtos, bom serviço e alto valor agregado são a chave para vincular mais clientes. Em 2016, o número de pessoas que consideraram o Santander o seu banco principal aumentou em 1,4 milhão, até 15,2 milhões. Isso levou a um aumento de 8,1% das receitas por comissões em produtos e serviços de alto valor agregado.

Alinhado à nossa estratégia, durante o ano passado realizamos três operações que nos

permitirão fortalecer nossas vantagens competitivas, prestar serviço a mais clientes e continuar gerando crescimento rentável:

- Integramos o Banif em Portugal, o que nos permitiu aumentar o retorno sobre capital do nosso negócio em Portugal em até 13%, um dos melhores do mercado.
- Chegamos a um acordo para a aquisição dos ativos do negócio comercial do Citigroup na Argentina, aumentando a nossa cota e fortalecemos a franquia em um mercado com alto potencial de crescimento.
- E mais recentemente, chegamos a um acordo para comprar 50% da participação do Santander Asset Management, o que nos permitirá ampliar nosso negócio de gestão de ativos e a oferta de produtos e serviços que oferecemos aos clientes.

Funcionários

O talento, o compromisso e a motivação dos nossos 190.000 profissionais são a base do nosso sucesso. Consolidar uma cultura forte em todo o Grupo continua sendo uma das prioridades da equipe diretiva.

Aspiramos ser um dos três melhores bancos para trabalhar na maioria dos nossos mercados principais. E já obtivemos essa conquista em quatro deles.

Nossa pesquisa anual de engajamento é uma ferramenta muito útil para escutar as opiniões dos nossos funcionários e para continuar construindo um melhor banco para trabalhar. Os resultados do ano mostram que vamos pelo caminho certo: mais de 75% da nossa equipe apoia a cultura do Simples, Pessoal e Justo.

Queremos potencializar mais os comportamentos de acordo com os nossos valores corporativos e, por isso, vincularemos mais diretamente a retribuição das nossas equipes segundo sua aplicação.

Em 2016, concluímos diferentes processos de reorganização em várias áreas de negócio



Nossa massa crítica e nosso modelo comercial com presença diversificada em 10 mercados principais da Europa e América nos ajudaram a gerar resultados mais previsíveis do que os da concorrência, inclusive em condições macroeconômicas adversas



e países, necessários para situar a nossa eficiência e excelência operacional nos patamares adequados, investindo, assim, no futuro. Embora esses processos não sejam fáceis, nos esforçamos para que fosse da forma mais justa possível para todos e, em particular, para os funcionários afetados diretamente.

Sociedade

Embora seja importante obter bons resultados financeiros e comerciais, é mais importante se podemos fazê-lo da forma adequada. Somente assim podemos afirmar que criamos valor aos nossos clientes e que os nossos resultados são sustentáveis.

Significa uma cultura que recompensa os comportamentos que buscamos, onde as pessoas falam claramente, trabalham em equipe e estão abertas à mudança.

Significa uma empresa com ambição de liderança, na qual confiam as nossas equipes, clientes e acionistas.

Significa também o nosso compromisso com a sociedade.

Em 2016, o Santander situou-se como o melhor banco europeu pelo seu compromisso com a sustentabilidade, sua contribuição para o progresso social e a proteção do meio ambiente, conforme o Dow Jones Sustainability Index.

Estou muito orgulhosa pelo trabalho que fizemos neste âmbito e gostaria de destacar algumas iniciativas:

- Nosso compromisso com o ensino superior chega a 1.200 universidades em todo o mundo e concedemos mais de 35.000 bolsas de estudo.
- Na América Latina, apoiamos 250.000 projetos de microcréditos.
- Mais de 60.000 funcionários participaram de programas de voluntariado ao longo do ano, incluindo educação financeira para estudantes, idosos e pessoas de baixa renda na Europa,

e o apoio à educação infantil no Brasil, com aproximadamente 4.000 funcionários ajudando a melhorar o ensino em 214 escolas.

- Na Espanha, nossos programas ajudaram pessoas carentes, socialmente excluídas e vítimas de violência de gênero a desenvolverem novas habilidades e encontrar emprego.

Acionistas

Nossa massa crítica e nosso modelo comercial com presença diversificada em 10 mercados principais da Europa e América nos ajudaram a gerar resultados mais previsíveis do que os da concorrência, inclusive em condições macroeconômicas adversas.

Demonstramos isso novamente em 2016 ao incrementar os nossos resultados, com um forte aumento das receitas por comissões e uma melhora na qualidade creditícia. Isso, unido a uma gestão rigorosa dos custos, permitiu um crescimento do nosso lucro atribuído de 4%, até 6,2 bilhões de euros.

O que comprova o bom resultado operacional é que o lucro antes de impostos, excluindo resultados extraordinários e eliminando o efeito das taxas de câmbio, aumentou 12%.

A solidez do modelo de negócio e a nossa capacidade de gerar lucro ano após ano está começando a ser reconhecida pelo Banco Central Europeu, que reduziu os nossos requisitos de capital uma vez finalizado o seu processo de supervisão e avaliação do Banco (Supervisory Review and Evaluation Process, SREP).

Uma governança corporativa de primeiro nível é a base de uma gestão prudente dos riscos e é fundamental para garantir a sustentabilidade de qualquer negócio.

Em abril, realizamos a primeira reunião do nosso Conselho Assessor Internacional (CAI), composto por um grupo de líderes empresariais especialistas em estratégia, tecnologia e inovação. Esse conselho está focado na transformação digital, na

Conselho assessor internacional do Santander

Presidente

Sr. Larry Summers

Ex-secretário do Tesouro norte-americano e presidente emérito da Universidade de Harvard

Vocales

Sra. Sheila Bair <i>Ex-presidente do Federal Deposit Insurance Corporation e reitora do Washington College</i>	Sr. Francisco D'Souza, <i>CEO da Cognizant e conselheiro da General Electric</i>
---	---

Sr. George Kurtz <i>CEO e co-fundador da CrowdStrike</i>	Sra. Blythe Masters <i>CEO da Digital Asset Holdings</i>
---	---

Sr. Charles Phillips <i>CEO da Infor e ex-diretor da Oracle</i>	Sr. Mike Rhodin <i>Diretor geral da IBM Watson</i>
--	---

Sra. Marjorie Scardino <i>Ex-CEO do grupo Pearson e membro do conselho de administração do Twitter</i>	Sr. James Whitehurst <i>CEO da Red Hat</i>
---	---

Secretário

Sr. Jaime Pérez Renovales



O modelo de negócio do Santander está apoiado em bases sólidas



1 Nossos 125 milhões de clientes e nossa massa crítica em 10 mercados principais (que somam uma população de 1 bilhão de pessoas) impulsiona o crescimento rentável.



2 A diversificação geográfica gera lucros mais estáveis, o que requer um modelo menos intensivo em capital que o da nossa concorrência global.



3 Nosso modelo de agências nos permite ser locais, e uma cultura de colaboração cada vez maior promove a eficiência e a excelência do serviço aos clientes.

cibersegurança e no uso das novas tecnologias para melhorar, de forma eficiente, o serviço ao cliente.

Em setembro, tivemos o prazer de anunciar a nomeação de Homaira Akbari como nova conselheira independente do Banco Santander. Homaira é uma renomada cientista, tecnóloga e empresária. Tem ampla experiência no desenvolvimento e implementação de tecnologias inovadoras, e nos ajudará a avançar ainda mais com a nossa transformação digital. Sua nomeação reforça a experiência internacional e em tecnologia do conselho, além de elevar a proporção de mulheres conselheiras em até 40%, uma das mais altas no setor bancário internacional.

Aproveito essa oportunidade para agradecer ao Ángel Jado pela sua dedicação e importante contribuição com o conselho ao longo dos anos e para desejar-lhe muitas felicidades.

Também quero agradecer o trabalho e o comprometimento de todos os conselheiros do Grupo e das nossas agências durante o ano passado.

Nossas oportunidades de crescimento

Estou orgulhosa do progresso da equipe no último ano. Em 2016, tivemos bons resultados em todos os países e negócios, obtendo uma rentabilidade igual ou superior ao custo de capital em 95% do investimento do Grupo. Porém, podemos fazer muito mais e muito melhor.

O modelo de negócio do Santander está consolidado e é adequado para o mundo que nos espera:

- Nossos 125 milhões de clientes e nossa massa crítica em 10 mercados principais (que somam uma população de 1 bilhão de pessoas) impulsiona o crescimento rentável.

- A diversificação geográfica gera benefícios menos voláteis, o que requer um modelo menos intensivo em capital que o da concorrência global.
- Nosso modelo de agências nos permite ser locais, e uma cultura de colaboração cada vez maior promove a eficiência e a excelência do serviço aos clientes.

O Banco Santander foi um dos três únicos bancos internacionais rentáveis ao longo da crise financeira internacional.

Os testes de estresse realizados pela Autoridade Bancária Europeia em 2016 mostraram que o Santander é o Banco mais resistente no setor.

Nos últimos três anos, aumentamos nosso core capital em 17 bilhões e o lucro cresceu 40%.

Pagamos dividendos de forma constante durante mais de 50 anos.

Nosso lucro por ação é crescente e o mais estável entre a nossa concorrência.

Mas, o que realmente importa para o futuro é o nosso grande potencial de crescimento orgânico. Isso é o que permite ter certeza de que o Santander será uma das empresas vencedoras durante a próxima década.

Com vistas ao futuro...

A decisão do Reino Unido de abandonar a União Europeia e a vitória de Donald Trump nas eleições presidenciais nos Estados Unidos surpreenderam a maioria dos especialistas. Nossas previsões levam em consideração esses fatos e os diferentes cenários internacionais que poderiam ocorrer.

No Reino Unido, nosso negócio será afetado pelo Brexit, por conta da desaceleração do crescimento e do efeito da depreciação da libra no lucro obtido no país.

NOSSOS OITO COMPORTAMENTOS CORPORATIVOS



No entanto, a fortaleza de balanço e o alto número de clientes vinculados permitirão ao Santander UK seguir obtendo resultados superiores ao seu custo de capital.

O Brasil deveria iniciar um caminho de recuperação após dois anos de recessão graças às reformas econômicas. É um país com 220 milhões de habitantes e uma classe média em expansão. Esperamos que a Espanha se mantenha no topo da recuperação econômica na Europa. O Reino Unido continuará tendo um papel central na economia global. As autoridades mexicanas demonstraram sua capacidade de gestão econômica, ainda em tempos difíceis.

Nossos resultados de 2016 em Portugal (399 milhões de euros, +33%) e na Argentina (359 milhões de euros, +52%) demonstram que podemos trabalhar da melhor forma para nossos clientes e acionistas, apesar do momento em que as condições macroeconômicas não são ideais. Mas, claro, sempre preferimos navegar com o vento a favor.

No Brasil, obtivemos um lucro de 1,79 bilhão de euros e é a unidade que mais contribuiu para o lucro do Grupo. Nos últimos dois anos, gerou um RoTE de 14%, apesar de um contexto desfavorável.

Em 2016, o Santander Brasil aumentou o seu lucro atribuído em 15% e o fizemos de forma sustentada, incorporando 500.000 de clientes vinculados e 2 milhões de clientes digitais.

Nos Estados Unidos, como havíamos prometido, avançamos no cumprimento dos requisitos regulatórios e melhoramos a forma como administramos o negócio e reduzimos os riscos.

No Santander Bank, reduzimos o custo dos depósitos e melhoramos a qualidade de serviço e a eficiência.

Tenho certeza de que o nosso banco comercial nos Estados Unidos, que representa 5%

do capital investido pelo Grupo, crescerá significativamente ao longo dos próximos anos, o que agregará valor para os acionistas.

...através da colaboração ativa

O modelo de agências e equipes locais do Banco Santander, unido à capacidade de colaborar entre os diferentes países, é o nosso diferencial em um mundo que, previsivelmente, diminuirá a intensidade dos processos de globalização.

A colaboração gera melhores resultados para os nossos clientes e gera valor para os acionistas. Já temos feito isso melhor do que muitos, como demonstra o nosso índice de eficiência. Mas podemos fazer muito mais.

Permitam-me compartilhar exemplos: nossa nova ferramenta de CRM (Customer Relationship Management) na Polônia foi desenvolvida no Chile e melhorada no Reino Unido. Nós a lançamos por meio do nosso modelo interno de open services, e agora está sendo implementada no México.

O Santander Wallet é uma solução global para cerca de 400.000 clientes empresas. Permite usar um mesmo aplicativo para todos os seus pagamentos e transações, além de oferecer serviços de alto valor agregado para ajudá-los a desenvolver os seus negócios. Já está funcionando no Brasil e na Espanha, e logo estará disponível no México e no Chile.

O nosso programa de microcréditos no Brasil, respaldado por um importante plano de educação financeira, ajudou a quase 129.000 empreendedores a lançar e desenvolver os seus negócios. Agora, estamos expandindo ao México para incorporar mais pessoas ao sistema financeiro e alcançar o nosso objetivo de um crescimento sustentável e inclusivo.

Como equipe directiva, estamos totalmente comprometidos com os nossos comportamentos corporativos e com a liderança por meio de exemplos.

“
**Como equipe
directiva, estamos
totalmente
comprometidos
com a adoção
dos nossos
comportamentos
corporativos e com
a liderança por
meio de exemplos.
Assumimos que
devemos conseguir
bons resultados
comerciais e
financeiros. Mas,
o que nos dará
destaque é a
nossa cultura**
”



PRIORIDADES PARA 2017

- ▶ Aumentar o número de clientes vinculados em 1,8 milhão até 17 milhões
- ▶ Aumentar o número de clientes digitais em até 25 milhões
- ▶ Índice de eficiência estável
- ▶ Continuar reforçando o capital
- ▶ Aumentar o valor gerado para os acionistas

Assumimos que devemos conseguir bons resultados comerciais e financeiros.

Mas o que nos dará destaque de verdade é uma cultura que fomente que nossos funcionários falem claro, impulsionem a mudança e aceitem a diversidade, para poder aproveitar plenamente o potencial das nossas equipes e da nossa diversificação geográfica.

...a confiança de 125 milhões de clientes em mercados desenvolvidos e emergentes

Como disse antes, atendemos 125 milhões de clientes em 10 mercados principais da Europa e da América, com uma população total de 1 bilhão de pessoas. Temos massa crítica em todos os nossos mercados. Temos o tamanho necessário e estamos onde devemos estar. Em resumo, temos um enorme potencial para criar valor.

Um bom exemplo é a nossa tecnologia biométrica, um projeto conjunto entre México e Brasil que tornou mais fáceis e seguras as operações com o Banco para mais de 6 milhões de clientes durante o ano passado. No Reino Unido, reduzimos o tempo que os nossos clientes demoram em solicitar uma hipoteca, de três horas a menos de 40 minutos, apesar de ser um processo muito regulamentado.

Com o Santander Innoventures, colaboramos com algumas das startups de tecnologia financeira mais inovadoras. Durante a primeira metade do ano, lançaremos uma nova plataforma para Openbank, nosso banco digital na Espanha que, com apenas 100 funcionários, presta serviço a mais de 1 milhão de clientes e que atualmente já é rentável.

Olhando para o futuro, temos uma oportunidade única para crescer através de uma colaboração maior. Para aproveitar essa oportunidade, vamos continuar investindo nos nossos profissionais e em um melhor uso da tecnologia, e trabalhando em todo o Grupo para melhorar a eficiência e experiência do cliente.

Nossas prioridades estratégicas e objetivos para 2017

Temos objetivos claros para 2017: aumentar em 1,8 milhão o número de clientes vinculados, chegando a um total de 17 milhões, e continuar desenvolvendo serviços de alto valor agregado.

Continuaremos investindo em tecnologia a fim de aumentar o número de clientes digitais até 25 milhões, enquanto melhoramos a qualidade de serviço e mantemos nosso índice de eficiência estável. Chegaremos a esse resultado trabalhando cada vez mais em equipe em todo o Grupo.

Nosso objetivo é aumentar em 40 pontos básicos adicionais o nosso capital, além de crescer nosso lucro, dividendo por ação e o valor do Banco. A medida que vamos alcançando nossos objetivos para 2017 e 2018, o valor contábil por ação continuará crescendo.

Conclusão

Em um 2016 que não foi fácil, realizamos o que nos propusemos e da forma correta. Foi outro ano em que aumentamos o crédito a clientes, o lucro para os nossos acionistas e melhoramos nos indicadores mais relevantes.

Em um entorno que seguirá sendo complexo e instável, em 2017, e pela primeira vez em muitos anos, esperamos que a economia cresça em todos os nossos principais mercados.

O sistema bancário é essencial para o crescimento econômico. E o modelo do Santander baseia-se em poder apoiar esse crescimento graças a uma base de capital forte, uma governança corporativa de primeiro nível e rigor na gestão de riscos.

Vivemos momentos de mudança. A volatilidade gera incertezas e ainda existe a possibilidade de desaceleração da economia global. A tecnologia está gerando disrupção em muitos



Temos muitas oportunidades para crescer de forma rentável na Europa e na América, em um contexto que acreditamos que continuará sendo volátil, mas, em termos gerais, melhor que 2016



setores e os novos trabalhos demandam capacidades diferentes dos nossos jovens.

Para que sejam incorporados a esse novo ambiente, o sistema educacional deve ser transformado. Nosso objetivo de crescimento sustentável e inclusivo somente é possível com a participação de todos.

Pensamos muito sobre o impacto que essas tendências têm sobre o nosso Banco e sobre como construir um modelo de negócio que gere, de forma sustentável, bons resultados aos nossos acionistas e, ao mesmo tempo, valor à sociedade.

O Santander está muito bem posicionado para apoiar o crescimento de todas as pessoas com as quais nos relacionamos. Dos 125 milhões de clientes do banco e seus familiares, até os colaboradores de todas as empresas às quais prestamos serviço.

Cada decisão que tomamos para ajudar o crescimento sustentável e inclusivo tem um poderoso efeito multiplicador que permite melhorar a vida de milhões de pessoas. É o poder do nosso modelo de negócio.

Na minha primeira carta aos acionistas, há somente dois anos, expliquei nossa estratégia e disse que o Santander realizaria uma grande transformação de forma sólida.

Uma transformação que não se reflete totalmente nas ações e mudanças que geram manchetes de jornais, nem nos comerciais que possamos realizar de operações relevantes, nem nos lugares de destaque que possamos ocupar nos rankings.

Nossa transformação é global e transversal, tem a ver, principalmente, com a melhoria da qualidade dos nossos recursos e processos, com como nos organizamos e como agimos para ter sucesso em um mundo que muda velozmente, um mundo cada vez mais diversificado, progressivamente multicêntrico, onde ser local é um valor imprescindível.

A base da nossa transformação é uma cultura que promove uma forma Simples, Pessoal e Justa de fazer as coisas em todo o Grupo, ao mesmo tempo que mantém nossas fortalezas locais.

Uma cultura que incentiva a inovação, que é capaz de atrair o melhor talento e que serve para unir ainda mais os 10 mercados em que estamos presentes.

No Investor Day que realizamos em Londres em setembro de 2016, apresentamos a nossa visão para 2025: ser uma plataforma aberta de serviços financeiros. O Santander é capaz de dar bons resultados hoje, enquanto se transforma para continuar conquistando o sucesso em médio prazo.

Como disse ao apresentar os resultados de 2016, temos muitas oportunidades para crescer de forma rentável na Europa e na América, em um contexto que acreditamos que continuará sendo volátil, mas, em termos gerais, melhor que 2016. A base do nosso sucesso em 2017 e nos próximos anos serão uma cultura sólida de colaboração no Grupo e nosso propósito de contribuir para que as pessoas e os negócios prosperem.

Tenho certeza de que o Santander continuará alcançando os seus objetivos graças às 190.000 pessoas que trabalham duro e em equipe dia a dia, e às quais quero transmitir todo o meu agradecimento.

E a todos vocês –nossos clientes, nossos acionistas e às pessoas que formam parte da nossa sociedade–, também quero agradecer uma vez mais pela confiança.

Contando com o apoio de vocês, como até agora, o melhor está por vir.

Ana Botín
Presidente



Tenho certeza de que o Santander continuará alcançando os seus objetivos graças às 190.000 pessoas que trabalham duro e em equipe dia a dia, e às quais quero transmitir todo o meu agradecimento



Mensagem de José Antonio Álvarez

Nossos resultados refletem, um ano mais, a solidez do Grupo, sua capacidade para oferecer um crescimento sustentável e de qualidade, e são consequência da boa evolução das principais linhas da conta de resultados: receitas, custos e provisões.



Em 2016, o Grupo Santander desenvolveu sua atividade em um ambiente desafiador. A economia mundial moderou suavemente o seu crescimento, enquanto que a evolução dos mercados esteve caracterizada pela volatilidade por conta das dúvidas sobre o crescimento na China e das incertezas no panorama político internacional.

Ao mesmo tempo, há sinais positivos que nos permitem ser otimistas para o futuro próximo:

- Os mercados financeiros se mostram cada vez mais resistentes, recuperando-se com rapidez após os diferentes episódios de volatilidade.
- As economias emergentes, em seu conjunto, aceleraram o seu crescimento e as que registram um pior comportamento, como a brasileira ou a argentina, adotaram políticas econômicas que devem permitir deixar para trás a recessão nos próximos trimestres.
- E por último, as economias avançadas mostraram um perfil de recuperação no segundo semestre. Em particular no Reino Unido, o impacto do referendun sobre o crescimento foi limitado até o momento, e a economia espanhola voltou a registrar um crescimento superior a 3%.

A isso, somam-se as pressões às que o setor bancário vem sendo submetido desde o início da crise financeira, fruto, principalmente, do aumento da regulação e das baixas taxas de juros nos mercados desenvolvidos, que limitam uma melhora mais intensa da rentabilidade.

A seguir, detalharei a evolução do Grupo no ano, as prioridades e principais ações realizadas em cada um dos nossos mercados, bem como os objetivos financeiros para 2017.

Evolução do Grupo em 2016

Fechamos o ano com um **lucro atribuído** de 6,204 bilhões de euros, 4% mais que em

2015 ou 15% mais sem o impacto das taxas de câmbio, que voltou a ser negativo no ano.

Esse lucro inclui alguns **resultados não recorrentes** por um montante líquido negativo de 417 milhões de euros, contra um montante também negativo de 600 milhões de euros em 2015.

O lucro antes de extraordinários, impostos e sem levar em consideração a evolução das taxas de câmbio, que é uma medida mais adequada para avaliar a nossa gestão, é de **11,288 bilhões de euros e cresce 12%.**

Nossos resultados refletem, um ano mais, a solidez do Grupo, sua capacidade para oferecer um crescimento sustentável e de qualidade, e são consequência da boa evolução das principais linhas da conta de resultados: receitas, custos e provisões.

Começando pelas **receitas**, a primeira coisa a ser destacada é a sua grande recorrência em um ambiente de elevada volatilidade. Isso foi possível pelo elevado peso, 94%, das receitas comerciais:

- Em um ambiente de taxas de juros mínimas nas economias desenvolvidas, a **margem de juros** cresce 2% sem efeito taxa de câmbio, graças à gestão das margens e à nossa exposição relevante a países emergentes, e ao negócio de consumo.
- As **receitas por comissões** crescem 8%, o dobro do ano anterior, refletindo a maior vinculação e satisfação dos clientes com o Banco.

Os custos caem 2% em termos reais e homogêneos, e sete das nossas principais unidades têm uma variação de custos inferior à inflação.

Essa boa evolução deve-se aos planos de eficiência e a uma gestão ativa e diferenciada em cada mercado onde adaptamos a base de custos à realidade do negócio. As

Lucro atribuído

6,204 bilhões
de euros
(+4%)

Lucro ordinário antes de impostos*

11,288 bilhões
de euros
(+12%)

* Sem impacto de taxa de câmbio.



Aumentam as receitas comerciais:

- Margem de juros +2%
- Receitas por comissões +8%



Os custos diminuem 2% em termos reais e homogêneos



Melhora a qualidade creditícia e as provisões caem 2%

Espanha

lucro
1,022
bilhão de euros +5%

Reino Unido

lucro
1,681
bilhão de euros -4%*

medidas de racionalização e simplificação de estruturas que foram tomadas, tanto no Centro Corporativo quanto em algumas unidades, permitem-nos **continuar investindo na transformação comercial, ao mesmo tempo em que nos mantemos como um dos bancos mais eficientes do sistema financeiro internacional.**

O aumento das receitas e o controle de custos foram complementados com uma **queda nas nossas provisões para insolvência de 2%** à taxa de câmbio constante, que implica uma **melhoria do custo do crédito** de 1,25% em 2015 a 1,18% em 2016. A melhoria na qualidade creditícia é resultado do fortalecimento da cultura de riscos em todo o Grupo através de diversas iniciativas.

Continuando com o **balanço**, temos duas observações para destacar:

- Apresentamos uma evolução equilibrada no ano entre **créditos e recursos**, que aumentaram 2% e 5% respectivamente, e contamos com índices de **liquidez** que ultrapassam amplamente os níveis requeridos.
- Geramos **capital** continuamente trimestre a trimestre. Em termos de *fully loaded*, conseguimos um lucro de 50 pontos básicos no ano, alcançando um índice de 10,55%, o que nos coloca em condições para conseguir nosso objetivo de 11% em 2018, ao mesmo tempo em que cumprimos de modo confortável com os nossos requisitos regulatórios.

Portanto, tornamos compatível uma geração sustentada de capital, que evidencia a solvência do Grupo, com uma rentabilidade alta comparada com a medida do setor: um **RoTE** de cerca de 11% e um **RoRWA** que aumentou em até 1,36%.

Prioridades e evolução das áreas de negócio em 2016

A estratégia nas unidades do Grupo que operam em mercados maduros esteve focada no aumento do número de clientes vinculados, na conquista de participação de mercado, no controle de custos e na melhora da qualidade creditícia.

Espanha

Estamos construindo uma relação mais profunda e duradoura com os nossos clientes através da estratégia 1|2|3. A vinculação aumentou 27% em particulares e 48% em empresas. O Santander se mantém como Top 3 em satisfação de cliente, ao mesmo tempo em que aumenta a atividade.

O aumento do lucro apoia-se na melhoria do perfil de risco e na queda das provisões, no plano de eficiência e no aumento das receitas por comissões, em um setor no qual a atividade é decrescente.

Reino Unido

O lucro sofreu o impacto do novo imposto ao setor bancário. O resultado antes de impostos, que reflete melhor a evolução do negócio, cresce 8%, graças ao aumento de volumes, à boa gestão das margens e ao controle de custos. Além disso, registrou-se menores provisões pela excelente evolução da qualidade do risco creditício.

Em um ambiente marcado por uma maior incerteza na segunda metade do ano, nosso negócio evoluiu, com aumentos em clientes 1|2|3 até 5,1 milhões e novos crescimentos no crédito para empresas. Continuamos focados na excelência operacional, com uma melhora constante dos nossos canais móveis, que nos permitiram aumentar em 25% no ano o número de clientes digitais.

* Antes de impostos e sem impacto de taxa de câmbio: +8%



Tornamos compatível uma geração sustentada de capital, que evidencia a solvência do Grupo, com uma alta rentabilidade comparada com a média do setor



Santander Consumer Finance

O SCF se mantém como líder de mercado de financiamento ao consumo na Europa. Em 2016, continuou ganhando cota de mercado e completou com sucesso o convênio com o Banque PSA Finance (BPF), ampliando, assim, a atividade em 11 países e fortalecendo a nossa diversificação.

O lucro aumenta pelo sétimo ano consecutivo, o que evidencia a solidez do nosso modelo de negócio ao longo do ciclo.

Estados Unidos

Finalizamos a formação da *holding* que unifica a gestão de todas as operações no país e avançamos no cumprimento das exigências regulatórias. No ano, continuamos trabalhando no programa de transformação voltado à melhoria da gestão do risco e das capacidades tecnológicas e operacionais. O Santander Bank está focado no fomento da atividade comercial e o Santander Consumer USA realizou uma mudança na composição da sua carteira para um perfil de menor risco.

Todas essas mudanças e medidas têm o objetivo de construir, em médio prazo, um negócio mais rentável, mas estão impactando, temporariamente, os resultados e justificam, em grande medida, a redução do lucro no ano.

Portugal

Somos o banco mais sólido do sistema português, cuja estratégia esteve focada, em parte, na melhoria do modelo comercial e, em outra, na integração tecnológica e operacional do negócio do Banif, adquirido no final de 2015. Bom posicionamento no país, com participação de negócio de 14% tanto em créditos quanto em depósitos.

Por sua vez, os **mercados emergentes** estão em situações muito diferentes por razões estruturais. Apresentam maiores ritmos de crescimento em volumes do que as economias avançadas, taxas de juros mais elevadas, alto potencial de bancarização e RoTEs entre 15 e 20%. O Santander conta com massa crítica local, um modelo comercial forte e uma visão do ciclo do crédito adequada, que foi traduzida em bons resultados em todas as unidades do Grupo em países emergentes.

Brasil

O Santander obteve um lucro excelente em um ambiente econômico em recessão como consequência das melhorias realizadas nos últimos anos na franquia, das boas dinâmicas comerciais e dos progressos em digitalização, que nos levaram a superar os 6 milhões de clientes digitais (+45% em 2016).

Em 2016, passamos a fazer parte, pela primeira vez, do grupo das melhores empresas para trabalhar no país e lançamos diferentes ofertas comerciais, como a Olé Consignado em folhas de pagamento, anunciamos uma parceria com a American Airlines para os clientes e criamos uma *Joint Venture* entre o Santander Financiamentos e a Hyundai.

Todas essas ações refletiram nas variáveis financeiras: aumentamos em depósitos, melhoramos a tendência do crédito na segunda metade do exercício e aumentamos o lucro em 15%, com bom comportamento das receitas comerciais, melhoria de eficiência e um custo do crédito inferior ao da concorrência.

Santander Consumer Finance

lucro
1,093
bilhão de euros
+18%*

Estados Unidos

lucro
395
milhões de euros
-42%*

Portugal

lucro
399
milhões de euros
+33%

Brasil

lucro
1,786
bilhão de euros
+15%*

* Sem impacto de taxa de câmbio.



Para 2017, as perspectivas econômicas indicam uma certa revitalização do crescimento econômico global, que poderia aproximar-se a 3,5%. Isso estará apoiado tanto nas economias avançadas como nas emergentes



México

lucro
629
milhões de euros
+18%*

México

A estratégia esteve focada em melhorar a retenção do cliente, na transformação comercial e na inovação. A intensa atividade desenvolvida no ano com o lançamento de produtos e convênios comerciais resultou no aumento de cota em créditos, no crescimento dos depósitos e no forte aumento de clientes vinculados e digitais. O lucro aumenta devido à boa evolução das receitas, principalmente da margem de juros.

Chile

lucro
513
milhões de euros
+16%*

Para continuar melhorando a franquia e os sistemas locais, anunciamos um plano de investimento de 15 bilhões de pesos para os próximos três anos, adicionais aos nossos investimentos e iniciativas recorrentes.

Chile

A gestão concentrou-se no crescimento nos segmentos com maior contribuição, como é o caso das empresas, clientes altas rendas e os depósitos. A prioridade no ano foi melhorar a qualidade de serviço, entrando no Top3 por satisfação de cliente no país.

Argentina

lucro
359
milhões de euros
+52%*

O Santander Chile continua ganhando cota em créditos e em depósitos, posicionando-se como o banco com maior fatia de crédito e o segundo em depósitos. Os resultados melhoram pelo aumento na margem de juros, o controle de custos e a melhoria nas provisões.

Argentina

O Santander Río quer aproveitar o alto potencial de crescimento do sistema financeiro argentino, muito transacional, e o melhor cenário para desenvolver o negócio bancário. Por isso, decidimos reforçar a posição no país com a compra do negócio de varejo do Citi, além de continuar com a modernização da rede e a abertura de novas agências.

Polônia

lucro
272
milhões de euros
-6%**

Polônia

Continuamos sendo o banco de referência em inovação e em canais digitais. Aumentamos o número de clientes vinculados, de modo destacável em empresas, e estamos crescendo em créditos muito acima do setor.

Excluindo o impacto da nova taxa sobre ativos, o lucro sobe para 14%, com bom comportamento da margem de juros e uma melhoria muito significativa da qualidade creditícia.

Por último, as unidades do **Uruguai e Peru** aumentaram os seus resultados em 32% e 21% respectivamente. No caso do Uruguai, pelo crescimento significativo das receitas, enquanto que o Peru, o lucro foi impulsionado pela queda nas provisões.

Objetivos financeiros para 2017

Senhores acionistas, como observam, em 2016 alcançamos os principais **objetivos que havíamos estabelecido**, registrando uma boa evolução das nossas variáveis financeiras no Grupo e nas principais unidades.

Para 2017, as perspectivas econômicas indicam uma certa revitalização do crescimento econômico global, que poderia aproximar-se a 3,5%. Esse crescimento estará apoiado tanto nas economias avançadas, quanto nas emergentes, que em 2017 prevêm melhorar seu crescimento pela primeira vez em cinco anos graças, em boa parte, às políticas expansivas dos EUA e a uma apreciável melhoria em alguns países emergentes grandes. Cabe esperar novos aumentos de juros nos EUA, que que poderiam provocar certo aumento da inclinação da curva de juros da Europa.

Os riscos de natureza política são fundamentais diante do impacto que as novas políticas nos EUA possam ter em alguns países emergentes, as negociações sobre a saída do

* Sem impacto de taxa de câmbio.

** Sem incluir a nova taxa sobre ativos e sem impacto de taxa de câmbio: +14%

Reino Unido da União Europeia e os resultados das eleições na França e Alemanha.

Em 2017, continuaremos avançando na conquista dos objetivos que informamos em setembro no *Group Strategic Update*.

Para conseguir isso, destacamos as seguintes prioridades:

- Acelerar o **crescimento das nossas receitas**, principalmente em **mercados emergentes**, onde prevemos expansão de volumes de um dígito alto ou dois dígitos em todas as unidades e onde as taxas de juros permitem obter boas margens.
- Nos **mercados maduros**, onde as receitas continuarão sob pressão, devemos **aumentar a nossa cota de mercado**, principalmente em empresas, continuar crescendo em receitas por comissões, fundamentalmente em cartões, seguros e fundos. Nesse contexto, definimos o recente convênio de recompra de 50% do Santander Asset Management.
- Continuar com os **custos sob controle**, com um crescimento em seu conjunto inferior à inflação média dos países e mantendo um aumento das receitas superior ao dos custos.
- Continuar **melhorando o custo do crédito** com as provisões do Grupo baixando a medida em que melhora o ciclo em alguns mercados destacados como Brasil e Espanha.
- Conseguir que os ativos ponderados por risco cresçam abaixo dos créditos e do lucro do Grupo, melhorando, assim, o nosso índice de Retorno sobre Ativos ponderados por Risco (RoRWA).
- Todas essas medidas devem permitir **melhorar nossa rentabilidade** aproximando-nos do nosso objetivo de RoTE de 11% em 2018, ao mesmo tempo que continuamos reforçando nosso índice de capital.

Por último, **quero agradecer a todos os profissionais do Grupo pelo esforço realizado para transformar e melhorar o nosso Banco**. As conquistas alcançadas em 2016 e a consecução dos objetivos de 2017 não seriam possíveis sem a sua contribuição.

Todos eles, e eu mesmo, continuaremos trabalhando todos os dias para contribuir para que as pessoas e os negócios prosperem, e para transformar o Santander no melhor banco do mundo por conquistar a lealdade das pessoas, clientes, acionistas e comunidades.

José Antonio Álvarez
CEO



**OBJETIVOS
FINANCEIROS 2017:**

- ▶ Acelerar o crescimento das receitas
- ▶ Aumentar a participação em mercados maduros
- ▶ Manter os custos sob controle
- ▶ Melhorar o custo do crédito
- ▶ Crescimento de ativos ponderados por risco inferior ao crescimento dos créditos e do lucro do Grupo
- ▶ Melhorar a rentabilidade

Governança Corporativa

O Santander conta com uma governança corporativa sólida, baseada em uma cultura e valores fortes e em um adequado controle de riscos, que garante uma gestão alinhada com os interesses dos nossos acionistas, investidores, funcionários, fornecedores, clientes e demais grupos de interesse (*stakeholders*).



Composição equilibrada do conselho

- Dos 15 conselheiros, 11 são externos e quatro executivos.
- Mais da metade dos conselheiros são independentes.
- Aposta pela diversidade de conhecimentos e de gênero (40% de conselheiras) e experiência internacional.



Respeito aos direitos dos acionistas

- Princípio de uma ação, um voto, um dividendo.
- Inexistência de medidas estatutárias de blindagem.
- Incentivo à participação informada nas assembleias.



Máxima transparência nas retribuições do conselho e da diretoria

- É fundamental para gerar confiança e segurança nos acionistas e investidores.
- Nova política de remuneração dos conselheiros executivos e da direção do Banco alinhada com a cultura de ser Simples, Próximo e Justo.



Na vanguarda internacional em melhores práticas de governança corporativa

- Consolidação da figura do *lead director* e do papel dos comitês no seu apoio ao conselho.
- Ampliação das funções do comitê de inovação e tecnologia para abordar os desafios apresentados pelo novo ambiente digital.

» Conselho de administração

O conselho é o órgão máximo de decisão do Grupo, exceto em assuntos reservados à assembleia geral de acionistas. O Santander conta com um conselho altamente qualificado: experiência, conhecimento, dedicação dos conselheiros e a diversidade em sua composição constituem seu principal ativo.

Alinhado com a visão e propósito do Banco, e no âmbito de sua função geral de supervisão, o conselho de administração lidera as decisões que se referem às principais políticas e estratégia, à cultura corporativa, à definição das estruturas e à promoção das políticas adequadas em matéria de responsabilidade social corporativa. Além disso, no exercício de sua responsabilidade e envolvimento na gestão de todos os riscos, aprova e supervisiona o marco e apetite de risco e vigília que respeita o modelo das três linhas de defesa (negócio e originação de risco, controle de riscos e compliance, e auditoria interna).

Seu funcionamento e atuação são regidos pelos princípios de transparência, responsabilidade, justiça e eficácia, conciliando o interesse social com os legítimos interesses de nossos *stakeholders*.

Todos os seus membros caracterizam-se pelo seu profissionalismo, integridade e independência de critério, reunindo, individual e coletivamente, conhecimento e experiência necessários para conquistar o objetivo de transformar o Santander no melhor banco comercial. Os conselheiros externos contam com uma ampla experiência financeira e um grande conhecimento dos mercados onde o Grupo opera.

A figura do conselheiro coordenador (*lead director*) consolidou-se, desde a sua criação no exercício 2014, desempenhando um papel relevante na avaliação anual da presidente do conselho e promovendo uma comunicação proativa com os investidores para conhecer seus pontos de vista.



13

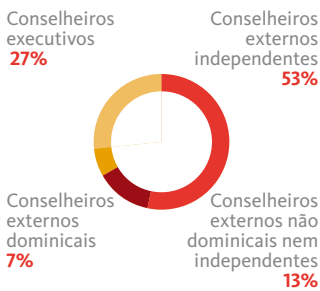
Sessões realizadas pelo conselho durante o exercício de 2016.



Toda a informação sobre a governança corporativa está disponível nas páginas 58 A 95 do relatório anual 2016 do Banco Santander.

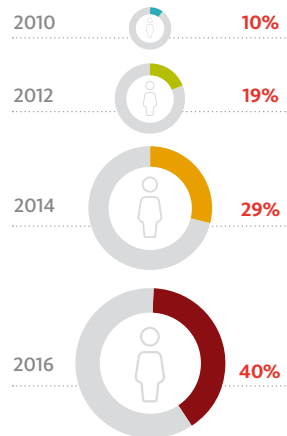
» O conselho do Banco Santander: diversidade e equilíbrio

Composição do conselho % de conselheiros

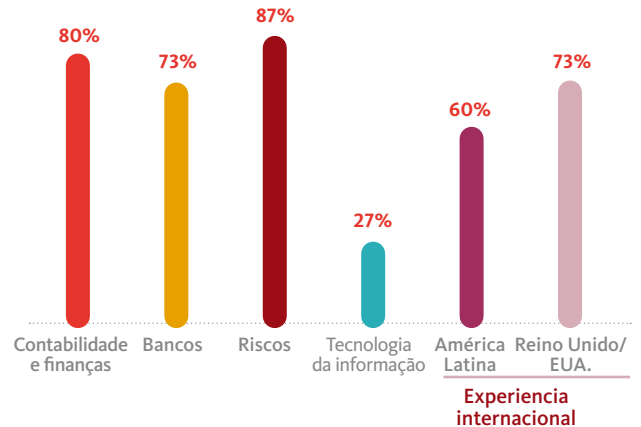


73%
Conselheiros externos

Diversidade no conselho % de mulheres conselheiras



Competências relevantes dos membros do conselho %



» Política de retribuições

A política de retribuições do Grupo leva em consideração os seguintes princípios:

1. As retribuições devem estar alinhadas com os interesses dos acionistas.
2. A retribuição fixa representou uma proporção significativa da compensação total.
3. A retribuição variável deve recompensar o desempenho na conquista dos objetivos acordados, conforme a função e responsabilidade do indivíduo e no âmbito de uma gestão prudente dos riscos.
4. Devem ser aportados os benefícios apropriados para apoiar os funcionários.
5. O plano de remuneração global e a sua estrutura devem ser competitivos, facilitando a atração e retenção dos funcionários.
6. Os conflitos de interesse devem ser evitados nas decisões sobre remuneração.
7. Não deve existir discriminação nas decisões sobre a retribuição.
8. A estrutura e quantia da retribuição em cada país deve estar alinhada com as práticas e normativas locais.

GOVERNANÇA INTERNA

- O Grupo Santander está estruturado através de subsidiárias autônomas em capital e liquidez cuja entidade matriz é o Banco Santander S.A. Seu sistema de governança interna está composto por um modelo de governança e alguns marcos corporativos.
- O modelo estabelece os princípios que regem a relação entre o Grupo e suas subsidiárias e a interação que deve existir entre eles em três níveis: conselhos de administração do Grupo e das subsidiárias; CEO do Grupo e locais; bem como entre as figura relevantes que exercem funções de controle interno, de suporte e de negócio do centro corporativo nas subsidiárias.
- Os marcos corporativos constituem princípios comuns de atuação em matérias relevantes pela sua incidência no perfil de riscos do Grupo, como riscos, compliance, tecnologia, auditoria, contabilidade, finanças, estratégia, recursos humanos e comunicação.

Conselho assessor internacional

- O novo conselho assessor internacional do Banco Santander, composto por especialistas em estratégia, tecnologia da informação e inovação externos ao Grupo, realizou a sua primeira reunião no dia 26 de abril de 2016 em Boston (Estados Unidos).
- O objetivo do conselho assessor internacional é prestar assessoria estratégica ao Grupo, com ênfase especial em inovação, transformação digital, cibersegurança e novas tecnologias. Também contribui com a sua visão sobre tendências dos mercados de capitais, governança corporativa, marca e reputação, regulação e compliance, e serviços financeiros globais com foco no cliente.

Novo auditor externo

- Alinhada com as recomendações de governança corporativa em matéria de rotação do auditor externo, a assembleia geral ordinária de 18 de março de 2016 nomeou a PricewaterhouseCoopers Auditores, S.L. (PwC) como auditor externo do Banco e do seu Grupo Consolidado para os exercícios 2016, 2017 e 2018.

Conselho de administração do Banco Santander

1. Sra. Ana Patricia Botín-Sanz de Sautuola y O'Shea
 Presidente. Conselheira executiva



2. Sr. José Antonio Álvarez Álvarez
 CEO e conselheiro executivo



3. Sr. Bruce Carnegie-Brown
 Vice-presidente. Conselheiro externo (independente) e coordenador dos conselheiros externos (*lead director*)



4. Sr. Rodrigo Echenique Gordillo
 Vice-presidente. Conselheiro executivo



5. Sr. Matías Rodríguez Inciarte
 Vice-presidente. Conselheiro executivo



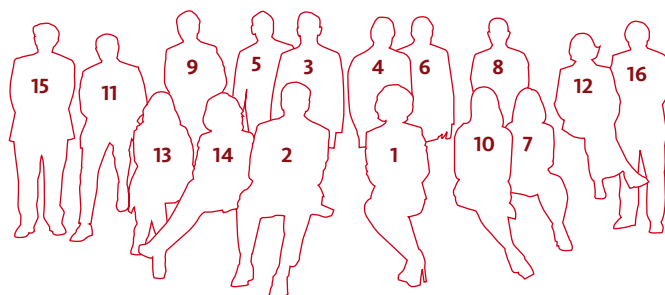
6. Sr. Guillermo de la Dehesa Romero
 Vice-presidente. Conselheiro externo



7. Sra. Homaira Akbari
 Conselheira externa (independente)



8. Sr. Ignacio Benjumea Cabeza de Vaca
 Conselheiro externo



- Comitê executivo
- ▲ Comitê de auditoria
- Comitê de nomeações
- Comitê de retribuições
- Comitê de supervisão de riscos, regulação e compliance
- Comitê internacional
- ▲ Comitê de inovação e tecnologia



Edifício Pereda, Cidade Grupo Santander, Boadilla del Monte (Madri, Espanha), 20 de dezembro de 2016.

9. Sr. Javier Botín-Sanz de Sautuola y O'Shea
Conselheiro externo
(dominical)

10. Sra. Sol Daurella Comadrán
Conselheira externa
(independente)



11. Sr. Carlos Fernández González
Conselheiro externo
(independente)



12. Sra. Esther Giménez-Salinas i Colomer
Conselheira externa
(independente)



13. Sra. Belén Romana García
Conselheira externa
(independente)



14. Sra. Isabel Tocino Biscarolasaga
Conselheira externa
(independente)



15. Sr. Juan Miguel Villar Mir
Conselheiro externo
(independente)



16. Sr. Jaime Pérez Renovales
Secretário geral e do conselho

● MUDANÇAS NA COMPOSIÇÃO DO CONSELHO E DE SEUS COMITÊS

- No dia 27 de setembro de 2016, a Sra. Homaira Akbari foi designada conselheira independente e membro do comitê de inovação e tecnologia do Banco, ocupando a vaga deixada por Ángel Jado Becerro de Bengoa, após deixar seu cargo de conselheiro.
- Em 26 de abril de 2016, a Sra. Belén Romana García foi nomeada presidente do comitê de auditoria, substituindo o Sr. Juan Miguel Villar Mir, que continua como membro do comitê. A Sra. Romana, presidente do comitê mencionado, é considerada *financial expert* devido à sua formação e experiência em matéria de contabilidade, auditoria e gestão de riscos.
- Além disso, o conselho de administração do Banco, como proposta do comitê de nomeações, concordou, na sua sessão de 28 de outubro de 2016, em nomear a Sra. Belén Romana como membro do comitê de supervisão de riscos, regulação e compliance.



« Progresso é saber olhar »

Rafael Rey,
Microcrédito, Paraisópolis,
Santander Brasil



« Progresso é rejuvenescer »

Melissa Morsbach,
Consultora de Marketing, Frankfurt,
Santander Consumer Finance, Alemanha



« Progresso é ajudar a
melhorar a vida das pessoas »

Ian Carson, Diretor de Agência, Liverpool
Old Swan, Santander UK



« Progresso é avançar, crescer e
superar metas »

Adrián Fernández-Romero, empresário e
acionista do Banco Santander, Espanha



« Progresso é poder passar um
tempo com os meus netos »

Ringo Francis, cliente,
Santander UK



« Progresso é inovação
para todos »

Roselly Kimura, IT, São Paulo,
Santander Brasil



« Progresso é colaboração »

Justin Hannemann, *Customer and Innovation, Londres, Santander UK*



Modelo de negócio e estratégia



« Progresso é insistir »

Katarzyna Surowiec
Diretora Geral Grandpa's Garden, Polónia

- 26 Propósito e modelo de negócio
- 28 Visão e criação de valor
- 30 Funcionários
- 32 Clientes
- 36 Acionistas
- 38 Sociedade

Nosso propósito é contribuir para que as pessoas e os negócios prosperem



« Progresso é incluir »

Lorena López e Sabrina Escalante,
Representantes do Serviço ao Cliente, La Juanita, Santander Río, Argentina



« Progresso é mudança »

Teresa Sáenz-Díez, *Assessora Legal Sênior, Centro Corporativo do Grupo Santander, Madri, Espanha*

Propósito e modelo de negócio

Nosso propósito

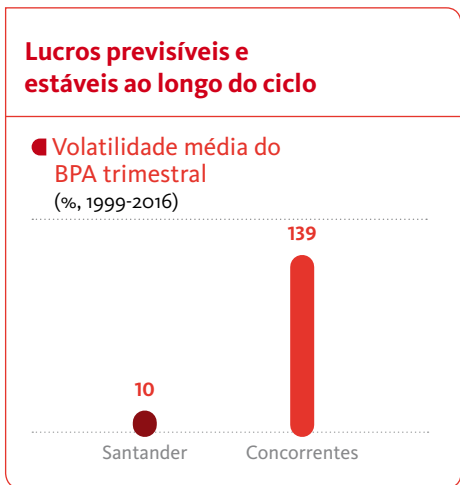
Contribuir para que as **pessoas** e os **negócios prosperem**

Nossa visão

Ser o **melhor banco do mundo** por conquistar a **lealdade das pessoas, clientes, acionistas e comunidades**

Nossa forma de fazer as coisas

Simple | Pessoal | Justo



+



+



Um modelo de negócio diferenciado



1 Nossos 125 milhões de clientes e nossa massa crítica em 10 mercados principais impulsionam o crescimento rentável

125 milhões de clientes em mercados com uma população de 1 bilhão de pessoas

- O Banco Santander aspira satisfazer as necessidades de **todos os tipos de clientes**: pessoas físicas de níveis de renda variados, empresas de qualquer porte e setor de atividade, corporate e instituições públicas.
- A marca Santander é uma **marca forte** que conta com um **grande reconhecimento** tanto nos principais mercados do Grupo como a nível global.
- As relações pessoais de longo prazo com os clientes são a base do negócio. Por meio da **inovação**, o Santander está transformando o seu modelo comercial para conseguir um maior número de clientes vinculados e digitais, o que impulsiona um negócio mais **rentável e sustentável**.
- O Santander conta com **altas cotas de mercado** em banco comercial na Argentina, Brasil, Chile, Espanha, nordeste dos Estados Unidos, México, Polónia, Portugal e Reino Unido, e no negócio de financiamento ao consumo na Europa.



2 Nossa diversificação geográfica gera lucros previsíveis, o que significa menos necessidades de capital

3.363 milhões de euros de capital gerados em 2016. Índice de capital CET1 10,55%

- O Santander tem uma **presença equilibrada** entre mercados maduros e emergentes, o que gera **lucros previsíveis e crescentes** a longo prazo.
- Conta com um **capital sólido** e adequado para o seu modelo de negócio, diversificação geográfica, estrutura de balanço, perfil de risco e exigências regulatórias.
- A solidez de balanço e rentabilidade do Santander permite **financiar o crescimento**, distribuir um **maior dividendo** em dinheiro e continuar **acumulando capital**.



3 Modelo de subsidiárias com forte cultura de colaboração promove a eficiência e a excelência do serviço

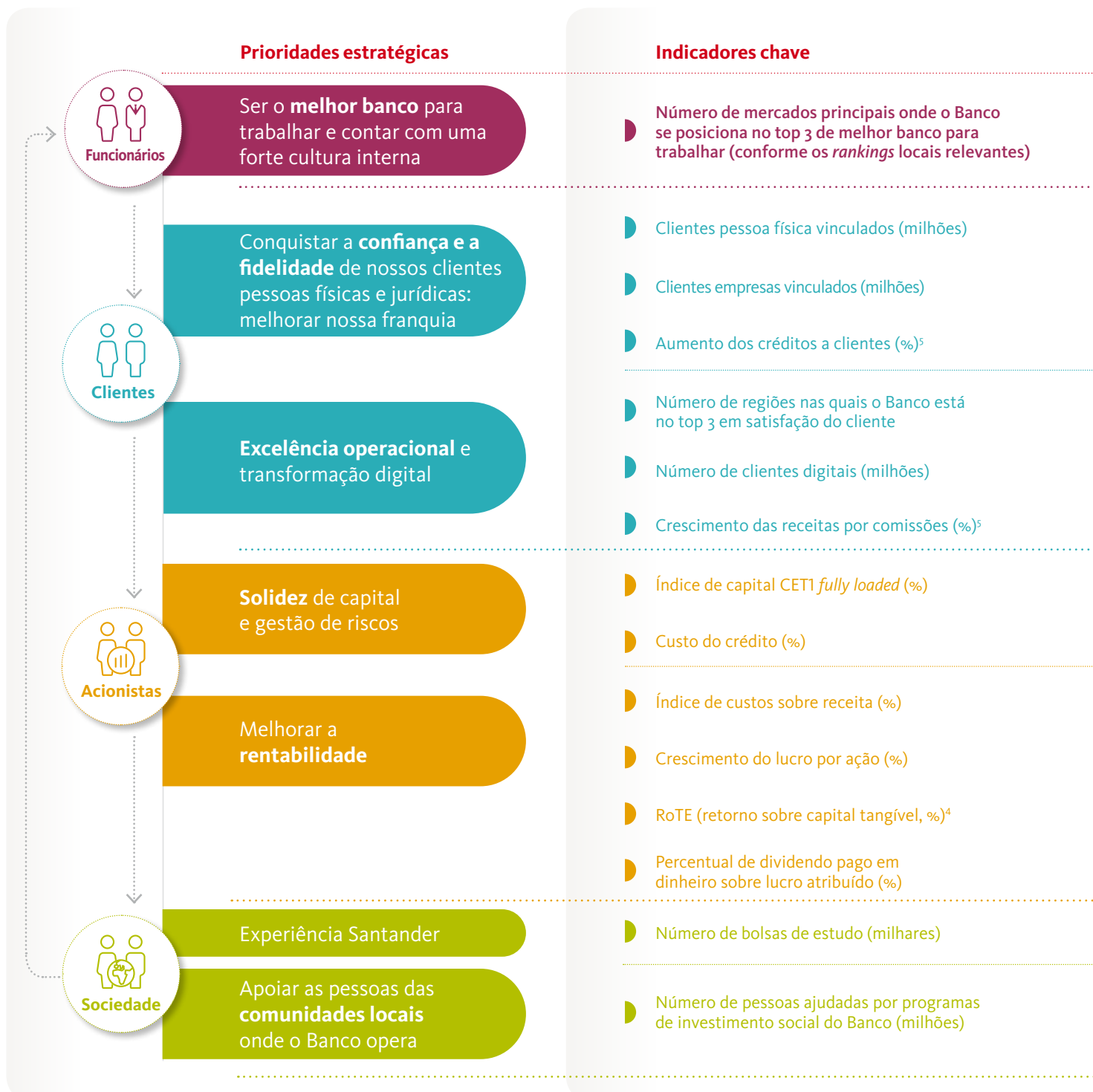
48% Índice de eficiência, um dos bancos internacionais mais eficientes

- O Grupo se estrutura através de um **modelo de subsidiárias autônomas** em capital e liquidez, que estão sujeitas à regulamentação e supervisão das autoridades de cada país, e são administradas por equipes locais que possuem um grande conhecimento dos clientes nos seus respectivos mercados.
- O Santander busca a **excelência operacional** por meio da informatização e melhoria de todas as suas operações e canais comerciais, da simplificação de processos e da otimização de custos, melhorando, ao mesmo tempo, a experiência e **satisfação dos seus clientes**.
- O **Centro Corporativo** agrega valor e impulsiona a competitividade das subsidiárias, promovendo a colaboração, ajudando-as a serem mais eficientes, consolidando a governança do Grupo e impulsionando a troca de melhores práticas comerciais. Isso permite ao Grupo obter **melhores resultados**, em comparação com o **que seria obtido da soma** de cada um **dos bancos locais**.

Visão e criação de valor

Nossa visão é ser o melhor banco comercial, conquistando a confiança e a fidelidade dos nossos funcionários, clientes, acionistas e comunidades.

Colocamos para nós mesmos alguns objetivos ambiciosos...



1. Média 2015-2018.

2. Exceto nos Estados Unidos, onde ficará perto dos concorrentes.

3. Quantidade total 2016-2018.

4. Calculado sobre lucro recorrente.

5. Euros constantes.

... e definimos como atingi-los.

2015	2016	Objetivos 2018	Mais informações
3	4	maioria países	págs. 30-31
12,7	13,9	17	págs. 32-33
1,049	1,356	1,646	págs. 32-33
6%	2%	> concorrentes	pág. 48
5	8	Todas ²	pág. 35
16,6	20,9	30	págs. 34
4,3%	8,1%	C. 10% ¹	pág. 47
10,05%	10,55%	>11%	págs. 48
1,25%	1,18%	1,2% ¹	pág. 48
47,6%	48,1%	45-47%	pág. 47
-15,9%	1,0%	duplo dígito	pág. 46
11,0%	11,1%	>11,0%	pág. 47
38%	40%	30-40%	págs. 36-37
35	37	130 ³	págs. 39
1,2	1,7	4,5 ³	págs. 38-39

Simple | Pessoal | Justo

Simple, Pessoal e Justo (*Simple, Personal and Fair*) é a essência da cultura corporativa do Banco. São os princípios que definem como pensamos e agimos todos os profissionais do Santander e nos orientam na forma como nos relacionamos com os nossos funcionários, clientes, acionistas e com a sociedade.

COMPORTEMENTOS CORPORATIVOS

Os comportamentos corporativos são a base para conseguir um banco mais Simple, Pessoal e Justo. Durante o ano, impulsionou-se o seu conhecimento e sua aplicação no trabalho diário, bem como o reconhecimento daqueles profissionais que melhor os representam.



Demonstro respeito



Escuto com atenção



Falo claramente



Cumpro as promessas



Promovo a colaboração



Trabalho com paixão



Apoio as pessoas



Promovo a mudança

CULTURA DE RISCOS: RISK PRO

O Santander conta com uma sólida cultura de riscos denominada *risk pro*, que define a forma como entendemos e administramos os riscos no dia a dia. Baseia-se no fato de que todos os profissionais são responsáveis pelos riscos que geram, além de em outros princípios que devem ser conhecidos e integrados na forma de trabalhar em todo o Grupo.

risk pro

All the Santander team engaged in risk

>90%

funcionários conhecem e são responsáveis pelos riscos no seu trabalho diário

MARCA SANTANDER

A marca Santander expressa uma cultura corporativa e um posicionamento internacional único e coerente com uma forma de fazer banco que contribui para que as pessoas e os negócios prosperem de uma maneira Simple, Pessoal e Justa.



Santander

Funcionários

Para que as pessoas e os negócios prosperem, é essencial que os **188.492** funcionários que fazem parte do Santander estejam motivados e engajados.

“Progresso é colaboração”
Justin Hannemann, Customer and Innovation, UK



A ESTRATÉGIA DE GESTÃO DE PESSOAS CONCENTRA-SE EM SEIS GRANDES DESAFIOS



Objetivo 2018:
Top 3
como melhor banco para trabalhar nas principais regiões.

Star Me Up: a primeira rede de reconhecimento global
Surge para impulsionar a colaboração e reconhecer as pessoas que apliquem no seu dia a dia os comportamentos corporativos
>65.000 usuários



Nossa equipe profissional



188.492
funcionários



49%
Com título universitário



38 anos
Média de idade



9 anos
Média de antiguidade



“ O meu trabalho me permite ajudar as comunidades e negócios locais ”

Ian Carson, *Diretor de agência, Liverpool Old Swan, Santander UK*

Ian Carson é diretor de uma agência do Santander UK em Old Swan, Liverpool. Há vários anos, sua agência contribui com diferentes iniciativas e projetos locais. Para Ian, "é um grande privilégio fazer parte da grande família que é o Banco" porque, graças ao seu trabalho, pode melhorar a vida de outras pessoas.



PESQUISA GLOBAL DE ENGAJAMENTO E APOIO ORGANIZACIONAL

85% recorde de participação

78% dos funcionários engajados

91% conhecem a cultura corporativa de Simples, Pessoal e Justo

78% os funcionários afirmam que o seu chefe facilita a sua conciliação entre a vida no trabalho e familiar

Os resultados em 2016 mostram uma melhoria, principalmente em dois aspectos: o amplo conhecimento da cultura corporativa de Simples, Pessoal e Justo e a motivação para fazer um banco mais SPJ; e o equilíbrio entre a vida no trabalho e profissional.

Além disso, continuam existindo áreas de melhoria referentes à simplificação da forma de trabalhar e a contar com meios mais inovadores para trabalhar.

Iniciativas desenvolvidas por Recursos Humanos em 2016

- **Comportamentos Simples, Pessoal e Justo (Simples, Personal, Fair).** Foi implantado um plano de comunicação, sensibilização, formação e adaptação de processos de desempenho e reconhecimento para ajudar os funcionários a aplicar os oito comportamentos corporativos para fazer do Santander um banco mais Simples, Pessoal e Justo.
- **Reconhecimento.** Chile, México, Argentina, Espanha e o Centro Corporativo implantaram plataformas que permitem reconhecer os funcionários que se destacam por ser um exemplo dos comportamentos corporativos. Na convenção do Grupo, realizada em dezembro, houve um evento para os 100 Embaixadores SPF, funcionários escolhidos pelos seus colegas por serem um expoente dos comportamentos corporativos. Além disso, foi lançado o aplicativo *Star Me Up*: a primeira rede de reconhecimento global.
- **Nova segmentação corporativa.** Mais dinâmica, com entradas e saídas que serão revisadas semestralmente e baseada na transparência e na meritocracia, com critérios objetivos (contribuição, resultados) e individuais (desempenho, potencial).
- **Planos de sucessão.** Foi aprovada a política que permitirá avançar no planejamento da sucessão dos líderes, com uma metodologia comum e estruturada para postos chave de direção e funções de controle.
- **Global Assessment Process (GAP).** Este processo foi implementado para ajudar os líderes a contribuir para a transformação do Banco com um estilo de liderança de acordo com essa nova etapa.
- **Valorização 360.** Trata-se da primeira fase do modelo corporativo de gestão de desempenho, na qual os diretores são avaliados pelos seus pares, reportes diretos e pelo seu chefe na adoção dos oito comportamentos corporativos no seu dia a dia.
- **Flexiworking: novos espaços.** Este programa continuou avançando com a criação de novos espaços, com áreas que potencializam a colaboração, a troca de conhecimentos e com ferramentas que permitem estar em contato constante com as equipes de outros países.
- **Be Healthy, o programa global de Saúde & Bem-estar.** Esse programa, que já foi implantado no Chile, Polônia, México, Brasil, Espanha, Portugal, Reino Unido, Argentina e Santander Consumer Finance, pretende transformar o Santander na organização mais saudável do mundo. A primeira iniciativa foi um desafio para dar a volta ao mundo entre todos os funcionários do Grupo através dos seus passos. O Santander doou à Unicef 44.000 euros, um euro por quilômetro percorrido.
- **Semana Somos Santander.** A edição de 2016 concentrou-se nos comportamentos corporativos. Foram realizadas *town hall meetings*, palestras e atividades de voluntariado para as equipes e suas famílias em todos os países do Grupo.
- **Conhecimento.** Em junho, foi lançado o *Solaruco Pop Up*, uma iniciativa para difundir o conhecimento oferecido no **Centro Corporativo de Conhecimento e Desenvolvimento** a todos os profissionais do Grupo. Também foi lançado um ciclo de palestras, *Santander Business Insights*, dedicado a compartilhar boas práticas.

Clientes

No Santander, queremos contribuir para que nossos clientes avancem cada dia e sabemos que o progresso significa algo diferente para cada um deles. Por isso, nossa oferta de valor pretende satisfazer as necessidades dos nossos diferentes perfis de clientes, que cada dia estão mais vinculados, usam mais os canais digitais e estão mais satisfeitos com o Banco.

“Progresso é fidelidade”

Alfredo Candela, CEO
Bodegas Barahonda, Espanha



Soluções simples e personalizadas para reforçar a confiança e o vínculo dos nossos clientes a longo prazo.

Objetivo 2018:

18,6M
clientes
vinculados



MUNDO 1|2|3: uma das opções preferidas dos clientes pessoa física.

- Com este modelo de relação comercial, os clientes obtêm remunerações pelos saldos em contas e bonificações nos seus débitos em conta e compras, entre outras vantagens. Em 2016, expandiu-se para novos segmentos, como a Conta 1|2|3 Mini na Espanha voltada para crianças e menores de 18 anos, e em novos países como o México, que lançou a oferta com o nome de Santander Plus.

Número de clientes (milhões)



SANTANDER PRIVATE BANKING: um modelo de atendimento especializado para os clientes de maior patrimônio.

- Reconhecido pela *Euromoney* como o Melhor Banco em Gestão de Patrimônios na América Latina.

SANTANDER SELECT: a oferta de valor diferenciada para os clientes de alta renda.

- Também em 2016, foram desenvolvidas novas propostas como o *Select Global Value*, que cobre as necessidades dos clientes que viajam ao exterior ou são expatriados. Assim, fomenta-se a vinculação do cliente, que pode se beneficiar da rede internacional de agências e caixas eletrônicos do Grupo Santander.

SANTANDER PMES: uma solução global para apoiar o desenvolvimento das PMEs.

- Este modelo, que funciona em todo o Grupo, conta com uma forte oferta financeira e outras soluções para impulsionar a internacionalização, formação, emprego e informatização das PMEs.

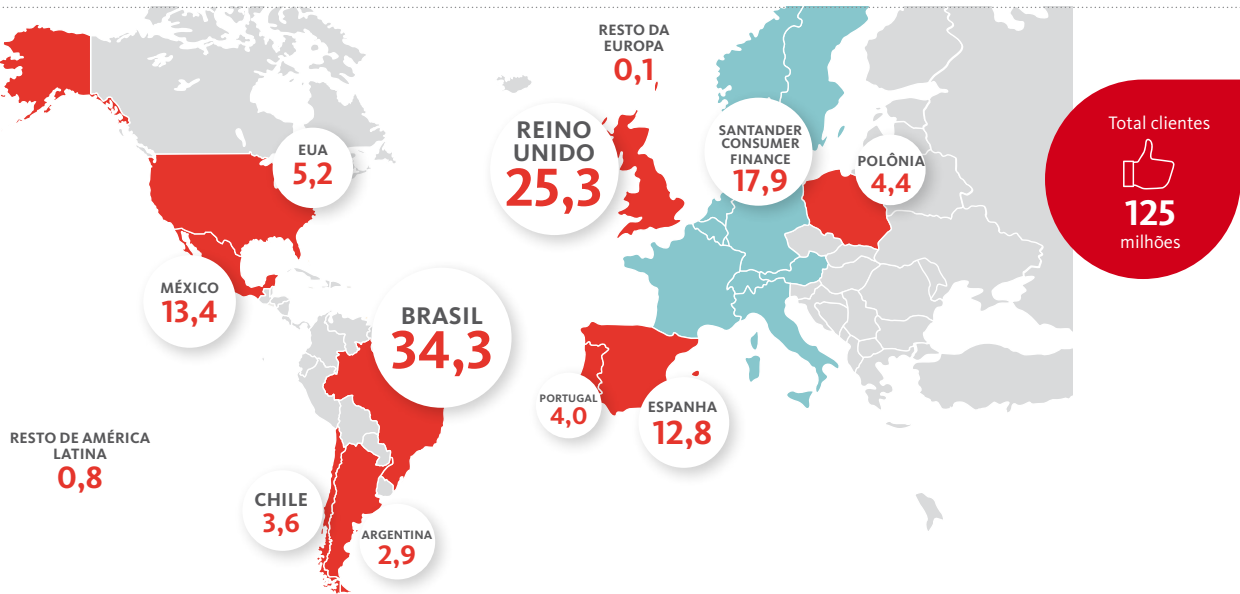
Novidades em 2016 na estratégia Santander PMEs



#1
Prêmio *Euromoney*
ao Melhor Banco do
Mundo para PMEs



● Clientes do Grupo
Milhões



Soluções para apoiar a internacionalização e o crescimento das empresas.

● **SANTANDER TRADE NETWORK:** uma rede de fornecedores de serviços certificados pelo Santander para ajudar a internacionalizar os negócios.

● Essa solução faz parte do Santander Trade, a plataforma web do Santander que apoia o comércio exterior oferecendo diferentes serviços.

+68.000
exportadores e importadores

● **GLOBAL TREASURY SOLUTIONS:** serviço que ajuda as empresas multinacionais a administrar sua tesouraria remotamente.

● Permite que as multinacionais contem com um *reporting* centralizado das suas contas de qualquer entidade e ordenem pagamentos em contas do Grupo Santander de forma centralizada por vários canais e com um formato homogêneo.

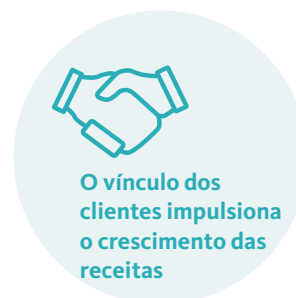
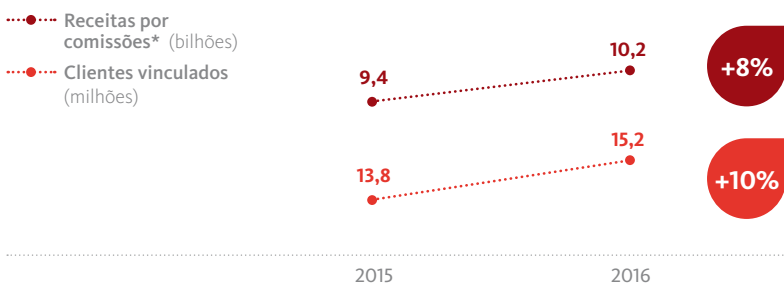
+60
grupos multicanais

● **SANTANDER FLAME:** uma plataforma *online* para executar e administrar operações de *Foreing Exchange (FX)* e administrar o risco de câmbio.

● Essas operações são essenciais para realizar atividades de importação e exportação. Está operando no Reino Unido e México e, em breve, no Chile e nos Estados Unidos.

+20%
crescimento das receitas

● Relação entre clientes vinculados e receitas



* Excluindo os efeitos da taxa de câmbio

“ **Progresso é inovação para todos** ”

Roselly Kimura, Tecnologia, Santander Brasil



Estamos transformando o nosso modelo comercial porque sabemos que os nossos clientes exigem maior disponibilidade e proximidade através dos canais digitais, reforçando, ao mesmo tempo, o atendimento e tratamento pessoal que sempre caracterizou o Santander.

Objetivo 2018:
30M
clientes digitais

NOVAS SOLUÇÕES DIGITAIS: com acesso simplificado à oferta de serviços bancários e assessoria personalizada.

- Foram reforçados os serviços de atendimento remoto aos clientes, como o Gestor Digital no Brasil e o Santander Pessoal na Espanha, que disponibilizam aos clientes um gestor qualificado para ajudá-lo em suas finanças sem a necessidade de ir à agência. Também foram potencializadas as ferramentas de gestão financeira, como as do Reino Unido, da Espanha e da Polônia, para o controle e categorização de gastos, e se manteve a melhoria em *mobile banking* por meio de novas soluções em meios de pagamento disponíveis em vários países.

Iniciativas digitais



REINO UNIDO

Centro de investimentos, *spendlytics* (Android) e pagamentos pelo celular



ESPAÑA

Controle de finanças pessoais no *MoneyPlan*. Pagamento com o celular através do *Wallet* e *Apple Pay*



BRASIL

Soluções *ContaSuper* e *Santander Way*.



MÉXICO

Supermóvil com +900.000 usuários. *Onboarding* móvel de clientes universitários



ARGENTINA

Melhor banco digital de acordo com a *Global Finance* pelo décimo ano consecutivo



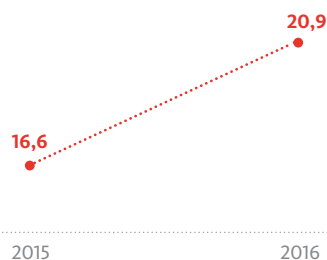
POLÔNIA

Melhor aplicativo de *mobile banking* do país e terceiro da Europa de acordo com a consultora Forrester. Oferta reforçada em pagamentos pelo celular (Android)

SANTANDER NEO CRM: a ferramenta de inteligência comercial oferece uma visão de 360° do comportamento e preferências dos clientes.

- Durante o ano, trabalho-se para integrar informação de todos os canais (agências, *contact centres*, meios digitais, etc.), bem como para incorporar novas capacidades de transações. Esta informação permite melhorar a proposta de valor do Banco aos seus clientes, baseando-se em sua experiência e necessidades, e também ajuda a conseguir economias em custos e a aumentar a produtividade (+24%).

Clientes digitais
Milhões



+26%

+53%

clientes mobile banking

SMARTRED: uma iniciativa para transformar a experiência do cliente nas agências.

- O objetivo é incorporar novos progressos tecnológicos e criar espaços diferenciados por serviços que ajudam a simplificar os processos e melhorar o atendimento pessoal. Espanha, Reino Unido, Brasil, Argentina, Portugal, México e Chile já inauguraram novas agências alinhadas a este modelo.

472

agências renovadas em 2016 e 1000 previstas para 2017



“ Graças ao programa de apoio às PMEs do Banco, contamos com a experiência de especialistas que nos ajudaram a impulsionar a nossa marca e o nosso negócio ”

Katarzyna Surowiec,
Diretora geral Grandpa's Garden, Polônia.

Grandpa's Garden é uma empresa familiar que se dedica à elaboração de vegetais em conserva na Polônia. Quando a crise mundial afetou o seu negócio, buscaram o apoio do Bank Zachodni WBK (Grupo Santander). Graças ao programa de aceleração de empresas, o *Firmowe Ewolucje (Business Evolutions)*, foi possível ter acesso não somente ao financiamento para novos investimentos na fábrica, como também a outros serviços de alto valor agregado que ajudaram a potencializar a sua marca, captando novos clientes e multiplicando suas vendas em 10 vezes.

EXCELÊNCIA OPERACIONAL: para aumentar a satisfação do cliente, oferecendo o melhor serviço ao menor preço possível.

Em todo o Grupo, estão sendo desenvolvidas iniciativas que pretendem transformar a experiência do cliente nos principais processos de relacionamento com o Banco (*Customer Journeys*).

Iniciativas que melhoram a experiência do cliente



ESPAÑA
Santander ID
Identificação do cliente e assinatura de contratos de forma digital e em um único processo



POLÔNIA
Empréstimos através do celular em 60 segundos



REINO UNIDO
Processos digitais para o negócio hipotecário
O tempo para realizar uma solicitação foi reduzido de três horas a menos de 40 minutos (-75%)



CHILE
Neoclick
Solicitação online de empréstimos em três clicks. 93% do processo é eletrônico, o que equivale a 200.000 horas de economia de tempo para a equipe comercial



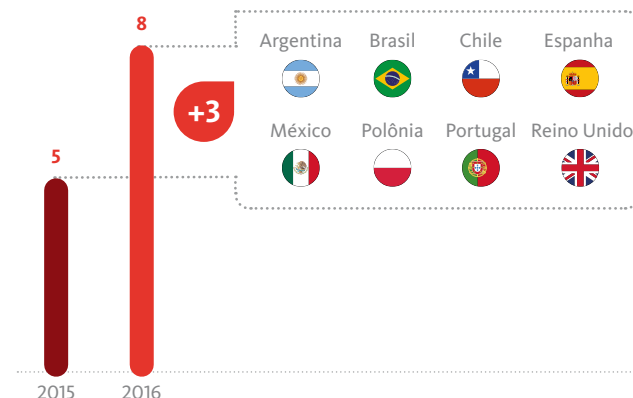
BRASIL E MÉXICO
Biometria
identificação de clientes através da impressão digital, da voz ou reconhecimento facial. No México, é utilizada aproximadamente por 30% dos clientes ativos

O Santander é um dos bancos internacionais mais eficientes e o seu objetivo é continuar melhorando seu índice de eficiência através da otimização dos processos e operações e nos centros corporativos, e de maior informatização do modelo de distribuição comercial.



Estamos no top 3 em satisfação de clientes em países que representam quase 80% do nosso lucro depois de impostos

Número de países onde o Santander está no top 3 de satisfação de clientes⁽¹⁾



(1) Benchmark corporativo de satisfação de clientes.

Acionistas e Investidores

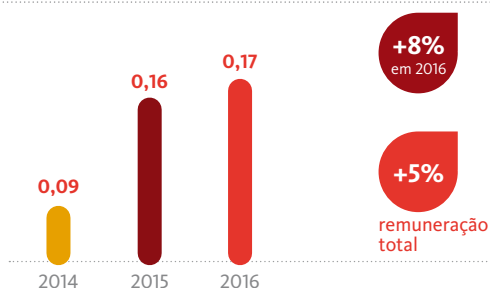
No Santander, oferecemos aos nossos acionistas uma rentabilidade atrativa e sustentada para manter a sua confiança a longo prazo. Em 2016, o Banco alcançou todos os seus objetivos financeiros e avançou de forma significativa nas suas prioridades estratégicas.

Principais marcos relacionados a investidores e acionistas em 2016

1. Aumento da remuneração, mantendo o pagamento dos quatro dividendos habituais:

- A retribuição total ao acionista referente aos resultados do exercício 2016 aumentará 0,21 euro por ação (+5% frente a 2015). Três desses dividendos já foram pagos: dois deles em dinheiro de 0,055 euro por ação cada um e um através do *Script Dividend*, de 0,045 euro por ação. O quarto e último está previsto para maio de 2017.
- A rentabilidade por dividendo ficou em 5,2% (dividendo do exercício 16 / Preço médio 2016).

Remuneração em dinheiro Euros por ação



2. Aumento do número de acionistas:

- O Banco Santander contava com 3,9 milhões de acionistas em mais de 100 países no fechamento do ano.

3,9
milhões de
acionistas

3. Melhoria dos indicadores de risco

- A robusta governança da função de riscos do Santander facilita uma adequada e eficiente tomada de decisões, um controle efetivo dos riscos e garante que serão administrados de acordo com o apetite de risco definido pela direção.
- Após a implantação do Programa *Advanced Risk Management* (ARM), a gestão avançada de risco no Santander é uma realidade, considerando-se *best-in-class* na indústria. Além disso, o Grupo conta com uma sólida cultura de riscos, o que lhe permite dar resposta a ambientes complexos.

3,93%
Taxa
inadimplência
(-43 pb em
2016)

Ação Santander em 2016

Evolução comparativa de cotações



EVOLUÇÃO DO DESEMPENHO DA AÇÃO

Os mercados registraram um ano muito volátil, marcado pela insegurança sobre a economia chinesa; a evolução das matérias primas; a solvência do setor financeiro em alguns países; as políticas monetárias; o referendo no Reino Unido e as eleições presidenciais dos EUA.

- Neste contexto, a ação Santander fechou 2016 com uma evolução melhor que o principal índice espanhol, o Ibex 35, e que o índice bancário europeu.



4,959
euros por
título no
fechamento de
2016

72,314
bilhões

Base acionária e capital (31 de dezembro de 2016)

	Dez.2016	Dez.2015
Acionistas (número)	3.928.950	3.573.277
Ações em circulação (número)	14.582.340.701	14.434.492.579
Contratação média diária (número de ações)	100.707.234	103.736.264



“Na minha família, já somos três gerações de relacionamento com o Santander”

Adrián Fernández-Romero, empresário e acionista do Banco Santander, Sevilha, Espanha.

Tanto na sua atividade financeira como para investir em outras empresas, Adrián Fernández-Romero destaca que “é muito importante saber bem com quem começamos a remar. Como dizia o meu avô, primeiro o sócio e depois o negócio. Sou acionista porque acredito no Banco Santander. Conheço os seus trabalhadores e, como em qualquer empresa, o valor são as pessoas que estão por trás”.



AGREGANDO VALOR AO ACIONISTA EM 2016

+14%

Retorno total para o acionista

Valor contábil por ação

4,22

euros (+4%)

Fortalecemos nosso capital (+50 pb)

10,55%

CET1 *fully loaded*

Compromisso com os acionistas através da área de Relações com Acionistas e Investidores

Durante 2016, a área de Relações com Acionistas e Investidores realizou diversas iniciativas com o objetivo de:

- Promover uma comunicação com acionistas, investidores institucionais, analistas e agências de rating para fortalecer a relação e a confiança.** Em setembro, foi realizado em Londres um Group Strategy Update com mais de 130 investidores e analistas.



O aplicativo permite votar ou delegar o voto na assembleia geral de acionistas

- Potencializar o atendimento personalizado ao acionista,** realizando mais de 183 fóruns e encontros com acionistas e administrando 186.953 consultas através de canais remotos.
- Facilitar a participação dos acionistas.** O número de acionistas que participaram da assembleia geral voltou a aumentar, sendo que 57,63% do capital social emitiu o seu voto ou delegação sobre as propostas do Conselho.
- Impulsionar a inovação nos diversos canais de Relação com Acionistas e Investidores.** Reformulação alinhada com as novas tecnologias da web corporativa, a web comercial e o *app Santander Acionistas e Investidores*.
- Oferecer produtos e vantagens exclusivas** através da web www.yosoyaccionista.santander.com

Sociedade

No Banco Santander, zelamos pela integração de critérios éticos, sociais e ambientais no desenvolvimento da nossa atividade, contribuindo para o progresso econômico e social das pessoas e empresas, de uma forma responsável e sustentada. O ensino superior é a identidade do nosso compromisso social.

“Progresso é inclusão”

Lorena López e Sabrina Escalante, representantes do Serviço ao Cliente, La Juanita, Santander Río, Argentina



O Santander conta com diversas políticas, códigos e normativas internas que garantem que a sua atividade se desenvolva de forma responsável e que se inspirem nas melhores práticas e guias internacionais aplicáveis em cada matéria.

O Banco desenvolve e impulsiona produtos e serviços que fomentam, entre outros, a **inclusão financeira**, como os **microcréditos**. Além disso, o Santander mantém um compromisso social especial com as comunidades onde está presente, através do **Santander Universidades** e do investimento nos numerosos programas que promovem, entre outros, a educação e o bem-estar social das pessoas. Algumas das iniciativas mais importantes são:

- **Iniciativas locais de apoio à educação infantil**, em especial na América Latina, onde o Banco contribui em projetos que apóiam os programas educacionais de cada país.
- **Programas de educação financeira**, que transmitem às crianças a importância da

economia, preparam os jovens para uma vida independente e ajudam as famílias a tomarem decisões financeiras básicas.

- **Programas de luta contra a exclusão social**, que abordam situações de pobreza, vulnerabilidade e marginalização da população.

O convênio de Paris sobre a mudança climática significa um importante progresso rumo a uma economia menos intensiva em carbono. O setor financeiro tem um papel importante nesta transição, e implica riscos e oportunidades. Por isso, o Banco criou um novo grupo de trabalho de *Climate Finance*, cujo objetivo é estabelecer a estratégia, identificar os riscos e as oportunidades derivados da mudança climáticas e incorporá-los na sua gestão.



1º. banco da Europa e 6º. do mundo no **Dow Jones Sustainability Index (DJSI)**



O Santander está presente no DJSI desde 2000, um dos principais índices que analisam e avaliam a atuação das empresas em responsabilidade social corporativa.





“ Graças ao Santander Microcréditos, posso ajudar milhares de empreendedores a cumprirem seus sonhos. É muito gratificante ”

Rafael Rey, Paraisópolis, Santander Brasil

O Santander Microcréditos impulsiona o crescimento de pequenos negócios que não têm acesso ao crédito formal, apoiando, até o momento, 250.000 pessoas na América Latina. Rafael explica como esse programa lhe permite "conhecer melhor as necessidades das pessoas, quais são seus sonhos e ajudar-lhes a evoluir". O Santander tem o objetivo de apoiar, nos próximos anos, cerca de 300.000 novos clientes com a extensão do programa ao México.



Acesse essas e outras experiências reais.

Experiência Santander

O Banco Santander, que se diferencia das demais entidades bancárias pelo seu firme respaldo ao ensino superior, é a empresa privada que mais investe em educação no mundo, conforme o primeiro estudo global publicado pela Fundação Varkey em parceria com a UNESCO.

Eixos do respaldo universitário

- **Empreendimento universitário**, fator chave do progresso social. Apoio, assessoria e formação para mais de 2.400 jovens através de programas como o *Santander YUZZ Jovens com Ideias*. São oferecidas premiações ao Empreendimento em sete países (Brasil, Argentina, Chile, México, Portugal, Espanha e Reino Unido), com 25.000 participantes. O Santander tem o objetivo de apoiar 80.000 empreendedores em 2017-18.
- **Bolsas de estudo e impacto social**: programas de bolsas para mobilidade nacional e internacional, formação acadêmica e práticas em empresas na Espanha, Reino Unido, Porto Rico, Brasil, Chile e Uruguai. Nasce o projeto *Santander Impact*, com informação sobre o impacto dessas iniciativas na sociedade.

- **Informatização e modernização das universidades**: para simplificar processos e serviços acadêmicos com ferramentas como o Cartão Universitário Inteligente, que evolui com a tecnologia (novos suportes, utilidades, etc.). Há 9,1 milhões de CUIs (Cartão Universitário Inteligente) vigentes em 279 universidades presentes em 11 países.

Universia

- **Universia** é a rede de universidades mais importante da Ibero-América, uma referência internacional de relação universitária, e conta com o patrocínio do Banco Santander. Concentra a sua atividade em fomentar o emprego entre os universitários; a formação *online* mediante recursos como os MOOCs (Cursos Massivos Abertos *Online*) e em proporcionar ferramentas digitais.

SANTANDER UNIVERSIDADES EM NÚMEROS



36.684

bolsas de estudo e ajudas concedidas em 2016



1.183

acordos com universidades e instituições acadêmicas de 21 países



157

milhões de euros investidos em ensino superior

uni>ersia



1.407

universidades de 23 países fazem parte da Universia



Amplie a informação na seção de sustentabilidade da web corporativa e no relatório de sustentabilidade 2016.

Te ayudamos
a hacer realidad
tus proyectos

SUBDIRECTORA

2

Resultados em 2016

- 42 Contexto econômico, bancário e regulatório
- 46 Resultados do Grupo Santander
- 49 Países
- 57 Global Corporate Banking

Subdirección



O Santander alcançou os seus objetivos financeiros e estratégicos para 2016

em um ambiente econômico e financeiro muito exigente. O lucro atribuído cresceu 4% apoiado por um sólido crescimento das receitas comerciais, controle de custos e melhora da qualidade creditícia.

Contexto econômico, bancário e regulatório

O ano de 2016 foi marcado por uma alta volatilidade dos mercados, que reagiram diante das diversas notícias inesperadas de natureza econômica e política. Ao mesmo tempo, o ambiente competitivo e uma agenda regulatória exigente continuou condicionando a recuperação da rentabilidade das entidades financeiras.

» Contexto econômico internacional

A economia mundial registrou, em 2016, um crescimento ligeiramente inferior ao do ano anterior (3,0% vs 3,2%) devido à desaceleração das economias avançadas, que iniciaram o ano com a soma de uma série de fatores pontuais (instabilidade financeira, condições meteorológicas, etc.).



● Evolução econômica por países

Fonte: FMI, World Economic Outlook.

País	% var. PIB		Evolução econômica
	2015	2016	
Estados Unidos	2,6	1,6	Redução da taxa de desemprego (até 4,7%), nível praticamente de pleno emprego e aumento da inflação subjacente até 1,8%. Aumento da taxa de juros dos fundos federais em 25 pb em contexto de revitalização econômica, que indica aumentos graduais para 2017.
Reino Unido	2,2	1,8	Impacto inicial do referendun do Brexit inferior ao previsto. A taxa de desemprego manteve uma tendência descendente (até 4,8%), praticamente em pleno emprego. Apesar do repique da inflação e da depreciação da libra, o Banco da Inglaterra baixou 25 pb sua taxa de referência, deixando-a em 0,25%, e adotou novas medidas para apoiar o crédito.
Zona do Euro	1,9	1,7	Crescimento moderado mais resistente. Evolução por países desigual, embora as economias mais relevantes registrassem taxas positivas. O risco de deflação diminuiu, mas a inflação continua longe de 2%, o que levou o BCE a reduzir taxas até novas mínimas e a adotar medidas de expansão quantitativa.
Espanha	3,2	3,2	Crescimento com ampla base apoiado, principalmente, na demanda interna. O emprego sustentou um extraordinário dinamismo e a taxa de desemprego diminuiu para 19%. Recuperação equilibrada e crescimento sustentado com inflação moderada, superávit exterior e melhora do déficit público.
Portugal	1,6	1,3	A taxa de desemprego continuou com a tendência à queda dos últimos anos e ficou levemente cima de 10%. A inflação mostrou um comportamento similar ao de 2015, ficando em 0,6%.
Polônia	3,9	2,8	Desaceleração do crescimento, taxa de desemprego em mínimos históricos (5,9%), inflação novamente em taxas positivas em dezembro (0,8%) e taxa de juros oficial estável em 1,5% durante todo o ano.
Brasil	-3,8	-3,5	Ao longo do ano, a recessão perdeu intensidade. O novo governo tem uma clara vontade e capacidade parlamentar para aprovar reformas. O Banco Central conseguiu que a inflação (6,3%) fosse inferior ao limite superior do objetivo (6,5%), o que permitiu reduzir os juros de 14,25% a 13,75% no final do ano com uma tendência baixa.
México	2,6	2,3	Desaceleração do crescimento devido a um ambiente externo desafiador, que levou a um ajuste da política fiscal e endurecimento da política monetária. A depreciação da taxa de câmbio e o seu impacto sobre a inflação levou o Banco Central a elevar a taxa oficial de 3,25% a 5,75%.
Chile	2,3	1,5	Desaceleração do PIB devido ao contexto internacional e à adaptação da mineração a um ambiente de preços moderados. A inflação caiu 3% e a taxa oficial se manteve em 3,5% (mesmo nível que no final de 2015).
Argentina	2,4	-2,0	Enfrentou com determinação os desequilíbrios macroeconômicos e as distorções microeconômicas, reforçou o âmbito institucional e começou a estabelecer o controle da inflação e as finanças públicas para a integração comercial e financeira e para a recuperação do crescimento.



Temos muitas oportunidades para crescer de forma rentável na Europa e na América, em um ambiente que será volátil, como já antecipamos, mas, em geral, melhor que em 2016 nos nossos mercados principais.

Ana Botín,

Apresentação de resultados Grupo Santander 2016 (25 janeiro 2017)



Índice de bolsa mundial MSCI World

+5%
em 2016



Taxa de câmbio euro/dólar

1,05
(-3% em 2016)



Rentabilidade da dívida EUA a 10 anos

2,43%
(+16 pb em 2016)

» Mercados financeiros e taxas de câmbio

No início do ano, os sintomas de desaceleração econômica na China e as dúvidas sobre a solidez das economias avançadas provocaram um forte aumento na aversão ao risco, que se traduziu em quedas das bolsas e redução do preço do petróleo até mínimos que não eram vistos desde 2003. Desde a segunda metade de fevereiro, o tom dos mercados financeiros ficou mais positivo, reduzindo a volatilidade, devido aos indícios de estabilização na economia chinesa, certa recuperação do preço do petróleo e a melhora econômica nos EUA.

Em março, o BCE reduziu os juros e ampliou o programa de compra de dívida pública e privada, o que motivou uma redução acentuada da rentabilidade da renda fixa em euros. A dívida pública ficou em taxas negativas para os prazos curtos e médios em boa parte dos países da zona do euro.

Em junho, o não no **referendo do Reino Unido** sobre sua permanência na UE originou outro repique de volatilidade, especialmente nas taxas de câmbio, quedas nas bolsas, fuga para ativos de qualidade e depreciação da libra e do euro. O impacto não foi duradouro, pois nos meses seguintes a volatilidade reduziu, a renda variável se recuperou e diminuiu a aversão ao risco.

Em novembro, o **resultado da eleições presidenciais nos EUA** motivou um novo aumento da volatilidade nas divisas de mercados emergentes, aumentos das bolsas e das taxas de juros de longo prazo diante da expectativa de que, a curto prazo, a política fiscal se torne mais expansiva, e uma apreciação do dólar em comparação com o euro.

No final do ano, a tendência à alta das taxas de juros de longo prazo foi reforçada com o aumento da taxa de juros do Federal Reserve e do preço do petróleo, e a melhora do crescimento econômico nas principais economias. Mesmo assim, no fim de 2016, as políticas monetárias nas economias avançadas mantiveram um tom fortemente expansivo.

No que se refere às divisas latino-americanas, o peso mexicano sofreu depreciação de 15%, chegando até 1 EUR=21,8MXN em 2016, afetado pela evolução do preço do petróleo bruto nos primeiros meses do ano e pela incerteza ante uma eventual mudança na política comercial e de migração dos EUA na parte final do ano. A taxa de câmbio do real brasileiro teve uma notável recuperação, encerrando o ano a 1 EUR=3,4 BRL contra 4,3 BRL um ano antes. O peso chileno encerrou o ano em 1 EUR=708 CLP, 9% mais valorizado que no final de 2015.

Em 2016, os mercados financeiros receberam o impacto de vários choques procedentes do âmbito econômico e político

O ambiente bancário dos países onde o Grupo Santander atua continuou marcado por mudanças regulatórias e por um cenário econômico desafiador

» Ambiente no setor bancário

Nos países desenvolvidos, as instituições financeiras continuaram a fortalecer seus balanços, com um aumento generalizado dos níveis de solvência. Em particular, o indicador de solvência de maior qualidade (CET1) das entidades europeias, conforme a EBA (Autoridade Bancária Europeia), posicionou-se no 3T16 em 14,1%, mais de um ponto porcentual acima do registrado um ano antes. Salvo exceções pontuais, o sistema bancário melhorou notavelmente a sua capacidade de absorver choques adversos, algo que ficou evidente no exercício de estresse apresentado pela EBA.

No entanto, as instituições continuam enfrentando desafios importantes para aumentar a rentabilidade. As taxas de juros se mantiveram em patamares mínimos; os volumes de negócio continuam sendo baixos; e houve um forte aumento da pressão competitiva na maioria dos mercados, tanto entre as próprias entidades quanto pelas novas formas de financiamento e novos concorrentes. Dessa forma, os bancos paralelos (*shadow banks*) continuam ganhando

peso e as instituições financeiras não-bancárias, cujos negócios estão centrados em nichos do setor como meios de pagamento, assessoria financeira ou crédito, continuam a crescer.

Nos países emergentes, com taxas de juros e margens superiores às dos países desenvolvidos, a rentabilidade das entidades se mantém em níveis mais elevados.

A grande maioria das entidades está realizando mudanças em sua cultura, visando recuperar a confiança da sociedade e, em geral, todas requerem uma adaptação à revolução digital, que definirá a nova forma de relacionamento com seus clientes, o nível de serviço prestado e a eficiência dos processos.

Além disso, as instituições internacionais precisam lidar com tendências sociais e demográficas divergentes, com um processo impactante de envelhecimento da população nas economias desenvolvidas e um forte aumento da classe média nas economias emergentes, o que vai exigir estratégias específicas de acordo com cada mercado.

» Contexto de supervisão e regulatório

Em 2016, o ambiente regulatório continuou sendo exigente, com novidades relevantes entre as quais se destaca a revisão de Basilea III e a proposta da Comissão Europeia para resolução de entidades.

Revisão de Basilea III

O objetivo é simplificar e fazer com que os índices sejam mais comparáveis e sensíveis ao risco, sem aumentar significativamente os requisitos de capital para os bancos.

Discute-se também se serão estabelecidos limites para as deduções de capital para as entidades que utilizem modelos internos no cálculo das suas necessidades de capital.

Embora ainda haja muita insegurança, espera-se que o novo marco seja aprovado nos primeiros meses do ano para entrar em vigor em 2021.

Revisão regulação prudencial na Europa

Em novembro, a Comissão Europeia publicou uma proposta de reformas à normativa de capital e resolução, que inclui:

- A introdução de novos padrões internacionais de Basilea no marco de capital.
- Modificações ao marco de resolução. A partir de 1º de janeiro de 2016, o mecanismo único de resolução (*SRB, Single Resolution Board*) estará totalmente em operação. Ao longo de 2017, estabelecerá um nível indicativo de capacidade de absorção de perdas (*MREL (TLAC para as GSIBs)*) para cada entidade.

O Santander está estruturado através de subsidiárias autônomas em capital e liquidez, portanto, tem um foco de resolução de múltiplos pontos de entrada (isso significa que a resolução de uma subsidiária não afeta as demais entidades do Grupo). Assim, a aplicação do requisito TLAC está prevista em cada subsidiária do Grupo, que deverá cumprir não somente com a normativa local, mas também com a europeia, o que exigirá emissões adicionais de dívida.

A proposta da Comissão em matéria de resolução é o primeiro passo de um longo processo legislativo. Espera-se que entre em vigor entre 2019 e 2021.

Por outro lado, a Autoridade Bancária Europeia (EBA) e o Banco Central Europeu estão realizando uma revisão dos modelos internos utilizados pelos bancos na Europa.

MARCOS REGULATÓRIOS EM 2016

Durante 2016, a agenda regulatória esteve marcada:

- A nível internacional, pelo avanço para fechar o acordo de Basilea III.
- Na Europa, pela proposta de reformas da Comissão Europeia ao marco de capital e resolução, e as medidas para avançar no mercado único europeu.
- E em nível nacional, por iniciativas relacionadas à proteção do consumidor e o investidor.

União Bancária Europeia

Desafios para a construção da União Bancária Europeia



Interação entre a normativa contábil e prudencial

Os organismos reguladores estão trabalhando visando a entrada em vigor, em 2018, das NIIF 9 (Normas Internacionais de Informação Financeira), que modificam o cálculo das provisões baseadas em perda incorrida à perda esperada. Durante o ano, deve ser definido o novo marco contábil adaptado às NIIF9 que, além disso, deverá conciliar com o marco de capital.

Continua havendo um intenso debate político com relação à criação do fundo único de garantia de depósitos (EDIS, em inglês). As diferenças se concentram em como realizar a constituição gradual do fundo prevista até 2024, e minimizar e compartilhar os riscos entre países. A data para chegar a um acordo ainda é incerta.

A supervisão bancária por meio do Mecanismo Único de Supervisão (MUS)

No final de 2016, o número de entidades supervisionadas pelo Banco Central Europeu subiu para 126 grupos bancários.

Entre as atividades supervisionadas do MUS, cabe destacar o Processo de Revisão e Avaliação Supervisora (SREP, em inglês). Em 2016, a equipe de Supervisão designada para o Santander teve mais de 100 encontros com o Banco.

No final do ano, o BCE comunicou a cada entidade os requisitos mínimos de capital para o ano seguinte. Em 2017, em nível consolidado, o Grupo Santander deve manter um índice mínimo de 7,75% de CET1 *phase-in*, de 9,25% de T1 *phase-in* e um Índice Total de 11,25% *phase-in*.

MERCADO ÚNICO EUROPEU

A Comissão Europeia continua trabalhando em iniciativas para fortalecer e avançar no Mercado Único Europeu:

- Plano de ação do Mercado Único de Capitais.
- Plano de ação do Livro Verde de serviços financeiros no varejo.
- Agenda Digital e iniciativas para favorecer o Mercado Único Digital, como a Economia Digital e a Economia do Dado.
- Harmonização da normativa de proteção ao consumidor.

Os Estados Membros têm adiante um calendário importante de implementação de normas que entram em vigor em 2018, como o Regulamento de Proteção de Dados, a Diretiva de Cibersegurança, a Diretiva de Serviços de Pagamento e MIFID II, que serão chaves para o desenvolvimento do banco de varejo e digital.

SRB (Single Resolution Board): mecanismo único europeu de resolução de entidades.

TLAC (Total Loss Absorbing Capacity): capacidade de absorção de perdas de entidades sistêmicas globais. Permite fazer como que o *bail-in* seja efetivo: os investidores, e não os contribuintes, assumem as perdas.

MREL (Minimum Requirement for Eligible Liabilities): requisito mínimo de passivos elegíveis. É a aplicação às entidades europeias do mesmo conceito que o TLAC para sistêmicas.

GSIB (Global Systemically Important Banks): bancos que são considerados sistêmicos globais.

SREP (Supervisory Review and Evaluation Process): processo de supervisão e avaliação de entidades do Banco Central Europeu.

CRDIV (Capital Requirements Directive): normativa europeia de requisitos de capital.

BRRD (Bank Recovery and Resolution Directive): normativa europeia de recuperação e resolução bancária.

SRMR (Single Resolution Mechanism Regulation): regulação do mecanismo único de resolução europeu.

MIFID (Markets in Financial Instruments Directive): normativa europeia sobre proteção ao investidor em produtos financeiros.

Principais indicadores do Grupo Santander

Balanco (Bilhões de euros)	2016	2015	%2016/2015	2014
Ativos totais	1.339,125	1.340,260	(0,1)	1.266,296
Créditos a clientes (líquido)	790,470	790,848	0,0	734,711
Depósitos de clientes	691,112	683,142	1,2	647,706
Recursos de clientes sob gestão e comercializados	1.102,488	1.075,563	2,5	1.023,189
Patrimônio líquido	102,699	98,753	4,0	89,714
Total de fundos sob gestão e comercializados	1.521,633	1.506,520	1,0	1.428,083

Resultados* (Bilhões de euros)	2016	2015	%2016/2015	2014
Margem de juros	31,089	32,189	(3,4)	29,548
Margem bruta	43,853	45,272	(3,1)	42,612
Margem líquida	22,766	23,702	(3,9)	22,574
Resultado ordinário antes de juros	11,288	10,939	3,2	9,720
Lucro ordinário atribuído ao Grupo	6,621	6,566	0,8	5,816
Lucro atribuível ao Grupo	6,204	5,966	4,0	5,816

BPA, rentabilidade e eficiência (%)	2016	2015	%2016/2015	2014
Lucro atribuído por ação (euros)	0,41	0,40	1,0	0,48
RoE	6,99	6,57	7,05	7,05
RoTE ordinário**	11,08	10,99	10,95	10,95
RoTE	10,38	9,99	10,95	10,95
RoA	0,56	0,54	0,58	0,58
RoRWA ordinário**	1,36	1,30	1,27	1,27
RoRWA	1,29	1,20	1,27	1,27
Eficiência (com amortizações)	48,1	47,6	47,0	47,0

Solvência e Inadimplência (%)	2016	2015	%2016/2015	2014
CET1 <i>fully loaded</i>	10,55	10,05	9,65	9,65
CET1 <i>phase-in</i>	12,53	12,55	12,23	12,23
Índice de inadimplência	3,93	4,36	5,19	5,19
Cobertura de inadimplência	73,8	73,1	67,2	67,2

A ação e a capitalização	2016	2015	%2016/2015	2014
Número de ações (Milhões)	14,582	14.434	1,0	12.584
Cotação (euros)	4,959	4,558	8,8	6,996
Valor de mercado (Bilhões de euros)	72,314	65,792	9,9	88,041
Recursos próprios tangíveis por ação (euro)	4,22	4,07	4,01	4,01
Preço/recursos próprios por ação (vezes)	1,17	1,12	1,75	1,75
PER (preço/resultado por ação) (vezes)	12,18	11,30	14,59	14,59

Outros dados	2016	2015	%2016/2015	2014
Número de acionistas	3.928.950	3.573.277	10,0	3.240.395
Número de funcionários	188.492	193.863	(2,8)	185.405
Número de agências	12.235	13.030	(6,1)	12.951

(*) Variações sem taxa de câmbio: M. de juros: +2,3%; M. bruta: +2,5%; M. líquida: +1,6%;
Lº ordinário atribuído: +10,5%; Lucro atribuído: +15,1%

(**) Não inclui líquido de ganhos e saneamentos não recorrentes

Observação: RoE, RoTE e CET1 de 2014, dado proforma incluindo ampliação de capital de janeiro de 2015



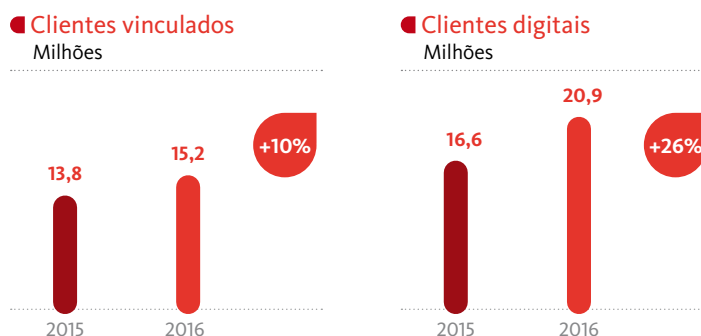
Mais informação sobre os resultados do Grupo e de suas unidades disponível nas páginas 96 a 157 do relatório anual de 2016 do Banco Santander.

Resultados

A transformação comercial impulsiona o crescimento de clientes vinculados e digitais

O Santander avançou durante 2016 na sua estratégia de vinculação e fidelização de clientes em todos os seus mercados, com o lançamento de diferentes estratégias e produtos de alto valor agregado. O Banco reforçou a sua oferta multicanal com novos aplicativos para o celular, desenvolvimento da biometria e lançamento de novas facilidades de meios de pagamento em vários dos seus mercados.

Tudo isso permitiu que o número de clientes vinculados aumentasse em 1,4 milhão (particulares +9% e empresas +29%) e o de clientes digitais em 4,3 milhões, destacando o crescimento dos clientes do mobile banking em 53%.

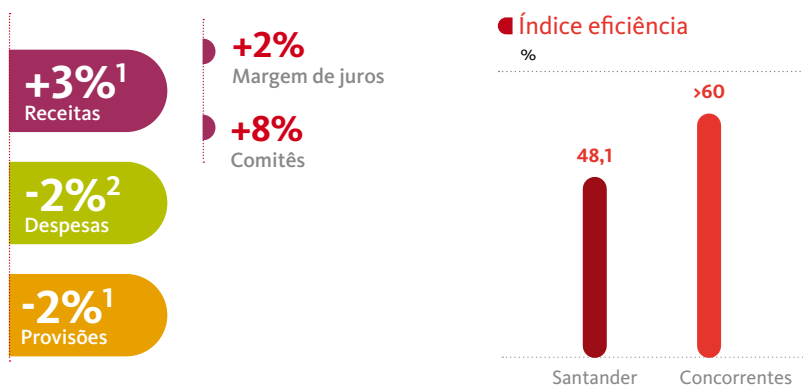


As receitas comerciais crescem com recorrência. Esforço em custos e queda das provisões.

A estratégia de vinculação permite que as receitas comerciais cresçam em oito das 10 principais unidades do Grupo, destacando a evolução das receitas por comissões.

O plano de eficiência permite absorver os investimentos em transformação comercial e os maiores custos regulatórios, fazendo com que os custos caiam a péripetro constante e descontando a inflação. O Santander se mantém como uma das entidades mais eficientes do mundo. O Santander está no top 3 por satisfação de clientes em oito dos seus nove principais países.

As provisões continuam caindo.

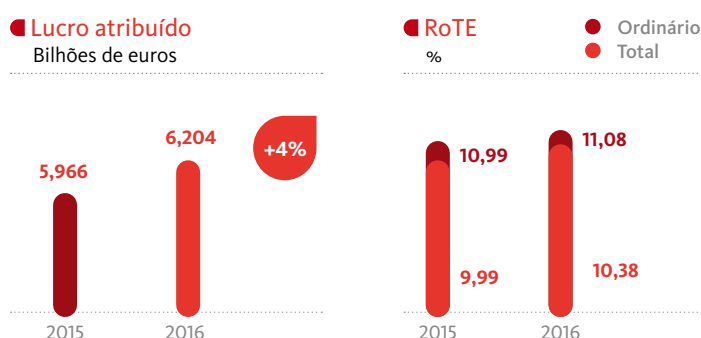


1. Euros constantes; 2. Sem péripetro e inflação

Crescimento sólido do lucro antes de impostos e criação de valor para o acionista

O lucro ordinário antes de impostos cresce 12% (sem efeito de taxa de câmbio) e sobe em 9 das 10 principais unidades do Grupo. O lucro atribuído aumenta 4%, até 6,204 bilhões de euros.

A boa evolução da conta de resultados permite que o Santander alcance os principais objetivos financeiros e se consolide como um dos bancos europeus com melhor rentabilidade para o acionista.



Balanço

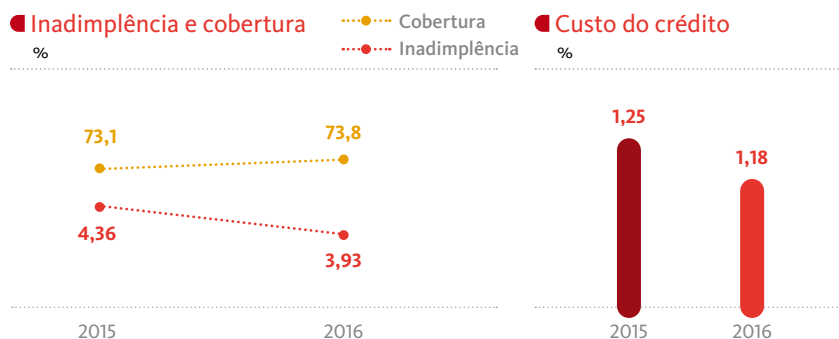
Expansão da atividade em um ambiente desafiador

Em um ambiente econômico de baixos juros e de economia em recuperação, o Santander mantém um crescimento constante da atividade comercial, tanto em crédito quanto em recursos, em praticamente todos os seus mercados, apoiando os seus clientes empresas nos seus planos de expansão e ajudando os seus clientes particulares a satisfazer suas necessidades financeiras.



Melhoria dos índices de qualidade creditícia

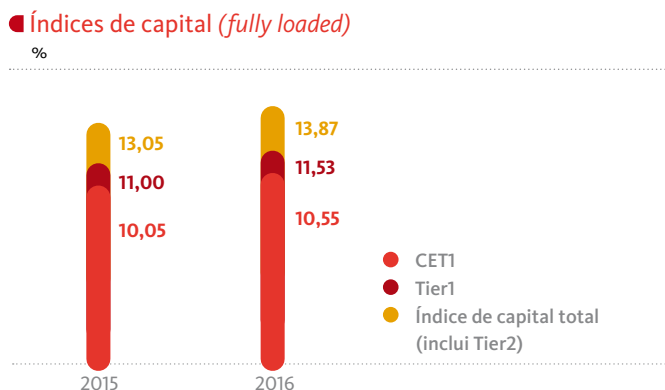
O Santander mantém sua tradicional prudência em riscos e continua melhorando a inadimplência e o aumento da cobertura. O custo do crédito continua em queda e já se posiciona no nível dos objetivos anunciados ao mercado.



Solidez de capital apoiada na geração orgânica

O Santander mantém índices de capital sólidos e adequados ao modelo de negócio, estrutura de balanço e perfil de risco. A geração de capital (3,363 bilhões de euros em 2016) permite elevar o capital, financiar o crescimento do negócio e aumentar o pagamento de dividendo em dinheiro.

Nos testes de resistência realizadas pela Autoridade Bancária Europeia (EBA), o Santander é o banco que menos capital destrói entre a sua concorrência no cenário adverso.





Resultados por países e negócios

Espanha



O Santander Espanha mantém a estratégia 1|2|3 para aumentar a vinculação em médio prazo e longo prazo e melhorar a qualidade de serviço.



Novo modelo de agência do Santander na Espanha.

+32%
clientes vinculados

+13%
clientes digitais



PRIORIDADES ESTRATÉGICAS

Crescimento rentável

Banco de referência para empresas

Melhorar a eficiência e experiência do cliente

Melhor banco para trabalhar

DESTAQUES DO EXERCÍCIO DE 2016

- Dentro do **Mundo 11213**, foi implementada uma nova estratégia de pagamento desenvolvida para melhorar o **vínculo com o cliente**.
- Aumento do número de clientes pessoa física (+27%), da produtividade comercial (50% da produção provém de clientes 1|2|3) e dos investimentos em produtos rentáveis (sobe a cota de mercado em 230 pb em nova produção de consumo).
- Com relação à **atividade creditícia**, a produção de particulares aumentou 16%. Por produtos, consumo (+91%) e hipotecas (+18%) impulsionaram o crescimento.
- O Santander mantém o seu apoio às pequenas e médias empresas, com um crescimento das PMEs vinculadas de 48%.
- A **taxa de inadimplência** diminuiu 5,41%, reduzindo em 112 pb.

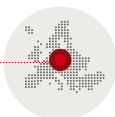
- Foi realizado um **plano de eficiência** com a otimização de pequenas agências e a criação de um novo modelo de agências Smart Red, de tamanho maior, que oferece uma melhor assessoria e serviço ao cliente, bem como a integração com os canais digitais. O Santander se mantém no top 3 por satisfação de clientes entre as entidades espanholas.
- O Santander Espanha continua sendo líder no segmento de banco de investimento, bem como em Private Banking e clientes *Select*.
- O Santander levou à Espanha com exclusividade o **Apple Pay**, um serviço de pagamento através do celular, o que mostra a aposta do Banco na inovação digital.
- Nasce **LaLiga Santander**, um acordo estratégico de patrocínio que oferece visibilidade e projeção ao Banco, além de melhorar sua imagem de marca e proximidade com o cliente.

Dados em destaque



1. Em bilhões de euros, variação em moeda local.
2. Variação sem aquisições temporárias de ativos.

Santander Consumer Finance



O SCF é líder no mercado de financiamento ao consumo na Europa e é especialista no financiamento para a compra de veículos e em empréstimos para a compra de bens duráveis, créditos pessoais e cartões de crédito.

Está presente na Alemanha, Austrália, Bélgica, Dinamarca, Espanha, Finlândia, França, Holanda, Itália, Noruega, Polónia, Portugal, Reino Unido, Suécia e Suíça.



Agência do Santander Consumer Finance na Alemanha.



PRIORIDADES ESTRATÉGICAS

Manter a rentabilidade e ganhar cota de mercado

Administrar proativamente acordos com fabricantes de veículos

Acelerar a informatização do negócio

DESTAQUES DO EXERCÍCIO DE 2016

● O SCF ocupa posições top 3 nos mercados onde opera. Obtém lucros recorrentes e oferece uma proposta de valor única com relação aos concorrentes.

● Conta com uma extensa rede com mais de 130.000 pontos de vendas associados (concessionárias de veículos e varejistas).

● Oferece soluções de financiamento através de plataformas inovadoras.

● Tem grandes capacidades na gestão de riscos e recuperações que permitem manter uma elevada qualidade creditícia.

● A evolução dos resultados (+18%) reflete um aumento das receitas superior ao dos custos, uma queda das provisões com um custo do crédito de 0,47% e um índice de eficiência que de 44,7%, melhor que a sua concorrência.

● Por unidades, destaca-se o bom desempenho do lucro na Espanha, Escandinávia e Itália.

● Os acordos firmados nos últimos anos consolidaram a posição de liderança do SCF em seus mercados:

• Concluído o acordo Banque PSA Finance (BPF) para a criação de *joint-ventures* em 11 países.

• Realizada a integração de GE Money nos países escandinavos.

● Aumento generalizado dos novos empréstimos (+17%) em todas as suas regiões.

Dados em destaque

FUNCIONÁRIOS
14.928

CLIENTES (milhões)
17,9

CRÉDITOS²
87,742 (+14%)

LUCRO ATRIBUÍDO¹
1,093 (+18%)

CONTRIBUIÇÃO AO LUCRO DO GRUPO
13%

1. Em bilhões de euros, variação em moeda local.

2. Variação sem aquisições temporárias de ativos.

Polónia

Bank Zachodni WBK



É um dos principais bancos poloneses, líder do mercado em mobile e Internet banking, e segundo no mercado de cartões.



Agência do Bank Zachodni WBK na Polónia.

+4%
clientes
vinculados

+5%
clientes
digitais

DESTAQUES DO EXERCÍCIO DE 2016

- Com o objetivo de aumentar o vínculo e o número de clientes digitais, o Bank Zachodni WBK continuou desenvolvendo seus canais eletrônicos. **O BZWbK24 foi premiado** em várias ocasiões como um dos melhores aplicativos de mobile banking na Polónia e a nível internacional.
- Foi lançado o **Firmowe Ewolucje (Business Evolutions)**, uma plataforma web voltada para as PME que ajuda as empresas a fazer negócios no mundo virtual e expandir-se internacionalmente.
- Os créditos aumentam **8% interanual**, muito acima do mercado, com foco em PMEs e hipotecas.
- Evolução positiva das receitas comerciais e da qualidade creditícia. O lucro de 2016 foi afetado pela nova taxa sobre ativos (excluindo este efeito, sobe 14%).
- O Bank Zachodni WBK foi considerado pela revista *Euromoney* como **Best Bank in Poland em 2016**.

Dados em destaque



- Em bilhões de euros, variação em moeda local.
- Varição sem aquisições temporárias de ativos.
- Em milhões de euros, variação em moeda local.

Portugal

Santander Totta



É o banco mais rentável de Portugal e tem cotas de mercado em torno de 14% em créditos e depósitos.



Agência do Santander Totta em Portugal.

+21%
clientes
vinculados

+32%
clientes
digitais

DESTAQUES DO EXERCÍCIO DE 2016

- Após a aquisição da maior parte de ativos e passivos do Banif em dezembro de 2015, o Santander Totta posiciona-se como **segundo banco privado do país**. Em menos de um ano, concluiu-se o processo de integração tecnológica e operacional.
- O Banco continua focado nas melhorias estruturais do modelo comercial para incrementar a eficiência e a qualidade de serviço ao cliente, através da plataforma CRM, da multicanalidade e da simplificação de processos. Isso se reflete em **lucro no negócio de crédito a pessoas físicas e empresas**.
- Observou-se **uma boa evolução do programa Mundo 1|2|3**, com aumentos significativos no número de contas, cartões de crédito e seguros de proteção.
- Em 2016, o Santander Totta foi reconhecido como **o Melhor Banco em Portugal pela Euromoney e Global Finance**, além de outros prêmios.

Dados em destaque



- Em bilhões de euros, variação em moeda local.
- Varição sem aquisições temporárias de ativos.
- Em milhões de euros, variação em moeda local.

Reino Unido



O Santander UK aspira aumentar o vínculo e experiência do cliente através da informatização e da simplificação dos seus produtos.



Agência do Santander UK no Reino Unido.

+3%
clientes
vinculados

+25%
clientes
digitais



PRIORIDADES ESTRATÉGICAS

Crescimento do número de clientes vinculados e cota de mercado

Excelência operacional e digital

Rentabilidade crescente e solidez de balanço

DESTAQUES DO EXERCÍCIO DE 2016

- A decisão do Reino Unido de abandonar a UE traduziu-se em um ambiente econômico duvidoso e em volatilidade no mercado financeiro. Neste ambiente, **o compromisso do Santander UK com as empresas britânicas, clientes e funcionários permanece firme, como sempre.**
- **O ano se caracterizou por uma evolução sólida do negócio,** excelência operacional e digital, e uma boa qualidade creditícia em um ambiente econômico e competitivo exigente.
- **A linha 1|2|3 conta já com 5,1 milhões de clientes,** tendo aumentado em 483.000 novos clientes desde dezembro de 2016. Os saldos de conta correntes continuaram crescendo, com um aumento de 11,6 bilhões de libras no ano, e as receitas por comissões melhoraram.
- **O número de clientes digitais chega a 4,6 milhões,** graças à melhoria constante da oferta digital. Continua havendo investimento em novas tecnologias, como o banco por voz e um aplicativo digital de hipotecas que reduz o processo de solicitação a menos de uma hora.

- **O Santander UK manteve seu apoio aos clientes de crédito imobiliário.** A produção bruta em hipotecas foi de 25,8 bilhões de libras, incluindo 25,3 bilhões emprestados a adquirentes da primeira casa própria.
- **O Santander UK continuou apoiando as empresas britânicas,** apesar da crescente concorrência e de um ambiente operacional duvidoso, com um aumento dos empréstimos a empresas do Reino Unido de 3%.
- **A excelência operacional apoiou-se na informatização e na simplificação de produtos,** e o índice de eficiência melhorou até 51%, reflexo da disciplina de custos.
- **O lucro antes de impostos aumenta 8%.** O lucro atribuído é afetado pela entrada em vigor do novo imposto sobre bancos.
- **O Santander UK concentrou-se também na manutenção da solidez de balanço.** O índice de capital CET1 foi de 11,6%, com sólida geração de capital, enquanto o índice de inadimplência foi reduzido em até 1,41%.

Dados em destaque



1. Em bilhões de euros, variação em moeda local.

2. Variação sem aquisições temporárias de ativos.

Brasil



Em um ambiente econômico desafiador, o Santander Brasil mostrou a solidez do seu modelo de banco, alcançando um forte crescimento do lucro e acelerando a sua transformação comercial com foco no cliente.



Sede do Santander em São Paulo, Brasil.

+16%

clientes
vinculados

+45%

clientes
digitais



PRIORIDADES ESTRATÉGICAS

Foco em crescimento das receitas

Aumento da cota de mercado em aquisição, consumo, PMEs, etc.

Transformação digital

Gestão de riscos e recuperações

DESTAQUES DO EXERCÍCIO DE 2016

● **O Santander Brasil registrou lucros crescentes graças aos seus princípios comerciais e de risco** (com um índice de inadimplência inferior à média dos bancos privados), **com custos** bem equilibrados (mediante iniciativas como o programa *Fit to grow*).

● **Soluções que melhoram a experiência do cliente:** aquisição de 100% da plataforma de pré-pagamento digital *Conta Super* e simplificação dos processos com soluções como *Clique Único* para informatização de gestões realizadas anteriormente em papel e reduzir o tempo de resposta ao cliente. O aplicativo de mobile banking se transformou em uma referência do mercado com uma alta avaliação na Apple Store e no Google Play, enquanto que as vendas de comércio eletrônico triplicam.

● **O Banco conta com 6,4 milhões de clientes que usam regularmente os serviços digitais** (as transações realizadas através de canais digitais chegam a 73% do total de operações) e 6,3 milhões de clientes que utilizam biometria.

● **Fortalecimento de negócios:** o *Santander Financiamentos* criou *joint ventures* com a Hyundai e com o Banco PSA Finance e lançou um novo modelo digital que melhora o processo de venda. Em Banco de Investimentos, o Santander esteve presente nas maiores operações de fusões e aquisições do país, posicionando-se como o primeiro banco no Brasil com esse conceito.

● **Inovação em banco de varejo:** no negócio de folhas de pagamento, criação da *Olé Consignado* com o Banco Bonsucesso; iniciativas inovadoras em meios de pagamento (*o Santander Way*, *Getnet*, e acordo com a American Airlines). No segmento de PMEs, além de contar com os seus serviços financeiros, o Banco lançou o *Avançar*, um programa que ajuda os empresários na formação das suas equipes e na internacionalização.

● O Santander está entre as **melhores empresas para trabalhar** do Brasil, segundo a *Great Place to Work*.

● O Santander Brasil incluiu aspectos sociais e ambientais na análise de crédito de mais de 1.000 empresas que são clientes do segmento Corporate-empresas.

Dados em destaque



FUNCIONÁRIOS
46.728



CLIENTES (milhões)
34,3



CRÉDITOS¹²
80,306 (+0,4%)



LUCRO ATRIBUÍDO¹
1,786 (+15%)



CONTRIBUIÇÃO AO LUCRO DO GRUPO
21%

1. Em bilhões de euros, variação em moeda local.

2. Variação sem aquisições temporárias de ativos.

México



O Santander México é o terceiro banco do país por carteira de crédito, com uma cota de mercado de 14%. A inovação do serviço ao cliente é o seu ponto forte.



Sede do Santander no México.

+16%
clientes vinculados

+46%
clientes digitais



PRIORIDADES ESTRATÉGICAS

Chegar a ser o 2º ou 3º operador principal na maioria dos segmentos

Melhorar a franquia de banco de varejo

Melhorias em infraestrutura e informatização

Aumentar o RoTE até 17%

DESTAQUES DO EXERCÍCIO DE 2016

- **Foco em vínculo de clientes com o lançamento de programas como o Santander Plus**, o mais inovador entre os bancos no México, que devolve dinheiro aos clientes em função das suas operações. No seu primeiro ano, já conta com 1,1 milhão de clientes.
- **Crescimento da carteira total de crédito em 8% interanual.** Com destaque para as empresas, PMEs e consumo.
- **Cartão de viagem Santander-Aeroméxico**, a melhor oferta no seu âmbito no país, com emissão de 430.000 cartões desde o seu lançamento, e será administrada exclusivamente pelo Banco Santander durante os próximos 10 anos.
- **Melhoria, simplificação e inovação na oferta de hipotecas:** a oferta é reduzida de quatro para dois produtos hipotecários e inclui o lançamento da *Hipoteca Pessoal*, a única no México que oferece uma taxa personalizada em função do histórico do cliente.

- **O número de clientes digitais cresce 46%, até 1,3 milhão.** A Suite Digital, a oferta de mobile banking que faz parte de diferentes serviços, oferece, entre outros produtos, a *Super Cuenta Go*, que permite a abertura e administração da conta de forma totalmente digital. Também é possível realizar consultas com um Segurómetro, realizar investimentos por via digital e controlar os gastos usando um aplicativo.
- **O Santander México destinará 15 bilhões de pesos** durante os três próximos anos para investimentos e iniciativas estratégicas, entre as quais destaca-se a modernização de canais, sistemas e infraestrutura.
- Devido ao seu desempenho, o Santander foi reconhecido como **Most Socially Responsible Bank in México** pela *International Finance Magazine* (IFM). Também conquistou o primeiro lugar do setor bancário, e o segundo do ranking total do IPC Sustentável da Bolsa Mexicana de Valores.

Dados em destaque



FUNCIONÁRIOS
17.608



CLIENTES (milhões)
13,4



CRÉDITOS^{1,2}
28,017 (+8%)



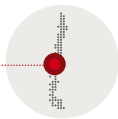
LUCRO ATRIBUÍDO³
629 (+18%)



CONTRIBUIÇÃO AO LUCRO DO GRUPO
8%

1. Em bilhões de euros, variação em moeda local.
2. Variação sem aquisições temporárias de ativos.
3. Em milhões de euros, variação em moeda local.

Chile



O Santander é o principal banco privado do Chile em termos de ativos e clientes.



Work Café no Chile.

+8%
clientes
vinculados

+4%
clientes
digitais

DESTAQUES DO EXERCÍCIO DE 2016

- O Santander Chile conseguiu uma **melhora substancial nos indicadores de satisfação de clientes** graças à simplificação de processos e a um maior foco no cliente, preenchendo, assim, a distância que existia entre os principais concorrentes em matéria de qualidade de serviço.
- **Inovador modelo de agências Work Café**, uma nova forma de fazer banco conforme as mudanças da sociedade. Estas agências contam com cafeterias integradas, uma ampla área de trabalho colaborativo aberta a todo o público e com Wifi gratuito.
- Em 2016, **houve um aumento da cota de mercado**, tanto em créditos quanto em depósitos. Crescimento dos créditos de 7%, destacando o ganho de participação de mercado de 22 pb. Os recursos de clientes crescem 7%.
- O Santander foi premiado como o Melhor Banco do Chile pela *Euromoney*, e Banco do Ano no Chile pela revista *LatinFinance*.

Dados em destaque



FUNCIONÁRIOS
11.999



CLIENTES (milhões)
3,6



CRÉDITOS^{1,2}
38,800 (+7%)



LUCRO ATRIBUÍDO³
513 (+16%)



CONTRIBUIÇÃO AO LUCRO DO GRUPO
6%

1. Em bilhões de euros, variação em moeda local.
2. Variação sem aquisições temporárias de ativos.
3. Em milhões de euros, variação em moeda local.

Argentina

Santander Río



O Santander Río se consolida como o primeiro banco privado do país após a compra do negócio de varejo do Citi.



Agência do Santander Select na Argentina.

6%
clientes
vinculados

20%
clientes
digitais

DESTAQUES DO EXERCÍCIO DE 2016

- **O Santander Río irá incorporar 500.000 clientes individuais e uma rede de 70 agências** ao adquirir a rede de varejo do Citibank Argentina*. Esta operação inclui um acordo com a American Airlines e seu programa frequente AAdvantage®.
- Abertura de 17 novas agências em 2016 e um total de 246 agências transformadas. **O Santander Río foi o banco pioneiro em inovação ao abrir a primeira agência digital do país.**
- Melhoria nos processos internos: **implementação de sistema de Gestão Comercial +CHE** na rede de agências para oferecer os serviços mais apropriados aos clientes, no melhor momento e pelo canal mais adequado.
- Aumento da cota de mercado em créditos e depósitos.
- **O Santander Río** obteve o reconhecimento de Melhor Banco Digital da Argentina pela revista *Global Finance*; **Melhor Banco de 2016 segundo a Euromoney e The Banker**, e primeiro lugar no ranking *Great Place to Work*.

Dados em destaque



FUNCIONÁRIOS
7.940



CLIENTES (milhões)
2,9



CRÉDITOS^{1,2}
7,142 (+37%)



LUCRO ATRIBUÍDO³
359 (+52%)



CONTRIBUIÇÃO AO LUCRO DO GRUPO
4%

1. Em bilhões de euros, variação em moeda local.
2. Variação sem aquisições temporárias de ativos.
3. Em milhões de euros, variação em moeda local.

* Operação sujeita à autorização das autoridades competentes.

Estados Unidos



O Santander US avançou notavelmente nos seus objetivos, melhorando suas capacidades digitais e a oferta de produtos, dando um melhor serviço ao cliente e cumprindo com os requisitos regulatórios para construir um negócio mais sólido.



Agência do Santander nos Estados Unidos.

+5%
clientes
vinculados

+26%
clientes
digitais



PRIORIDADES ESTRATÉGICAS

Experiência do cliente

Cumprir as exigências regulatórias

Melhorar a rentabilidade

Manter a liderança em financiamento de veículos

DESTAQUES DO EXERCÍCIO DE 2016

O negócio do Santander nos Estados Unidos está centrado em banco comercial e corporativo através do **Santander Bank** e em financiamento ao consumo através do **Santander Consumer USA**. Além disso, conta com negócio de Private Banking para não residentes nos EUA, de banco de investimento e banco comercial em Porto Rico.

Em 2016, o Santander US concluiu a formação de uma holding, o Santander Holding USA (SHUSA), que reúne as principais unidades do país sob uma única gestão e estrutura de governança, a fim de administrar o risco de modo mais eficaz.

Ao mesmo tempo, o **Santander US continuou avançando significativamente na agenda regulatória e avançou no seu programa de transformação** ao realizar grandes investimentos para melhorar suas capacidades de gestão de riscos, tecnológicas e financeiras, o que justifica, em grande parte, a queda do lucro em 2016.

Em 2016, o **Santander Bank**, que conta com uma presença de muito destaque no nordeste do país, esteve focado no fortalecimento das suas relações com os clientes, através da colaboração entre as diferentes linhas de negócio e da simplificação da oferta de produtos, e da melhora das capacidades digitais.

O número de clientes digitais aumentou 26% como consequência do lançamento de um novo aplicativo que permite aos usuários acessar mais facilmente a informação da sua conta por meio da impressão digital. Isso, somado a um maior investimento em marketing, impulsionou um crescimento de 4% dos depósitos *core*.

Em um ambiente de taxas de juros em alta, o Santander US foi capaz de combinar o crescimento dos depósitos com uma queda no custo do financiamento.

Em *Corporate and Commercial Banking* os créditos cresceram 16%. Em banco de investimento, o trabalho esteve focado em oferecer aos clientes produtos mais adaptados às suas necessidades e em contar com uma **maior conectividade com o Grupo**.

O **Santander Consumer USA** é uma das principais empresas de financiamento ao consumo do país, e conta com uma infraestrutura eficiente que lhe permite alcançar altos níveis de rentabilidade. Sua estratégia se centra na otimização do *mix* de cliente; apoiar-se na plataforma da Chrysler Capital para crescer; manter sua posição de liderança no mercado de securitizações de crédito; e em fortalecer seus programas de risco operacional, compliance e proteção ao consumidor.

Dados em destaque

FUNCIÓNARIOS
17.509

CLIENTES (milhões)
5,2

CRÉDITOS¹²
89,638 (-2%)

LUCRO ATRIBUÍDO³
395 (-42%)

CONTRIBUIÇÃO AO LUCRO DO GRUPO
5%

1. Em bilhões de euros, variação em moeda local.
2. Sem aquisição temporária de ativos.
3. Em milhões de euros, variação em moeda local.

Santander Global Corporate Banking (SGCB)

O SGCB é a divisão de negócio global centrada principalmente em clientes corporativos e instituições que, por seu porte ou sofisticação, requerem um serviço sob medida ou produtos de banca comercial de alto valor agregado.

SGCB



PRIORIDADES ESTRATÉGICAS

Consolidar a posição de especialistas na América Latina

Desenvolver produtos de alto valor agregado com baixo consumo em capital

Aumentar a oferta de produtos para clientes de Banco Comercial

DESTAQUES DO EXERCÍCIO DE 2016

- **O SGCB conquistou posições de referência** em *Cash Management*, *Export Finance*, empréstimos corporativos consorciados, mercado de capitais e financiamentos estruturados na Europa e América Latina.
- **O *Cash Management*** mostra uma evolução positiva, especialmente na América Latina, apoiado pelas altas taxas de juros.
- **O *Export Finance*** mantém a tendência de crescimento, consolidando-se como referência na indústria.
- ***Trade @ Working Capital Solutions***. O SGCB reforça as suas capacidades e oferta de produto no negócio de *Receivables*, com o objetivo de ser o banco de referência nesse tipo de operação.
- O SGCB continua sendo o banco de referência na Europa e América Latina, com participações de primeiro nível em significativas transações de **empréstimos corporativos consorciados**.

- **Em financiamentos estruturados, mantemos uma clara posição de liderança**, tanto na América Latina quanto nas principais regiões da Europa.
- **Na atividade de mercados, evolução positiva das receitas do negócio de clientes**, especialmente no segmento corporativo, com forte crescimento na América Latina.
- **No mercado de capitais**, o SGCB mantém a sua presença nas principais operações operativas da Europa e América Latina.
- **Os exercícios de eficiência realizados pelo SGCB** nas diferentes regiões permitiu conter o crescimento de custos especialmente na Espanha e nos Estados Unidos.
- **A evolução dos resultados (+30% em euros constantes)** está apoiada na solidez e diversificação das receitas dos clientes.

Dados em destaque



CRÉDITOS¹²
96,796 (+0,2%)



LUCRO ATRIBUÍDO¹³
2,089 (+30%)



CONTRIBUIÇÃO AO LUCRO DO GRUPO
25%³

1. Em bilhões de euros, variação em moeda local.
2. Variação sem aquisições temporárias de ativos.
3. O resultado dessa unidade global está incluído nos dados de lucro dos países.



An **effective system of corporate governance** will guarantee the Group's long-term competitiveness and sustainability as we embrace our strategic objectives with adequate controls and risk management process in place

3

Corporate governance report

**A versão em português
deste relatório
estará disponível
nos próximos dias**

- **60** Executive summary
- **62** Introduction
- **63** Ownership structure
- **66** Banco Santander's board of directors
- **86** Group structure and governance framework
- **89** Shareholder rights and the general shareholders' meeting
- **91** Santander Group management team
- **93** Transparency and independence
- **95** Goals for 2017

Balanced and committed board.

- > Of 15 directors, 11 are non-executive and 4 are executive.

Equality of shareholder rights.

- > Principle of one share, one vote, one dividend.
- > No defensive mechanisms in the Bylaws.
- > Encouragement of informed participation at meetings.

Maximum transparency, particularly as regards remuneration.

A corporate governance model recognised by socially responsible investment indices.

- > Santander has been listed on the Dow Jones Sustainability Index and FTSE4Good since 2000 and 2002, respectively.

“ Our aim is to make things **Simple, Personal and Fair**. These three words are our guiding philosophy and this year **we have progressed far**. Our people, our customers, our shareholders and society expect this much of us ”

Ms Ana Botín, executive chairman of Banco Santander
General shareholders' meeting
 18 March 2016

Executive summary

Changes in the composition of the board and its committees

- On 27 September 2016, the board of directors agreed to appoint Ms Homaira Akbari as independent director on the proposal of the appointments committee and after having obtained the necessary regulatory clearance. Ms Akbari will occupy the vacancy left by Mr Ángel Jado Becerro de Bengoa following his resignation on that same date. The board also appointed Ms Akbari to the innovation and technology committee, again on the proposal of the appointments committee.

Ms Akbari holds a PhD in Particle Physics from Tufts University and an MBA from Carnegie Mellon Tepper School of Business. She has had a solid business career in both the US and France and has served on the boards of several companies working with new technologies. She is the President and CEO of AKnowledge Partners, a global advisory firm specialised in The Internet of Things, Big Data and data analytics.

Ms Akbari's appointment will be put forward for approval at the next general shareholders' meeting.

- In addition, on 26 April 2016 the Bank's board of directors agreed to appoint Ms Belén Romana García as chairman of the audit committee on the proposal of the appointments committee. Ms Romana García will replace Mr Juan Miguel Villar Mir, who will retain his seat on the committee.

It was subsequently agreed at a board meeting held on 28 October 2016 to appoint Ms Romana García to the risk supervision, regulation and compliance committee, again on the proposal of the appointments committee.

- Following the changes just discussed, the board of directors and its committees are now more diverse in terms of nationality, knowledge, professional experience and gender.

Activities of the board

- The board held 13 meetings during 2016. In addition to the report made by the Group executive chairman at each annual meeting, the chief executive officer submitted management reports on the Group and the vice chairman, Mr Matías Rodríguez Inciarte, reported on the Group's risks. As in previous years, the board held one meeting on the Group's global strategy in 2016.
- The Group's external auditors and heads of internal audit took part in all the meetings held by the audit committee in 2016 and reported to the board on two occasions.

Dividend policy

- In 2015, the Bank restructured its dividend policy with the aim of once again making shareholder remuneration largely a cash event, with the change to become effective from the first dividend paid out against earnings for that year. The Bank also announced its intent that the cash payout represent between 30% and 40% of its recurring profit in the coming years, instead of the previous 20%, and that payments to shareholders reflect the growth in its profit.
- A proposal was raised at the general shareholders' meeting held on 18 March 2016 to make a 5% increase in the total dividend charged to earnings for 2016 in respect of the 0.20 euros relating to 2015, as just discussed. To date, a total of 0.155 euros per share has been paid out against 2016 earnings through the scrip dividend scheme –at a value of 0.045 euros, gross, per free allotment right– and two cash payments –of 0.055 euros each–. A final cash payment of 0.055 euros per share is also to be paid this coming May, subject to the approved of the general meeting. Once paid, this will effectively constitute the aforementioned 5% increase on the total dividend charged to 2016 earnings.

Bylaw-stipulated emoluments

- Bylaw-stipulated emoluments earned by the board amounted to 4.6 million euros in 2016, which is 23.9% lower than the maximum amount approved by shareholders at the general meeting held on 18 March 2016.

Remuneration of executive directors

- At the general shareholders' meeting of 18 March 2016, shareholders also approved the maximum ratio of 200% between variable and fixed pay items for 2016 for a maximum of 1,700 members of the *identified staff*, including executive directors.

The binding decision was also reached at the same meeting to approve the director remuneration policy of Banco Santander, S. A. for 2016, 2017 and 2018 and the annual report on director remuneration underwent a consultative vote by shareholders.

- Investors and analysts held a positive view of the changes made to the director remuneration policy, such as streamlining the different variable items of remuneration, improving the adjustment for ex-ante risk in relation to variable remuneration and increasing the weighting of long-term pay items and the multiyear performance measures, thus making the ratio of long and short-term objectives more effective and efficient.

Appointments at subsidiaries

- On 16 May 2016, the supervisory board of Bank Zachodni WBK appointed Mr Michal Gajewski as chief executive officer taking over from Mr Mateusz Morawiecki, who left the bank in November 2015 to join the new Polish Government as Vice President and Minister of Development. The appointment was approved by the Polish Financial Supervision Authority on 29 November 2016.
- Likewise, on 25 December 2016, the general shareholders' meeting of Santander Brasil, acting on a favourable report from the appointments committee of Banco Santander, S.A., proceeded to appoint Mr Álvaro Antonio Cardoso de Souza as independent chairman of Santander Brasil, taking over from Mr Jesús María Zabalza Lotina.

Financial information periodically published by the Bank

- The board has approved or drawn up the quarterly and half-yearly financial information, financial statements and management report for 2016, in addition to other documents such as the annual report, the sustainability report, the Pillar III disclosures report, the annual corporate governance report and the annual report on director remuneration.

Internal governance framework at the Group

- In 2016, the Group continued to develop and update its governance framework, which comprises a governance model regulating parent-subsiary relations and a set of corporate frameworks that effectively implement this model for all the different functions and decision-making processes. A series of new corporate frameworks were approved in 2016 (for managing special situations and one for strategic purposes) while others were updated where needed.
- Also in 2016 the Group appointed a new global director of internal governance, who is presently implementing a plan to build a suitable internal governance structure that meets the expectations of supervisors. This process will consist of overseeing the effective application of the parent-subsiary model of governance; ensuring the internal consistency of the system and of its different component elements (model, corporate frameworks, procedure, policies, etc.); identifying areas where new rules need to be implemented; managing the policy relating to regulatory documents and administering the repository where those documents are kept; defining rules on the functioning and on documenting the decisions of committees and other bodies; and supervising the process of applying the governance system across the entire Group.

1. Introduction

Against this complicated economic landscape, with a huge number of players and scenarios involved, we are aware that corporate governance constitutes a key factor driving the creation of value. At Santander, we are continuously coming up with improvements, in line with the highest international standards, and we implement these through specific actions. In doing so, we are building the confidence and trust of our shareholders and other stakeholders, as well as society in general.

We are therefore continuing to strengthen our corporate governance, focusing especially on the effective functioning of the board of directors. For Santander, robust governance is a key element in ensuring a sustainable long-term business model.

We now have a board of directors that possesses the expertise, experience, knowledge, dedication and diversity needed to attain the objective of making Santander the best commercial and retail bank.

In line with the Bank's vision and mission (described in chapter one of this annual report) and within the framework of its general supervisory function, the board of directors takes decisions that relate to the Group's main policies and strategies, its corporate culture, the definition of its structure and the promotion of suitable corporate social responsibility policies. In addition, and especially in exercising its responsibility in managing all risks, the board must approve and monitor the risk framework and appetite, ensure it is in line with the Bank's business plans, capital and liquidity, verify that risks are correctly reported by all units and oversee the operation of the three lines of defence, guaranteeing the independence of the heads of risk, compliance and internal audit and their direct access to the board.

Last year, following the arrival of Ms Homaira Akbari, the board of directors of Banco Santander is now more diverse in terms of nationality, knowledge and professional experience and gender.

2. Ownership structure

» Number of shares and significant interests

Number of shares

In 2016, the Bank effected a rights issue under the Santander Scrip Dividend scheme, a process effectively completed on 4 November. A total of 147,848,122 new shares were issued, equivalent to 1.02% of the Bank's share capital at year-end 2015.

On 31 December 2016, the Bank's share capital was represented by 14,582,340,701 shares. At that date, stock market capitalisation according to the listing price on the Electronic Spanish Stock Market Interconnection System was 72,313.8 million euros.

All shares carry the same voting and dividend rights.

Significant interests

At 31 December 2016, the only shareholders appearing on the Bank's register of shareholders with a stake of over 3%¹ were State Street Bank and Trust Company, holding 12.10%; The Bank of New York Mellon Corporation, holding 8.86%; Chase Nominees Limited, holding 5.98%; EC Nominees Limited, holding 4.39%; and Clearstream Banking S.A., holding 3.38%.

Nevertheless, the Bank believes that those stakes are held in custody in the name of third parties and to the best of the Bank's knowledge none of those shareholders holds itself a stake of over 3% in the share capital or in the voting rights².

Bearing in mind the current number of members of the board of directors (15), the percentage of capital needed to exercise the right to appoint a director, in accordance with article 243 of the Spanish Corporate Enterprises Act (Ley de Sociedades de Capital) on proportional representation, is 6.67%.

» Shareholders' agreements and other significant agreements

Section A.6 of the annual corporate governance report, which forms part of the management report, contains a description of the shareholders' agreement executed in February 2006 by Mr Emilio Botín-Sanz de Sautuola y García de los Ríos, Ms Ana Botín-Sanz de Sautuola y O'Shea, Mr Emilio Botín-Sanz de Sautuola y O'Shea, Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea, Simancas, S.A., Puente San Miguel, S.A., Puenteumar, S.L., Latimer Inversiones, S.L. and Cronje, S.L. Unipersonal, providing for the syndication of the Bank shares held by the signatories to the agreement or whose voting rights have been granted to them. This agreement was also reported to the Spanish National Securities Market Commission (CNMV) as a significant event and is described in the public records thereof.

On 3 August and 19 November 2012, Banco Santander notified the CNMV, through a significant event, that it had been formally notified of amendments to this shareholders' agreement with regard to the signatories thereto.

On 17 October 2013, the Bank also notified the CNMV, through a significant event, of an update to the signatories and the distribution of shares included in the syndication, as a result of a business reorganisation carried out by one of the parties to the agreement.

On 3 October 2014, Banco Santander notified the CNMV, through a significant event, of a new update to the signatories and the distribution of shares included in the syndication, as well as the change in the chairmanship of the syndicate, which is vested in the chairman of the board of trustees of the Botín Foundation (currently Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea). This information was subsequently supplemented through a further significant event notification on 6 February 2015.

On 6 February and 29 May 2015, Banco Santander notified the CNMV, through respective significant events, of the updates to the signatories and the distribution of shares included in the syndication, all within the framework of the inheritance process as a result of the death of Mr Emilio Botín-Sanz de Sautuola y García de los Ríos.

Lastly, on 29 July 2015 Banco Santander notified the CNMV, through a significant event, of an update to the signatories and the distribution of shares included in the syndication as a result of extinguishing the usufruct over the shares of one of the parties to the agreement along with the voting rights arising therefrom, thereby consolidating the full price of the aforementioned shares in the Botín Foundation.

1. The threshold stipulated in Royal Decree 1362 of 19 October 2007, which implemented the Spanish Securities Market Act of 28 July 1988, defining the concept of significant holding.

2. The website of the Spanish National Securities Market Commission (www.cnmv.es) contains a notice of significant holding published by Blackrock, Inc. on 27 October 2016, in which it notifies an indirect holding in the voting rights attributable to Bank shares of 5.028%, plus a further stake of 0.043% held through financial instruments. However, according to the Bank's shareholder register, Blackrock, Inc did not hold more than 3% of the voting rights on that date, or on 31 December 2016.

Shares included in the syndication

At 31 December 2016, the syndication included a total of 73,428,193 shares of the Bank (0.5035% of its share capital), broken down as follows:

Signatories to the shareholders' agreement	Number of shares
Ms Ana Botín-Sanz de Sautuola y O'Shea	612,696
Mr Emilio Botín-Sanz de Sautuola O'Shea ¹	16,873,709
Mr Francisco Javier Botín-Sanz de Sautuola O'Shea ²	16,291,842
Ms Paloma Botín-Sanz de Sautuola O'Shea ³	7,835,293
Ms Carmen Botín-Sanz de Sautuola O'Shea	8,636,792
PUENTEPUMAR, S.L.	-
LATIMER INVERSIONES, S.L.	-
CRONJE, S.L., Unipersonal ⁴	17,602,582
NUEVA AZIL, S.L. ⁵	5,575,279
TOTAL	73,428,193

1. 7,800,332 shares held indirectly through Puente San Miguel, S.L.U.
2. 11,447,138 shares held indirectly through Agropecuaria El Castaño, S.L.U.
3. 6,628,291 shares held indirectly through Bright Sky 2012, S.L.
4. Controlled by Ms Ana Patricia Botín-Sanz de Sautuola O'Shea.
5. Controlled by Ms Carolina Botín-Sanz de Sautuola O'Shea.

In all other respects the aforementioned syndication agreement remains unchanged.

The aforementioned significant events may be viewed on the Group's corporate website (www.santander.com).

» Treasury shares

Treasury share policy

The sale and purchase of own shares, whether by the company or its subsidiaries or investees, must conform to the provisions of applicable law and the resolutions adopted at the general shareholders' meeting in this regard.

The Bank, by resolution of the board of directors on 23 October 2014, approved the current treasury share policy³ taking into account the recommendations of the CNMV.

Treasury share transactions have the following objectives:

- To provide liquidity or a supply of securities, as applicable, in the market for the Bank's shares, giving depth to such market and minimising possible temporary imbalances between supply and demand.
- To take advantage, in benefit of shareholders as a whole, of situations of weakness in the price of the shares in relation to prospects of changes in the medium term. Such transactions are subject to the following general guidelines:
 - They may not entail a proposed intervention in the free formation of prices.
 - Trading may not take place if the unit entrusted with such transaction is in possession of insider or relevant information.
 - Where applicable, the execution of buy-back programmes and the acquisition of shares to cover obligations of the Bank or the Group shall be permitted.

Transactions with treasury shares are carried out by the investments and holdings department, which is isolated as a separate area from the rest of the Bank's activities and protected by the respective Chinese walls, preventing it from receiving any inside or relevant information. The head of such department is responsible for the management of treasury shares.

Key data

At 31 December 2016, the Bank and its subsidiaries and investees held a total of 1,476,897 treasury shares in the Bank, representing 0.010% of its share capital at that date (at year-end 2015, there were 40,291,209 treasury shares, representing 0.279% of the Bank's share capital at such date).

The following table sets out the monthly average percentages of treasury shares in 2016 and 2015.

Monthly average percentages of treasury shares¹ % of the Bank's social capital*

	2016	2015
January	0.006%	0.200%
February	0.029%	0.218%
March	0.021%	0.233%
April	0.044%	0.246%
May	0.050%	0.181%
June	0.051%	0.169%
July	0.015%	0.132%
August	0.060%	0.187%
September	0.179%	0.244%
October	0.064%	0.336%
November	0.026%	0.336%
December	0.017%	0.335%

1. Further information in this regard is included in section A.8 of the annual corporate governance report, which forms part of the management report, and in the capital and treasury share section of this latter report.
2. Monthly average of daily positions of treasury shares.

3. The treasury share policy is published on the Group's corporate website (www.santander.com).

Transactions with treasury shares performed in the Group's interest by its consolidated companies in 2016 entailed the acquisition of 319,416,152 shares, equivalent to a par value of 159.7 million euros (cash amount of 1,380.5 million euros) and the sale of 358,230,464 shares, with a par value of 179.1 million euros (cash amount of 1,604.8 million euros).

The average purchase price of the Bank's shares in 2016 was 4.32 euros per share, and the average sale price of the Bank's shares was 4.48 euros per share.

The net gain for the Bank in 2015, net of tax, on transactions involving shares issued by the Bank amounted to 14,889,813 euros and was recognised in the Group's equity under "Shareholders' Equity-Reserves".

Authorisation

The current authorisation for transactions with treasury shares arises from resolution Five adopted by the shareholders at the general shareholders' meeting held on 28 March 2014, item II) of which reads as follows:

"To expressly authorise the Bank and the subsidiaries belonging to the Group to acquire shares representing the Bank's share capital for any valuable consideration permitted by law, within the limits of the law and subject to all legal requirements, up to a maximum number of shares (including the shares they already hold) equal to 10% of the share capital existing at any given time or the maximum percentage permitted by law while this authorisation remains in force, such shares being fully paid at a minimum price per share equal to the par value thereof and a maximum price of up to 3% higher than the last listing price for transactions in which the Bank does not act on its own behalf on the Continuous Market of the Spanish stock exchanges (including the block market) prior to the acquisition in question. This authorisation may only be exercised within five years of the date of the general shareholders' meeting. The authorisation includes the acquisition of any shares that must be delivered to the employees and directors of the company either directly or as a result of the exercise of the options held by them".

» Resolutions in effect regarding the possible issuance of new shares or of bonds convertible into shares

The capital authorised by the shareholders at the annual general meeting held on 27 March 2015, under item eight on the agenda, amounted to 3,515,146,471.50 euros. The Bank's directors have until 27 March 2018 to carry out capital increases up to this limit. The shareholders gave the board (or, by delegation, the executive committee) the power to exclude pre-emptive rights, in full or in part, pursuant to the provisions of article 506 of the Corporate Enterprises Act, although this power is limited to capital increases carried out under this authorisation up to 1,406,058,588.50 euros.

This authorisation had not been used as of the date of this document.

In addition, the decision was reached at the same general meeting of 27 March 2015 to authorise the board to issue fixed-income securities convertible into and/or exchangeable for shares in the Bank for a combined maximum issue value (on one or more occasions) of 10,000 million euros, or equivalent value in another currency. The general meeting also authorised the directors to fully or partially disapply the pre-emptive subscription right, subject to the same limits as for the aforementioned authorised capital. The Bank's directors will be entitled to issue instruments under this power through to 27 March 2020.

This authorisation had not been used as of the date of this document.

Moreover, the annual general meeting held on 18 March 2016 passed the following resolutions:

1. To effect a rights issue charged to reserves for the maximum amount of 750 million euros at market value under the shareholder compensation scheme (Santander Scrip Dividend), whereby the Bank has offered shareholders the possibility of receiving, on the date on which the second interim dividend for 2016 is typically paid, shares under a scrip issue for an amount equal to that dividend payment.

This capital increase was carried out on 4 November 2016 through the issuance of 147,848,122 new shares, each of a par value of 0.50 euros each (equal to 73,924,061 euros), representing a total of 1.02% of the Bank's share capital at year-end 2015.

2. To vest powers in the board of directors, pursuant to the terms of article 319 of the Regulations of the Companies Registry, authorising it to issue fixed-income securities on one or more occasions up to a maximum of 50,000 million euros, or equivalent value in another currency, doing so in any legally admissible manner, including bonds, covered bonds, promissory notes, debentures and preference shares, or other analogous debt instruments (including warrants, whether settled through physical delivery or netting). The Bank's directors will be entitled to exercise this power through to 18 March 2021, whereupon any part thereof not exercised will be cancelled.

As of the date of this document, a total of 11,834 million euros has been used under this authority.

3. To delegate to the board of directors, pursuant to the provisions of article 297.1.a) of the Companies Act, the broadest powers such that, within one year of the date on which the aforementioned shareholders' meeting is held, it may set the date and the terms and conditions, as to all matters not provided for by the shareholders themselves, of an increase in capital agreed by the general meeting in the amount of 500 million euros. If the board does not exercise the powers delegated to it within the aforementioned period, these powers will be rendered null and void.

This authorisation had not been used as of the date of this document.

3. Banco Santander's board of directors



Ms Ana Botín-Sanz de Sautuola y O'Shea

GROUP EXECUTIVE CHAIRMAN

Executive director

Born in 1960 in Santander, Spain.

Joined the board in 1989.

Degree in Economics from Bryn Mawr College (Pennsylvania, United States).

She **joined Banco Santander** after working at JP Morgan (New York, 1980-1988). In 1992 she was appointed senior executive vice president. Between 1992 and 1998 she led the expansion of Santander in Latin America. In 2002, she was appointed executive chairman of Banesto. Between 2010 and 2014 she was chief executive officer of Santander UK. In 2014 she was appointed executive chairman of Santander.

Other positions of note: sits on the board of directors of The Coca-Cola Company and on the advisory board of the Massachusetts Institute of Technology (MIT's CEO Advisory Board). She is founder and president of the CyD Foundation (which supports higher education) and of the Empieza por Educar Foundation (the Spanish subsidiary of international NGO Teach for All).

Membership of board committees

Executive (chairman), international (chairman) and innovation and technology (chairman).



Mr José Antonio Álvarez Álvarez

CHIEF EXECUTIVE OFFICER

Executive director

Born in 1960 in León, Spain.

Joined the board in 2015.

Graduate in Economics and Business Administration. MBA from the University of Chicago.

Joined the Bank in 2002 and appointed senior executive vice president of the financial management and investor relations division in 2004 (Group Chief Financial Officer).

Other positions of note: board member of Banco Santander (Brasil), S.A. and of SAM Investments Holdings Limited. He has also served as director of Santander Consumer Finance, S.A. and Santander Holdings USA, Inc. and he sits on the supervisory boards of Santander Consumer AG, Santander Consumer Holding GMBH and Bank of Zachodni WBK, S.A. He was also board member of Bolsas y Mercados Españoles.

Membership of board committees

Executive, international and innovation and technology.



Mr Bruce Carnegie-Brown

VICE CHAIRMAN

Non-executive director (independent) and lead director

Born in 1959 in Freetown, Sierra Leone.

Joined the board in 2015.

Master of Arts in English Language and Literature from the University of Oxford.

Other positions of note: currently the non-executive chairman of Moneysupermarket.com Group Plc and non-executive director of Santander UK Plc and of Jardine Lloyd Thompson Group plc. He was formerly the non-executive chairman of Aon UK Ltd (2012-2015), founder and managing partner of the quoted private equity division of 3i Group Plc., and chairman and chief executive officer of Marsh Europe. He was also lead independent director at Close Brothers Group Plc (2006-2014) and Catlin Group Ltd (2010-2014). He previously worked at JPMorgan Chase for eighteen years and at Bank of America for four years.

Membership of board committees

Executive, appointments (chairman), remuneration (chairman), risk supervision, regulation and compliance (chairman) and innovation and technology.



Mr Rodrigo Echenique Gordillo

VICE CHAIRMAN

Executive director

Born in 1946 in Madrid, Spain.

Joined the board in 1988.

Graduate in Law and Government Attorney.

Other positions of note: former Group Chief Executive Officer of Banco Santander, S.A. (1988-1994). He has served on the board of directors of several industrial and financial companies, including Ebro Azúcares y Alcoholes, S.A. and Industrias Agrícolas, S.A., and he was chairman of the advisory board of Accenture, S.A. He also held the position of non-executive chairman of NH Hotels Group, S.A., Vocento, S.A., Vallehermoso, S.A. and Merlin Properties SOCIMI, S.A. He is currently a non-executive director of Inditex.

Membership of board committees

Executive, international and innovation and technology.



Mr Matías Rodríguez Inciarte

VICE CHAIRMAN

Executive director

Born in 1948 in Oviedo, Spain.

Joined the board in 1988.

Graduate in Economics and Government Economist. He also studied Business Administration at the Massachusetts Institute of Technology (MIT).

Other positions of note:

Minister of the Presidency between 1981 and 1982, as well as technical general secretary of the Ministry of Economy, general secretary of the Ministry for European Community Relations and deputy secretary of state to the President. He is currently chairman of Unión de Crédito Inmobiliario, S.A., of the Princess of Asturias Foundation and of the social council of Universidad Carlos III in Madrid. He is also a non-executive director of Sanitas, S.A. de Seguros, Financiera Ponferrada, S.A., SICAV and Financiera El Corte Inglés E.F.C.

Membership of board committees

Executive and innovation and technology.



Mr Guillermo de la Dehesa Romero

VICE CHAIRMAN

Non-executive director

Born in 1941 in Madrid, Spain.

Joined the board in 2002.

Government Economist and head of office of the Bank of Spain (on leave of absence).

He is an international advisor to Goldman Sachs International.

Other positions of note:

former secretary of state for Economy, Secretary General for Trade and chief executive officer of Banco Pastor, S.A. He is currently a non-executive vice chairman of Amadeus IT Holding, S.A., honorary chairman of the Centre for Economic Policy Research (CEPR) based in London, a member of the Group of Thirty based in Washington, chairman of the board of trustees of IE Business School and non-executive chairman of Aviva Corporación and of Aviva Vida y Pensiones, S.A. de Seguros y Reaseguros.

Membership of board committees

Executive, appointments, remuneration, risk supervision, regulation and compliance, international and innovation and technology.



Ms Homaira Akbari

Non-executive director (independent)

Born in 1961 in Tehran, Iran.

Joined the board in 2016.

PhD in Experimental Particle Physics from Tufts University and MBA from Carnegie Mellon University.

Chief executive officer of AKnowledge Partner, LLC.

Other positions of note:

currently non-executive director of Gemalto NV, Landstar System, Inc. and Veolia Environment S.A. Ms Akbari has also been president and chief executive of Sky Bitz, Inc., managing director of True Position Inc., non-executive director of Covisint Corporation and US Pack Logistics LLC and she has held various posts at Microsoft Corporation and at Thales Group.

Membership of board committees

Innovation and technology.



Mr Ignacio Benjumea Cabeza de Vaca

Non-executive director

Born in 1952 in Madrid, Spain.

Joined the board in 2015.

Degree in Law from Deusto University, ICADE E-3, and Government Attorney.

He is vice chairman of the Financial Studies Foundation and a member of the board of trustees and the executive committee of the Banco Santander Foundation.

Other positions of note: senior executive vice president, general secretary and secretary to the board of Banco Santander, S.A., and board member, senior executive vice president, general secretary and secretary to the board of Banco Santander de Negocios and of Santander Investment. He was also technical general secretary of the Ministry of Employment and Social Security, general secretary of Banco de Crédito Industrial and director of Dragados, S.A., Bolsas y Mercados Españoles and of the Governing Body of the Madrid Stock Exchange.

Membership of board committees

Executive, appointments, remuneration, risk supervision, regulation and compliance, international and innovation and technology.



Mr Javier Botín-Sanz de Sautuola y O'Shea

Non-executive director (proprietary)

Born in 1973 in Santander, Spain.

Joined the board in 2004.

Degree in Law.

Chairman and chief executive officer of JB Capital Markets, Sociedad de Valores, S.A.U.

Other positions of note:

in addition to his work in the financial sector, he's collaborates with several non-profit organisations. Since 2014 he has been chairman of the Botín Foundation and member of the board of trustees of the Princess of Girona.



Ms Sol Daurella Comadrán

Non-executive director (independent)

Born in 1966 in Barcelona, Spain.

Joined the board in 2015.

Degree in Business and MBA in Business Administration.

Executive chairman of Olive Partners, S.A. and holds several positions at companies belonging to the Cobega Group. She is also non-executive chairman of Coca Cola European Partners, Plc.

Other positions of note: she has served as a member of the governing board of the Círculo de Economía and she is currently an independent non-executive director of Banco Sabadell, S.A., Ebro Foods, S.A. and Acciona, S.A. She is also honorary counsel general of Iceland in Catalonia.

Membership of board committees

Appointments and remuneration.



Mr Carlos Fernández González

Non-executive director (independent)

Born in 1966 in Mexico City, Mexico.

Joined the board in 2015.

Industrial engineer. He has undertaken graduate studies in business administration at the Instituto Panamericano de Alta Dirección de Empresas.

He is the chairman of the board of directors of Finaccess, S.A.P.I.

Other positions of note: Mr Fernández has also sat on the boards of Anheuser-Busch Companies, LLC and Televisa S.A. de C.V., among other companies. He is currently non-executive director of Inmobiliaria Colonial, S.A. and member of the supervisory board of AmRest Holdings, SE.

Membership of board committees

Audit, appointments and risk supervision, regulation and compliance.



Ms Esther Giménez-Salinas i Colomer

Non-executive director (independent)

Born in 1949 in Barcelona, Spain.

Joined the board in 2012.

PhD in Law and psychologist.

Professor Emeritus at Ramon Llull University, board member of Unibasq and Aqu (quality assurance agencies for the Basque and Catalan university systems) and of Gawa Capital Partners, S.L. She also sits on the advisory board of Endesa-Catalunya.

Other positions of note: she has been chancellor of Ramon Llull University, member of the General Council of the Judiciary, member of the standing committee of the Conference of Chancellors of Spanish Universities and executive vice president of the Centre for Legal Studies attached to the Department of Justice of the Government of Catalonia (Generalitat de Catalunya).

Membership of board committees

International and innovation and technology.



● The board is now more diverse in terms of nationality, knowledge, professional experience and gender following the arrival of Ms Homaira Akbari as a new board member, thus concluding a rigorous selection process that involved a careful assessment of the capacities of board members (skills matrix) and a precise identification of the profiles best suited to helping the Group meet its strategic objectives, in accordance with the principles set out in the Bank's director selection and succession policy. This process has been organised and overseen by the appointments committee.



Ms Belén Romana García

Non-executive director (independent)

Born in 1965 in Madrid, Spain.

Joined the board in 2015.

Graduate in Economics and Business Administration from Universidad Autónoma de Madrid and Government Economist.

Non-executive director of Aviva Plc.

Other positions of note: formerly executive vice-president of Economic Policy and executive vice-president of the Treasury of the Ministry of Economy of the Spanish Government, as well as director of the Bank of Spain and the Spanish National Securities Market Commission. She also held the position of director of the Instituto de Crédito Oficial and of other entities on behalf of the Spanish Ministry of Economy. She was the executive chairman of Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (SAREB).

Membership of board committees

Audit (chairman) and risk supervision, regulation and compliance.



Ms Isabel Tocino Biscarolasaga

Non-executive director (independent)

Born in 1949 in Santander, Spain.

Joined the board in 2007.

PhD in Law. She has undertaken graduate studies in business administration at IESE and the Harvard Business School.

She is a professor at Universidad Complutense de Madrid.

Other positions of note: formerly Spanish Minister for the Environment, chairman of the European Affairs Committee and of the Foreign Affairs Committee of the Spanish Congress and chairman for Spain and Portugal and vice chairman for Europe of Siebel Systems. She is currently an elected member of the Spanish State Council, a member of the Royal Academy of Doctors and a non-executive director of ENCE Energía y Celulosa, S.A., Naturhouse Health, S.A. and Natagás, S.A.

Membership of board committees

Executive, audit, remuneration and risk supervision, regulation and compliance.



Mr Juan Miguel Villar Mir

Non-executive director (independent)

Born in 1931 in Madrid, Spain.

Joined the board in 2013.

PhD in Civil Engineering, graduate in Law and degree in Industrial Organisation.

Chairman of the Villar Mir Group.

Other positions of note: formerly Minister of Finance and vice president of the government for Economic Affairs from 1975 to 1976. He has also served as chairman of the OHL Group, Electra de Viesgo, Altos Hornos de Vizcaya, Hidro Nitro Española, Empresa Nacional de Celulosa, Empresa Nacional Carbonífera del Sur, Cementos del Cinca, Cementos Portland Aragón, Puerto Sotogrande, the COTEC Foundation and of Colegio Nacional de Ingenieros de Caminos, Canales y Puertos. He is also currently professor of Business Organisation at Universidad Politécnica de Madrid, a member of the Royal Academy of Engineering and of the Royal Academy of Moral and Political Sciences, an honorary member of the Royal Academy of Doctors and supernumerary of the Royal Academy of Economics and Finance.

Membership of board committees

Audit and risk supervision, regulation and compliance.



Mr Jaime Pérez Renovales

General secretary and secretary of the board

Born in 1968 in Valladolid, Spain.

Joined the Group in 2003.

Graduate in Law and Business Administration at Universidad Pontificia de Comillas (ICADE E-3), and Government Attorney.

Other positions of note: he was deputy director of legal services at the CNMV, director of the office of the second vice president of the government for Economic Affairs and the Minister of Economy, general secretary and secretary of the board of Banco Español de Crédito, S.A., general vice secretary and vice secretary of the board and head of legal advisory services of Grupo Santander, deputy secretary of the Presidency of the Government and chairman of the committee for the reform of public administration.

Formerly chairman of the Agency of the Official State Gazette and director of Patrimonio Nacional, Sociedad Estatal de las Participaciones Industriales, Holding Olímpico, S.A., Autoestradas de Galicia, S.A. and Sociedad Estatal para la Introducción del Euro, S.A.

Comisiones del consejo de las que es secretario

Executive, audit, appointments, remuneration, risk supervision, regulation and compliance, international and innovation and technology.

» Re-election of directors at the 2017 annual general shareholders' meeting

Pursuant to article 55 of the Bylaws and article 22 of the Rules and Regulations of the Board⁴, directors are appointed to three-year terms, such that one-third of the board is renewed each year.

The following directors will be put forward for re-election at the 2017 annual general shareholders' meeting, scheduled for 6 or 7 April on first and second call, respectively, and following the order determined by seniority for annual renewal and for renewal of one-third of the board: Ms Ana Botín-Sanz de Sautuola y O'Shea, Mr José Antonio Álvarez Álvarez, Mr Rodrigo Echenique Gordillo, Ms Esther Jiménez-Salinas i Colomer and Ms Belén Romana García, the first three as executive directors and the latter two as independent directors.

Ms Homaira Akbari's appointment as independent director will also be put before the general meeting for its approval.

Their professional profiles, together with a description of their work and activities, can be found in the preceding pages of this report and also on the Group's corporate website (www.santander.com) and in the motions to be laid before the general shareholders' meeting of 2017.

Each of the re-elections and ratifications will be submitted separately for voting at the general meeting in accordance with article 21.2 of the Rules and Regulations for the General Shareholders' Meeting.

» Powers and duties

The basic responsibility of the board of directors is to supervise the Group, delegating the day-to-day management thereof to the appropriate executive bodies and the various management teams.

4. The Bylaws and the Rules and Regulations of the Board of Banco Santander are published on the Group's corporate website (www.santander.com).

Composition and structure of the board of directors¹

Board of directors		Committees								
		Executive	Non-executive	1. Executive committee	2. Audit committee	3. Appointments committee	4. Remuneration committee	5. Risk supervision, regulation and compliance committee	6. International committee	7. Innovation and technology committee
Group executive chairman	Ms Ana Botín-Sanz de Sautuola y O'Shea	■		■					■	■
Chief executive officer	Mr José Antonio Álvarez Álvarez	■		■					■	■
Vice chairmen	Mr Bruce Carnegie-Brown		■	■		■	■	■		■
	Mr Rodrigo Echenique Gordillo	■		■					■	■
	Mr Matías Rodríguez Inciarte	■		■						■
Members	Mr Guillermo de la Dehesa Romero		■	■		■	■	■	■	■
	Ms Homaira Akbari ⁶		■							■
	Mr Ignacio Benjumea Cabeza de Vaca		■	■		■	■	■	■	■
	Mr Javier Botín-Sanz de Sautuola y O'Shea		■							
	Ms Sol Daurella Comadrán		■			■	■			
	Mr Carlos Fernández González		■		■	■		■		
	Ms Esther Giménez-Salinas i Colomer		■						■	■
	Ms Belén Romana García		■		■			■		
	Ms Isabel Tocino Biscarolasaga		■		■	■	■	■		
	Mr Juan Miguel Villar Mir		■		■			■		
Total										
General secretary and secretary of the board	Mr Jaime Pérez Renovales			■	■	■	■	■	■	■

1. Figures at 31 December 2016.

2. However, pursuant to the provisions of article 55 of the Bylaws, one-third of the board will be renewed each year, based on length of service and according to the date and order of the respective appointment.

3. Syndicated shares. See page 64.

4. Effective 13 January 2015.

The Rules and Regulations of the Board (article 3) reserve thereto the power, which cannot be delegated, to approve general policies and strategies and oversee their application, including the following in particular: strategic or business plans; management objectives and the annual budget; fiscal strategy and capital and liquidity strategy; investment, financing, dividend, treasury share, risk management and control (including fiscal), corporate governance, corporate social responsibility and regulatory compliance policies; policies regarding the internal governance of the Bank and its Group; remuneration policies for employees of the Bank and its Group; and policies for reporting to and notifying shareholders, markets and public opinion.

Various matters, which likewise cannot be delegated, are also reserved for the board, including decisions regarding: the acquisition and disposal of substantial assets (except when the decisions come within the purview of the shareholders at a general shareholders' meeting) and major corporate transactions; the determination of each director's remuneration and the approval of contracts governing the performance by the directors of duties other than those of director, including executive duties, as well as the remuneration to which they are entitled for the discharge thereof; the selection, appointment by co-option and ongoing assessment of directors; the selection, appointment and, if necessary, removal of the other members of senior management (senior executive vice presidents and equivalents) and the monitoring of management activity and ongoing assessment thereof, as well as the determination of the basic terms and conditions of their contracts; authorisation to create or acquire interests in

special purpose entities or in entities registered in countries or territories regarded as tax havens; the approval of investments or transactions of a strategic nature or with a particular tax risk; and the approval of certain related party transactions. With regard to those powers that cannot be delegated, the executive committee may make any appropriate decisions, whenever justified by reasons of urgency, provided that the board is subsequently informed at the first meeting held to ratify such decisions.

Both the Bylaws (article 40) and the aforementioned Rules and Regulations of the Board of Directors (article 5) establish the board's obligation to ensure that the Bank faithfully complies with applicable law, observes usage and good practices of the industries or countries where it does business and abides by the additional social responsibility principles that it has voluntarily accepted. The board of directors and its standing committees shall exercise their powers and, in general, carry out their duties in accordance with the interests of the company, understood to be the attainment of a long-term sustainable and profitable business that furthers its continuity and maximises the value of the company.

In addition, the Bank's board takes a very active interest in the Group's risk function. Of its 15 members, 11 are members of at least one of the two board committees that deal with risk: the executive committee and the risk supervision, regulation and compliance committee. Three executive directors are also members of the executive risk committee, which is the body not mandated by the bylaws responsible for global risk management in the Group.

Shareholding

Direct	Indirect	Shares represented	Total	% of share capital	Date of first appointment	Date of last appointment	End date ²	Date of last proposal of the appointments committee
612,696	17,602,582	-	18,215,278³	0.125%	04,02,1989	28,03,2014	First six months of 2017	17.02.2014
697,913	1,348	-	699,261	0.005%	25,11,2014 ⁴	27,03,2015	First six months of 2018	20.02.2015
20,099	-	-	20,099	0.000%	25,11,2014 ⁵	18,03,2016	First six months of 2019	11.02.2016
822,927	14,184	-	837,111	0.006%	07,10,1988	28,03,2014	First six months of 2017	13.02.2014
1,475,161	308,163	-	1,783,324	0.012%	07,10,1988	27,03,2015	First six months of 2018	20.02.2015
148	-	-	148	0.000%	24,06,2002	27,03,2015	First six months of 2018	20.02.2015
22,000	-	-	22,000	0.000%	27,09,2016	27,09,2016	First six months of 2019	26.09.2016
3,067,201	-	-	3,067,201	0.021%	30,06,2015 ⁷	18,03,2016	First six months of 2019	11.02.2016
4,793,481	11,498,361	116,250,993	132,542,835	0.909%	25,07,2004	18,03,2016	First six months of 2019	11.02.2016
128,263	412,521	-	540,784	0.004%	25,11,2014 ⁸	18,03,2016	First six months of 2019	11.02.2016
16,840,455	-	-	16,840,455	0.115%	25,11,2014 ⁵	27,03,2015	First six months of 2018	20.02.2015
5,405	-	-	5,405	0.000%	30,03,2012	28,03,2014	First six months of 2017	17.02.2014
150	-	-	150	0.000%	22,12,2015	18,03,2016	First six months of 2019	11.02.2016
270,585	-	-	270,585	0.002%	26,03,2007	18,03,2016	First six months of 2019	11.02.2016
1,199	-	-	1,199	0.000%	07,05,2013	27,03,2015	First six months of 2018	20.02.2015
28,757,683	29,837,159	116,250,993	174,845,835	1.198%				

5. Effective 12 February 2015.

6. Their appointment will be submitted for ratification at the general shareholders' meeting scheduled for 6 or 7 April 2017, on first or second call.

7. Effective 21 September 2015.

8. Effective 18 February 2015.

C Chairman of the committee

P Proprietary

I Independent

N Non-executive (neither proprietary nor independent)

Commitment of the board¹

Number of shares of the Board

174,845,835

1.2% of share capital

Stock market value

868

million euros

Share price

4.959

euros

1. Figures at 31 December 2016.

» Size and composition of the board

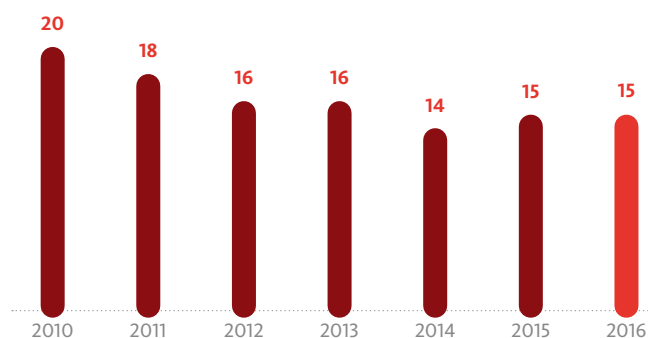
Since the end of 2010, the size of the board has been downsized by 25%, from 20 to 15 members.

The composition of the board of directors is balanced between executive and non-executive directors, most of whom are independent. All members are distinguished by their professional ability, integrity and independence of opinion.

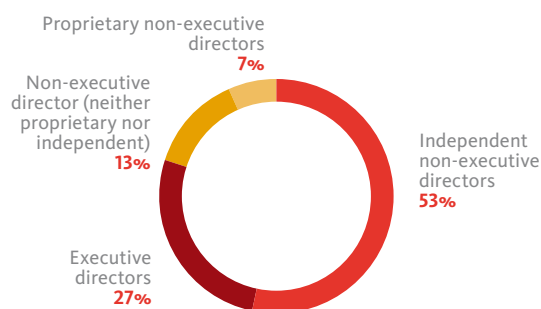
Pursuant to article 6.3 of the Rules and Regulations of the Board, the appointments committee has duly verified the status of each director. Its proposal was submitted to the board, which approved it at the meeting held on 21 February 2017.

Of the 15 members currently sitting on the board, four are executive and 11 are non-executive. Of the latter, eight are independent, one is proprietary and the other two, in the opinion of the board, are neither proprietary nor independent.

Size of the board



Current composition of the board



Executive directors

Pursuant to the Rules and Regulations of the Board (article 6.2.a), the following are executive directors: Ms Ana Botín-Sanz de Sautuola y O'Shea, Mr José Antonio Álvarez Álvarez, Mr Rodrigo Echenique Gordillo and Mr Matías Rodríguez Inciarte.

Proprietary non-executive directors

According to article 6.2.b) of the Rules and Regulations of the Board, proprietary directors are non-executive directors who hold or represent shareholdings equal to or greater than that which qualifies as significant under the law, or who have been designated as such on account of their status as shareholders despite their shareholdings not reaching the threshold to be considered significant, as well as anyone representing such shareholders.

Since 2002, the appointments committee and the board of directors have stipulated that having or representing at least 1% of the Bank's share capital is a necessary condition, though not the only condition, to be appointed a non-executive proprietary director. This percentage was established by the Bank in accordance with its self-regulatory powers and is less than that deemed significant by law, although the Bank believes it is sufficiently important so as to enable the board to classify directors that hold or represent a shareholding equal to or greater than such percentage as proprietary directors.

The board, taking into account the prevailing circumstances of each case, and following a report by the appointments committee, appointed Mr Javier Botín-Sanz de Sautuola y O'Shea as an external proprietary director representing the following shareholders: Fundación Botín, Cronje, S.L., Puente de San Miguel, S.L.U., Nueva Azil, S.L., Agropecuaria El Castaño, S.L.U., Bright Sky 2012, S.L., Ms Ana Botín-Sanz de Sautuola y O'Shea, Mr Emilio Botín-Sanz de Sautuola y O'Shea, Ms Carmen Botín-Sanz de Sautuola y O'Shea, Ms Paloma Botín-Sanz de Sautuola y O'Shea, Mr Jorge Botín-Sanz de Sautuola Ríos, Mr Francisco Javier Botín-Sanz de Sautuola Ríos, Ms Marta Botín-Sanz de Sautuola Ríos and his own shareholding.

The voting rights of the aforementioned shareholders corresponded to 1.034% of the Bank's share capital at year-end 2016.

Independent non-executive directors

The Rules and Regulations of the Board (article 6.2.c) include the legal definition of independent director established in article 529. duodecies.4 of the Spanish Companies Act. Taking into account the circumstances in each case and following a report from the appointments committee, the board considers the following eight directors to be independent non-executive directors: Mr Bruce Carnegie-Brown (lead director), Ms Homaira Akbari, Ms Sol Daurella Comadrán, Mr Carlos Fernández González, Ms Esther Giménez-Salinas i Colomer, Ms Belén Romana García, Ms Isabel Tocino Biscarolasaga and Mr Juan Miguel Villar Mir.

Given the current number of directors (15), independent non-executive directors account for 53% of the board.

This percentage exceeds the minimum threshold of one half of total directors set out in article 6.1 of the Rules and Regulations of the Board and reflects the board's goal for the board to be made up predominantly of non-executive directors, which in turn are predominantly independent, in compliance with best practices in corporate governance.

Other non-executive directors

Mr Guillermo de la Dehesa Romero and Mr Ignacio Benjumea Cabeza de Vaca are non-executive directors that are neither proprietary nor independent. Neither can be classified as a proprietary director as they do not hold nor represent shareholdings equal to or greater than that which qualifies as significant under the law and have not been designated as such on account of their status as shareholders. Likewise, neither can be considered an independent director since, in the case of Mr de la Dehesa, he has held the position of director for more than 12 years and, in the case of Mr Benjumea, since three years have not yet elapsed since his resignation as a member of the Group's senior management.

Therefore, following a report from the appointments committee, the board of directors has classified both as non-executive directors that are neither proprietary nor independent, in accordance with article 529 duodecies of the Spanish Companies Act and article 6.2 of the Rules and Regulations of the Board.

» Diversity on the board

As established in article 17.4 a) of the Rules and Regulations of the Board, the appointments committee is responsible for proposing and reviewing the director selection policies and succession plans and the internal procedures for determining who is to be proposed for the position of director.

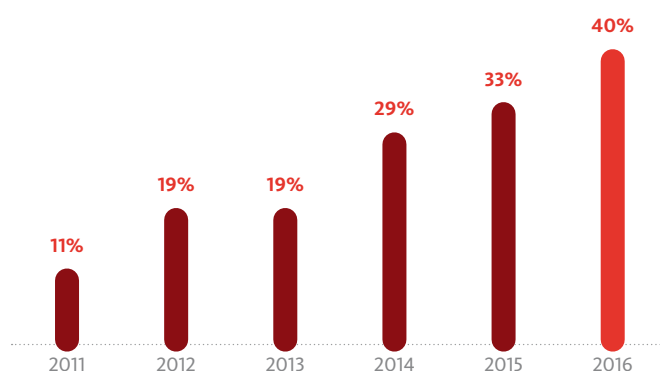
As regards gender diversity, both the appointments committee and the board of directors are aware of the importance of fostering equal opportunities between men and women and of the appropriateness of appointing to the board women who fulfil the requirements of ability, suitability and effective dedication to the position of director.

The appointments committee, at the meeting held on 26 March 2016, agreed to raise the target level for the least represented gender on the board to 30% of total board members. This target has been met as the minority gender now accounts for 40% of seats.

At present, there are six women on the board of directors, one of whom is its Group executive chairman, namely Ms Ana Botín-Sanz de Sautuola y O'Shea, while the others are independent non-executive directors: Ms Homaira Akbari, Ms Sol Daurella Comadrán, Ms Esther Giménez-Salinas, Ms Belén Romana García and Ms Isabel Tocino Biscarolasaga.

The share of women on Banco Santander's board (40%) exceeds the target set by the appointments committee and is well above the average for large listed companies in Europe. According to a study conducted by the European Commission with data from July 2016, the percentage of female board members at large listed companies was 23.3% for all 28 countries in the European Union and 20.2% for Spain.

Percentage of women on the board

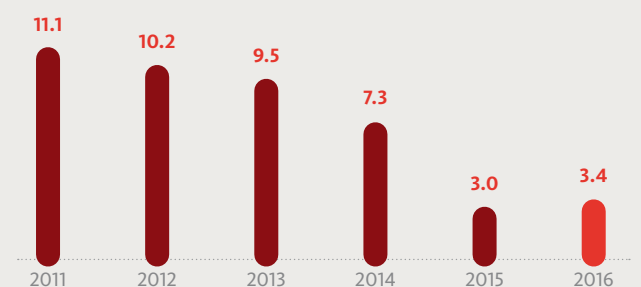


The table below shows the number and percentage of women on the board and on each of its committees.

	Number of members	Number of female directors	% of female directors
Board	15	6	40.0%
Executive committee	8	2	25.0%
Audit committee	4	2	50.0%
Appointments committee	5	1	20.0%
Remuneration committee	5	2	40.0%
Risk supervision, regulation and compliance committee	7	2	30.0%
International committee	6	2	33.3%
Innovation and technology committee	9	3	33.3%

Years of service of independent directors

At the date of this document, the average length of service for independent non-executive directors serving as board member is just over three years.



» Balanced structure of corporate governance

There is a clear separation of duties between those of the Group executive chairman, the chief executive officer, the board, and its committees, and various checks and balances that assure proper equilibrium in the Bank's corporate governance structure, including the following:

- The board and its committees oversee and control the activities of both the Group executive chairman and the chief executive officer.
- The lead director chairs the appointments, the remuneration and the risk supervision, regulation and compliance committees. The lead director also oversees the periodic process of assessing the chairman and coordinates the succession plan.
- The audit committee is chaired by an independent director acting in her capacity as financial expert.
- The powers delegated to the Group executive chairman and the chief executive officer exclude those that are exclusively reserved for the board itself.
- The Group executive chairman may not simultaneously hold the position of chief executive officer of the Bank.
- The corporate Risk, Compliance and Internal Audit functions report to a committee or a member of the board of directors and have direct access thereto.

» Succession plans for the Group executive chairman and the chief executive officer

Succession planning for the main directors is a key element of the Bank's good governance, assuring an orderly leadership transition at all times. The process is regulated by article 24 of the Rules and Regulations of the Board, which also governs the succession plans for the Group's other directors and senior management. The board of directors has prepared a matrix of skills that it must possess, together with a succession plan aligned with those skills so as to ensure that when vacancies arise the incoming members reinforce and bolster those skills.

On the proposal of the appointments committee, the following were approved at board meetings held on 30 November 2016 and 24 January 2017, respectively: (i) the Group's succession policy; and (ii) the board member selection and succession policy.

» Rules for interim replacement of the Group executive chairman

Article 44.2 of the Bylaws and article 9 bis of the Rules and Regulations of the Board set out interim replacement rules for the temporary performance (in cases of absence, inability to act or indisposition) of the duties of the chairman of the board of directors, stating that in these cases the chairman will be substituted by a vice chairman to be selected in order of length of service on the board, except where the lead director is one of the vice chairmen, in which case he or she will be the first choice. If there are no vice chairmen, the remaining directors will replace the Group executive chairman in the order established by the board, whereby the lead director should be the first in this order if such director does not hold the position of vice chairman.

Roles and responsibilities

Group executive chairman

- The chairman of the board is the Bank's highest-ranking officer, responsible for managing the board and ensuring its effective operation (article 48.1 of the Bylaws and article 8.1 of the Rules and Regulations of the Board). In accordance with her position as such, the Group executive chairman is responsible, among others, for the following duties:
 - Ensure compliance with the Bylaws and that the resolutions of the general shareholders' meeting and of the board of directors are faithfully executed.
 - Carry out a high-level inspection of the Bank and all its services.
 - Meet with the chief executive officer and senior executive vice presidents to keep informed of the performance of the businesses.
- The board of directors has delegated to the Group executive chairman all its powers, except those that cannot be delegated by law, the Bylaws or the Rules and Regulations of the Board.
- The Group strategic and corporate functions report to the Group executive chairman.

Chief executive officer

- The chief executive officer is entrusted with the day-to-day management of the business and the highest executive functions (article 49.1 of the Bylaws and article 10.1 of the Rules and Regulations of the Board).
- The board of directors has delegated to the chief executive officer all its powers, except those that cannot be delegated by law, the Bylaws or the Rules and Regulations of the Board.
- Corporate business and ordinary management support divisions and control functions all report to the chief executive officer, although they also have direct access to the board of directors.
- The country heads, who are the Group's first representatives in the countries in which the Group operates, also report to the chief executive officer.

» Lead director

By resolution of the general shareholders' meeting of 28 March 2014, the figure of lead director, already established in the Rules and Regulations of the Board, has been included in the Bylaws, the responsibilities thereof being defined in article 49 bis of the Bylaws. Pursuant to article 49 bis of the Bylaws and article 12 bis of the Rules and Regulations of the Board of Directors, the lead director will have special powers to: (i) request that a meeting of the board of directors be called or that new items be added to the agenda for a meeting of the board that has already been called; (ii) coordinate and organise meetings of the non-executive directors and voice their concerns; and (iii) direct the regular assessment of the chairman of the board of directors and coordinate the succession plan; (iv) contact investors and shareholders to obtain their points of view for the purpose of gathering information on their concerns, in particular, with regard to the Bank's corporate governance; and (v) substitute the chairman in the event of absence under the terms envisaged in the Rules and Regulations of the Board of Directors.

At its meeting of 25 November 2014, the board of directors appointed Mr Bruce Carnegie-Brown as vice chairman and lead director, replacing Mr Fernando de Asúa Álvarez.

The appointment of the lead director has been made for an indefinite period of time and with the abstention of the executive directors, as provided in the Bylaws.

Comparison of number of meetings held*

	Santander	Spanish average	US average	UK average
Board	13	11.3	8.4	7.7
Executive committee	52	9.4	-	-
Audit committee	10	7.7	8.6	5.1
Appointments committee	10	6.0	4.8	3.7
Remuneration committee	9	6.0	6.1	5.1
Risk supervision, regulation and compliance committee	12	16.0	-	5.5

* Source: Stuart Spencer Board Indices 2016 (Spain, United States and United Kingdom).

» Secretary of the board

The Bylaws (article 45.2) and the Rules and Regulations of the Board (article 11) include among the duties of the secretary those of ensuring the formal and substantive legality of all action undertaken by the board, ensuring that the good governance recommendations applicable to the Bank are taken into consideration, and ensuring that governance procedures and rules are observed and regularly reviewed.

The secretary of the board is the general secretary of the Bank, and also acts as secretary for all board committees.

The Rules and Regulations of the Board (article 17.4.e)) provide that the appointments committee must report on proposals for the appointment or withdrawal of the secretary of the board prior to submission thereof to the board.

On 27 September 2016, the board of directors agreed to appoint Mr Óscar García Maceiras as vice-secretary to the board of directors, on the proposal of the appointments committee.

» Proceedings of the board

The board of directors held 13 meetings during 2016.

The board holds its meetings in accordance with an annual calendar and agenda of business to discuss, without prejudice to any further business needs that may arise. Directors may also propose the inclusion of items on the agenda. The Rules and Regulations of the Board provide that the board shall hold not less than nine annual ordinary meetings.

The board shall meet whenever the chairman so decides, acting on her own initiative or at the request of not less than three directors (article 46.1 of the Bylaws). Additionally, the lead director is especially authorised to request that a meeting of the board of directors be called or that new items be added to the agenda for a meeting that has already been called (article 49.bis.1 (i) of the Bylaws and article 12 bis of the Rules and Regulations of the Board).

When directors are unable to personally attend a meeting, they may grant any other director proxy, in writing and specifically for each meeting, to represent them for all purposes at such meeting. Proxy is granted with instructions and non-executive directors may only be represented by another non-executive director.

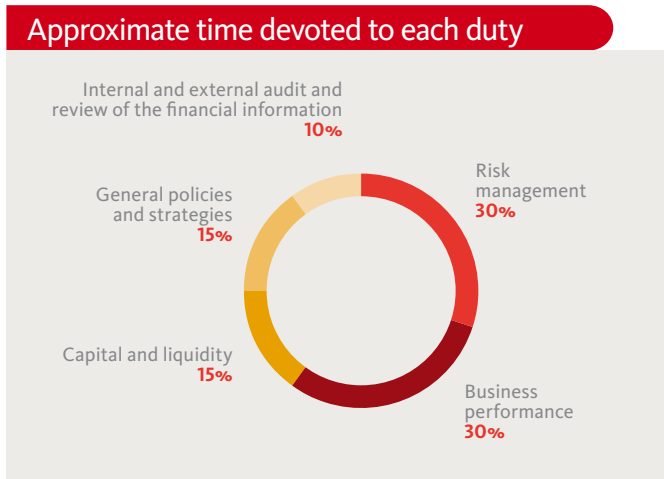
The board may meet in various rooms at the same time, provided that interactivity and communication among them in real time is ensured by audiovisual means or by telephone and the concurrent holding of the meeting is thereby ensured.

Board meetings shall be validly convened when more than half of board members are present in person or by proxy. Except in instances in which a greater majority is specifically required pursuant to legal provisions, the Bylaws or the Rules and Regulations of the Board, resolutions are adopted by absolute majority of the directors attending in person or by proxy. The chairman has the casting vote in the event of a tie.

In 2016 the board was kept continuously and fully informed of the performance of the various business areas of the Group through

the management reports and risk reports submitted to it, among other things. During the year, the board has also reported on the conclusions of the external and internal audits.

The chart below shows a breakdown of the approximate time devoted to each task at the meetings held by the board in 2016.



» Dedication to board duties

The duty of diligent management requires directors to dedicate the necessary time and effort to their position, among other requirements.

The maximum number of boards of directors to which they may belong is established in article 26 of Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions. Thus, Bank directors will not be allowed to occupy, at the same time, more than: (a) one executive position and two non-executive positions, or (b) four non-executive positions. For such purposes, positions held within the same group will be counted as a single position, while positions held at non-profit organisations or organisations not pursuing commercial ends will not be included. The European Central Bank may authorise a director to hold an additional non-executive position if it considers that it does not impede the proper performance of the director's duties at the Bank.

Directors shall endeavour to ensure that absences from meetings of the board and of the committees to which they belong are reduced to cases of absolute necessity.

The appointments committee analyses directors' dedication to their position on an annual basis, using information received regarding their other professional obligations and other available information to evaluate whether the directors are able to dedicate the necessary time and effort to complying with the duty of diligent management. Dedication is also taken into account for re-election, since proposals by the appointments committee must contain an assessment of their work and of effective dedication to the position during the most recent period of time in which the proposed director has performed his or her duties.

» Training of directors and information or induction programme for new directors

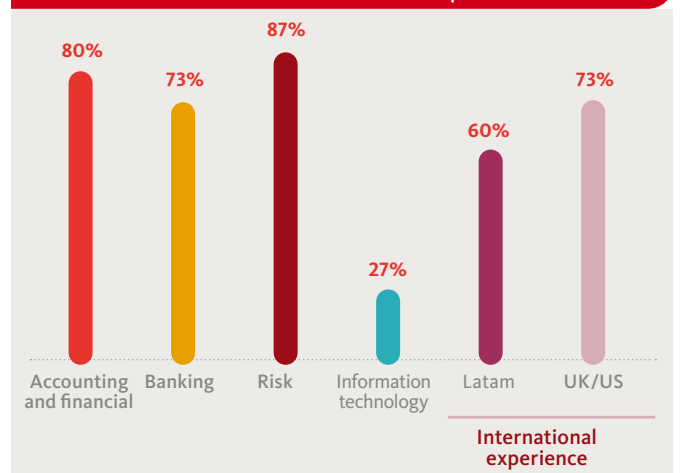
As a result of the Board's self-assessment process of 2005, an ongoing training programme for directors was implemented.

Within the framework of the Bank's ongoing director training programme, ten sessions were held in 2016 with an average attendance of eight directors, who devoted approximately two hours to each session. Various issues were covered in depth at such meetings, including: multi-channel and digital transformation; corporate defence; non-financial risks: model risk and reputational risk; regulatory developments relating to capital; risk appetite in relation to compliance and conduct risk, and approval systems for the marketing and sale of products.

Likewise, the Rules and Regulations of the Board (article 21.7) establish that the board must make an information and induction programme available to new directors that provides swift and sufficient knowledge of the Bank and its Group, including their governance rules. Here, for example, Ms Homaira Akbari (appointed to the board in 2016) attended a specific training programme for new board members, at which the following matters were addressed:

- General presentation of the Group and the regulatory context in which it operates.
- Compliance.
- Capital.
- Liquidity and balance sheet management.
- Budget and financial statements.
- The Group's main regions and businesses.
- Main support areas (Technology and Operations, Risks, Audit, Human Resources, Organisation and Costs).
- Innovation.
- Corporate governance and internal governance.
- Sustainability, communication and the Santander brand.

% Of board members with relevant experience





DECISION-MAKING PROCESS

- A board of directors is aware of the business, is well balanced and has vast experience.
- It takes decisions by consensus and has a long-term vision.
- Debate of the issues and effective challenge by external directors.

Self-assessment by the board

Pursuant to article 19.7 of the Rules and Regulations of the Board, the board shall conduct a yearly assessment of its own functioning and the quality of its work. An assessment must also be conducted by an independent advisor once every three years, the last one having been completed in 2015.

Specific measures or practices adopted as a product of the board's assessment in 2015 included the following:

- Meetings to be held yearly to analyse matters of strategic interest to the Group.
- Information to be sent to board members on all opinions and reports issued by financial analysts and institutional investors in relation to the Bank.
- Board composition to be adjusted by incorporating new independent directors with a more international profile, while strengthening diversity and increasing board expertise in digital strategy.
- More preparatory meetings to be held in the lead-up to actual board members so as to improve relations between board members and encourage interaction between board members and company executives.
- Board to become involved in managing talent by setting up talent committees tasked with assessment processes and succession plans and reporting to the appointments committee and the board.

In accordance with article 17.4.(j) of the Rules and Regulations of the Board, the appointments committee, at the meeting held on 18 November 2016, agreed to initiate the board assessment process in 2016, which was conducted internally.

The assessment is based on the information collected from board members via a questionnaire, as part of a confidential and anonymous process that also included personal interviews between the directors and the chairman of the appointments committee.

All non-executive directors were involved in the process of assessing the lead director. In turn, the lead director oversaw the process of assessing the chairman.

The assessment process focused on the following aspects:

- In relation to the board as a whole: structure; organisation and functioning; internal culture and arrangements (planning of meetings, director support and training); knowledge and diversity; and performance of the supervisory function. The process also addressed a number of other issues relating to strategy, such as where their priorities should lie and what their challenges should be for 2017, plus other matters of interest.
- In relation to commissions: composition; functioning; board support and reporting; committee content; and their main challenges and priorities for 2017.
- In relation to the lead director: performance of his or her functions; leadership; relations with institutional investors; dedication; and performance of the role.

The results of the assessment process for the board and its committees revealed the following: high levels of commitment and dedication from all board and committee members; effective functioning of all committees; high quality debate and discussions on the board and sufficient time dedicated to board business; sound annual planning of board meetings and sufficient quality of the documents delivered at board meetings; annual strategic meeting deemed to be useful.

It also confirmed a clear and proper segmentation of responsibilities and functions between the chairman and chief executive officer, and a steady increase in the work of the lead director in supporting non-executive directors by scheduling periodic meetings with them to assess the activities and functioning of the board.

The report containing the conclusions and results of the assessment process for the board and its committees in 2016 was presented at the board meeting held on 24 January 2017. In view of these findings and the results of the business reports of the various committees in 2016, the board approved an action plan that envisages improvements in the following areas, among others:

- Increase the time dedicated to digital transformation and technology, human resources, succession and talent, strategic, cyber-security, competitor landscape and innovation.
- Strengthen coordination among committees of the Group entities, especially regarding the audit, appointments and risk supervision, regulation and compliance committees.
- Monitoring and updating verified and robust succession plans for the board of directors, its committees and the senior management.

» Appointment, re-election and ratification of directors

Proposals for appointment, re-election and ratification of directors, regardless of the status thereof, that the board of directors submits to shareholders for consideration at the general shareholders' meeting and the appointment decisions adopted by the board itself, by virtue of the legal powers of co-option, must, following the relevant selection process, be preceded by the corresponding report and proposal of the appointments committee.

Although the proposals of such committee are not binding, the Rules and Regulations of the Board provide that if the board does not follow them, it must give reasons for its decision.

Currently, all directors have been appointed or re-elected at the proposal of the appointments committee.

Skills matrix of the members of the board and diversity analysis*

In accordance with the director selection process just discussed, as set out in articles 6.1 of the Rules and Regulations of the Board and 42.4 of the Bylaws, the committee proceeded to review the director selection and succession policy on 23 January 2017, as well as the conclusions of the annual board self-assessment process completed in 2016. Following this self-assessment, and on a proposal from the appointments committee, the board of directors reviewed its composition and drew up the following skills matrix at a meeting held on 21 February 2017. The findings of the analysis identified the need to strengthen skills with profiles that specialise in new technologies and banking.

	Group executive chairman	Chief Executive Officer	Vice chairman 1	Vice chairman 2	Vice chairman 3	Vice chairman 4	Member 1	Member 2	Member 3	Member 4	Member 5	Member 6	Member 7	Member 8	Member 9
Senior management	●●	●●	●●	●●	●●	●●	●●	●	●●	●●	●	●●	●●	●●	●●
Experience in the financial sector	General	●●	●●	●●	●●	●●	●●	●●		●●	●	●		●●	●●
	Banking	●●	●●	●●	●●	●●	●●	●		●	●			●●	●
International diversity			●						●	●					
International experience	Spain	●●	●●	●	●●	●●	●●	●	●●		●●	●●	●●	●●	●●
	Latam	●●	●●		●●	●	●	●		●●			●		
	UK/US	●●	●●	●●	●●	●	●	●	●●	●●					●
	Others	●	●●	●●	●●	●	●	●	●●	●●	●	●	●		●
Accounting and financial background	●●	●	●●	●●	●●	●●			●●		●	●	●●	●●	●●
Other commercial	●●			●	●	●			●●	●●	●●		●●		●●
Risks	●●	●	●●	●●	●●	●	●		●●	●		●	●	●●	●●
Government/Academic/Research	●		●	●●	●●	●		●●	●	●	●	●●	●●	●●	●●
IT/Digital	●●	●							●●				●		
Strategy	●●	●	●●	●●	●●	●●	●●		●●	●●	●		●●		●
Regulation/Regulatory relations	●●	●	●●	●	●●	●●	●		●	●				●●	●●
Experience in corporate governance	●●	●●	●●	●	●●	●●	●		●●	●●		●	●●	●●	●●
Gender diversity	●							●	●		●	●			●

● Skills as executive ● Skills as non-executive ● Nature *Data in February 2017

Total number of independent directors	8
Total board members	15

» Remuneration system

At the general shareholders' meeting of 28 March 2014, shareholders resolved to amend the Bylaws to bring the remuneration system for executive directors into line with the provisions of Spanish Law 10 of 26 June 2014, on the planning, supervision and capital adequacy of credit institutions, and Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, so as to ensure that the variable components of their remuneration do not exceed 100% of the fixed components, unless the general meeting approves a higher ratio, which may in no event exceed 200%.

With relation to the foregoing, the shareholders acting at the general shareholders' meeting of 18 March 2016 approved a maximum ratio between fixed and variable components of executive directors' remuneration of 200% for 2016.

At the general shareholders' meeting of 27 March 2015, the shareholders once again amended the Bylaws to bring the directors remuneration system into line with the new developments introduced in the Spanish Companies Act by Law 31/2014.

The remuneration of directors acting as such, whether they are executive or not, is made up of fixed annual allotments and attendance fees, as set forth in the Bylaws, which are determined by the board of directors within the maximum amount approved by the shareholders at the general meeting based on the positions held by each director on the board, their membership on and attendance at the various committees and any other objective circumstances that the board may take into account. Accordingly, the board of directors, at the proposal of the remuneration committee, is responsible for establishing director remuneration for carrying out executive functions, taking into account for such purpose the director remuneration policy approved by the shareholders at the general meeting. The shareholders at the general meeting also approved those remuneration plans that entail the delivery of shares of the Bank or options thereon or that entail remuneration tied to the value of the shares.

On the proposal of the appointments committee, the board of directors has undertaken to adapt the contracts of executive directors in relation to the performance of non-director functions so as to bring them in line with the terms of Circular 2/2016 of 2 February, of Banco of Spain, on credit institutions, supervision and capital adequacy.

Remuneration of the board in 2016

Bylaw-stipulated allotments earned by the board amounted to 4.6 million euros in 2016, which is 23.9% lower than the maximum amount of 6 million euros approved by shareholders at the general shareholders' meeting.

Full details regarding director remuneration and the policy for 2016 can be found in the report of the remuneration committee, which forms part of the corporate documentation of Banco Santander.

The chart below shows the evolution of total remuneration of directors with executive duties against the total return for shareholders (pay for performance).

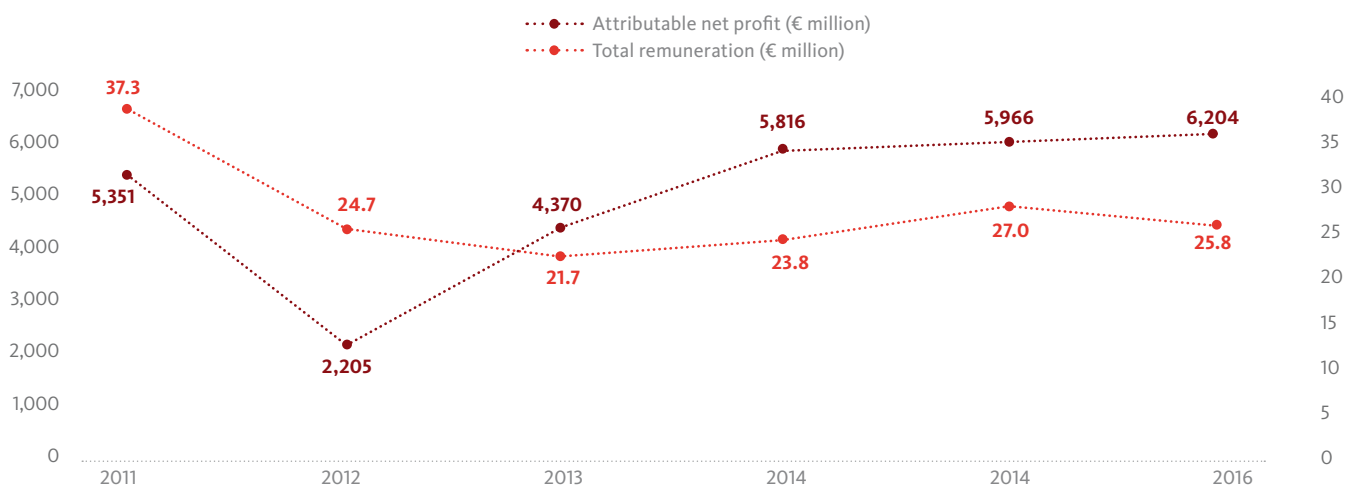
Anticipation of and adjustment to the regulatory framework

At the proposal of the remuneration committee, the board of directors promotes and encourages a remuneration system that fosters rigorous risk management, and implements ongoing monitoring of the recommendations issued by the main Spanish and international bodies with authority in this field.

Director remuneration policy and annual report on director remuneration

As provided in article 541 of the Spanish Companies Act and in the Bylaws (article 59.bis.1), the board of directors annually approves an annual report on director remuneration, which sets forth the standards and basis for determining remuneration for the current financial year, as well as an overall summary of the application of the remuneration policy during the financial year ended, and a breakdown of the individual remuneration earned for all items by each of the directors during such year. The report is available to shareholders with the call notice for the annual general shareholders' meeting and is submitted to a consultative vote.

● Evolution of the remuneration for all items of directors with executives duties against attributable net profit*



* Remuneration data of executive directors and attributable net profit in millions of euros.

The content of such report is subject to the provisions of article 10 of Order ECC/461/2013 and CNMV Circular 4/2013, of 12 June (amended by Circular 7/2015, of 22 December).

In 2016, the report corresponding to 2015 was submitted to the shareholders at the general shareholders' meeting held on 18 March, as a separate item on the agenda and as a consultative matter, with 91.507% of the votes being in favour of the report accounts.

The director remuneration policy for 2016, 2017 and 2018 was also submitted for approval, on a binding basis, by shareholders at the annual general shareholders' meeting held on 18 March 2016, in accordance with article 529 novodecies of the Spanish Companies Act. The policies were approved with 91.467% of the votes in favour.

Lastly, the 2016 annual report on director remuneration will be laid before the annual general shareholders' meeting to be held on 6 or 7 April 2017 (on first or second call, respectively) for an advisory vote by shareholders (as a separate item on the agenda). Meanwhile, the director remuneration policy for 2017, 2018 and 2019 will be laid before that same meeting for a binding and final vote by shareholders.

Transparency

Pursuant to the Bylaws (article 59.bis.5), the annual report includes itemised information on the remuneration received by each director, with a statement of the amounts for each item of remuneration. The report also sets forth, on an individual basis for each item, the remuneration for the executive duties entrusted to the executive directors of the Bank. All such information is contained in note 5 to the Group's annual accounts.

» Duties of directors, related-party transactions and conflicts of interest

Duties

The duties of directors are governed by the Rules and Regulations of the Board, which are compliant with the laws of Spain and with the recommendations of the good governance code for listed companies.

The Rules and Regulations expressly include the duties of diligent management and loyalty and the duty to refrain from taking any action should the director come into the possession of inside or privileged information.

The duty of diligent management includes the directors' duty to adequately inform themselves of the Bank's business and to dedicate the time and effort needed to effectively carry out their duties, and also to adopt the measures needed to ensure the sound management and control of the Bank.

Some measures taken by the board

2012: maximum limit for share capital increases without pre-emptive rights

At the proposal of the board, the shareholders for the first time established a maximum limit on the power to exclude pre-emptive rights for share capital increases; pre-emptive rights may only be excluded for up to the equivalent of 20% of the Bank's share capital as of the date of the general shareholders' meeting.

2013: cap on annual remuneration of the directors by reason of their position

The shareholders established a maximum amount of 6 million euros, which may only be amended by a decision of the shareholders acting at the general shareholders' meeting.

2014: maximum variable remuneration for executive directors

The shareholders approved an amendment to the Bylaws establishing a maximum ratio between the fixed and variable components of total remuneration of the executive directors and other employees belonging to categories with professional activities that significantly affect the Group's risk profile.

2015: changes in the remuneration policies

A number of changes were proposed at the 2016 general shareholders' meeting with regard to the remuneration policies for executive directors and senior managers, in line with the Simple, Personal and Fair culture. The main new developments with regard to the previous policy are as follows:

- Simplification: a new streamlined structure for variable and long-term annual remuneration.
- Alignment with the objectives announced at Investor day held in September 2015; a new set of objectives linked to variable remuneration which includes the four categories on which the Bank's strategy is based: employees, customers, shareholders and society.
- Closer alignment with shareholder interests by setting a mandatory requirement for senior executives to invest in shares and increasing the weighting of remuneration pegged to long-term targets, specifically earnings per share, total shareholder return, capital targets and profitability.
- 2016: changes to the remuneration policy of executive directors

A number of changes to the remuneration policy of executive directors will be laid before shareholders for their approval at the general meeting to be held on 6 or 7 April, on first or second call, respectively. These changes are intended to:

 - Streamlining the system of metrics and indicators so that only most relevant remain in the policy.
 - In relation to individual remuneration, increasing the weighting of corporate behaviours that reflect the Simple, Personal and Fair culture of the Santander Group.

Related-party transactions

In accordance with that stipulated by law, article 53 of the Bylaws and articles 3, 16 and 33 of the Rules and Regulations of the Board, the board of directors will be aware of any transactions that the company or companies belonging to its Group carry out with directors, under the terms envisaged by law and in the Rules and Regulations of the Board; with shareholders, either individually or in concert with other shareholders, holding a significant ownership interest, including shareholders represented on the board of directors of the company or of other Group companies; or with persons related thereto.

In accordance with applicable legislation and the Rules and Regulations of the Board, authorisation will not be necessary in the case of transactions subject to standard terms and conditions, normal market prices and where the amount does not exceed 1% of the company's annual income.

These transactions will require board authorisation, based on a favourable report from the audit committee, except for those cases where by law approval is required by the shareholders at the general shareholders' meeting. All affected directors, those representing shareholders affected or who are related parties must abstain from the deliberation and voting on the resolution in question.

Such transactions will be evaluated from the point of view of equality of treatment and of market conditions, and will be included in the annual corporate governance report and in the periodic public information under the terms envisaged in applicable regulations.

By way of exception, when advisable for reasons of urgency, related transactions may be authorised by the executive committee and subsequently ratified by the board.

The audit committee has verified that all transactions completed with related parties during the year were fully compliant with the Rules and Regulations of the Board and did not require approval from the governing bodies; otherwise, approval was duly obtained following a positive report issued by the committee, once the agreed consideration and other terms and conditions were found to be within market parameters.

Control mechanisms

As provided in the Rules and Regulations of the Board (article 30), directors must inform the board of any direct or indirect conflict of interest between their own interests, or those of their related parties, and those of the Bank. If the conflict relates to a transaction, the director may not carry it out without the approval of the board, following a report from the audit committee.

The director involved must abstain from participating in the discussion and voting on the transaction to which the conflict refers, the body in charge of resolving any disputes being the board of directors itself.

In 2016, there were 95 occasions in which directors abstained from participating in discussions and voting on matters at the meetings of the board of directors or of its committees.

The breakdown of the 95 cases is as follows: on 28 occasions the abstention was due to proposals to appoint, re-elect or withdraw directors, and to appoint members of board committees or other committees at Group or related companies; on 51 occasions the matter under consideration related to remuneration or granting loans or credits; on nine occasions the matter concerned the discussion of financing or investment proposals or other risk transactions in favour of companies related to any director; on five occasions the abstention concerned the annual verification of the status of directors carried out by the appointments committee, pursuant to article 6.3 of the Rules and Regulations of the Board; and on two occasions the abstention concerned the approval of a related-party transaction.

» Board committees

General information

The board has set up an executive committee to which general decision-making powers have been delegated.

The board also has other committees with powers of supervision, information, advice and proposal (the audit, appointments, remuneration, risk supervision, regulation and compliance, international, and innovation and technology committees).

The committees of the board hold their meetings in accordance with an annual calendar and there is a suggested agenda of annual matters to be discussed for committees with supervisory powers.

The board is tasked with promoting and encouraging communication between the various committees, especially between the risk supervision, regulation and compliance committee and the audit committee, and also between the former and the remuneration committee.

At the annual general shareholders' meeting of 18 March 2016, a proposal was put forward to amend articles 53, 54, 54.bis and 54.ter of the Bylaws in order to increase the maximum number of members of the audit, the appointments, the remuneration and the risk supervision, regulation and compliance committees from the current seven directors to a maximum of nine directors for the purpose of giving the board of directors more flexibility in establishing the adequate composition for these committees at any given time.

Executive committee

The executive committee is key to ensuring the proper functioning of the Bank's corporate governance, and that of its Group. It exercises by delegation all the powers of the board (except those which cannot be delegated pursuant to the law, the Bylaws or the Rules and Regulations of the Board). It reports to the board on the principal matters dealt with and resolutions adopted and provides directors with a copy of the minutes of its meetings. It generally meets once a week and in 2016 it held 52 meetings.

There are currently eight directors sitting on the committee, four of whom are executive and the other four are non-executive, two of which are independent.

Its duties, composition and functioning are established in the Bylaws (article 51) and in the Rules and Regulations of the Board (article 14).

Audit committee

The audit committee, among other functions, reviews the Group's financial information and its internal control systems, serves as a communication channel between the board and the external auditor, ensuring the independent exercise of the latter's duty, and supervises work regarding the Internal Audit function. It typically meets on a monthly basis and met 10 times in 2016.

As provided in the Bylaws (article 53) and the Rules and Regulations of the Board (article 16), the committee must comprise non-executive directors, the majority of whom must be independent, including the chairman.

The committee currently comprises four independent non-executive directors.

Ms Belén Romana García, the committee's chairman, is considered a financial expert within the meaning of SEC Form 20-F, in accordance with Section 407 of the Sarbanes-Oxley Act, given her training and expertise in accounting, auditing and risk management.

Lastly, and so as to ensure that the audit committee exercises its decision-making powers properly when commissioning the external auditor to provide non-audit services, it was agreed at the audit committee meeting held on 20 April 2016 to approve the policy for approving non-audit services provided by the external auditor. In line with the latest national and international practices, this policy contains the proper procedure for approving non-audit services provided by the Group's financial auditor, as well as the system governing the maximum fees payable. The committee must endorse any decision to arrange non-audit services insofar as not prohibited by applicable regulations, having first properly assessed any threats to the auditor's independence and the safeguard measures applied in accordance with said regulations.

Appointments committee

The appointments committee, among other duties, proposes appointments of members of the board, including executive directors, and those of the other members of senior management and the Group's key personnel.

The committee met on 10 occasions in 2016.

The Bylaws (article 54) and the Rules and Regulations of the Board (article 17) state that this committee is also to be made up exclusively of non-executive directors and that its chairman and the majority of its members must be independent directors.

The committee currently comprises five non-executive directors, five of whom are independent.

Remuneration committee

Among other duties, the remuneration committee proposes the director remuneration policy to the board, drawing up the corresponding report, and proposes the remuneration of board members, including executive directors. It also proposes the remuneration of other members of senior management and draws up their remuneration policy.

The committee met on nine occasions in 2016.

The Bylaws (article 54 bis) and the Rules and Regulations of the Board (article 17 bis) state that the remuneration committee is also to be made up exclusively of non-executive directors and that its chairman and the majority of its members must be independent.

The committee currently comprises five non-executive directors, three of whom are independent.

Risk supervision, regulation and compliance committee

The risk supervision, regulation and compliance committee, among other duties, supports and advises the board on the definition and assessment of the risk strategy and policies and on its relationship with authorities and regulators in the various countries in which the Group has a presence, assists the board with its capital and liquidity strategy, and monitors compliance with the General Code of Conduct and, in general, with the Bank's governance rules and compliance and criminal risk prevention programmes. Matters such as sustainability, communication and relations with the Bank's stakeholders, as well as matters regarding corporate governance and regulation, are also discussed at committee meetings.

The committee met on 12 occasions in 2016.

As provided in the Bylaws (article 54 ter) and the Rules and Regulations of the Board (article 17 ter), the committee must be made up of non-executive directors, the majority of whom must be independent, including the chairman.

The committee currently comprises seven non-executive directors, five of whom are independent.

International committee

The international committee has the following functions (article 17 of the Rules and Regulations of the Board): (i) monitoring the development of the Group's strategy and of the activities, markets and countries in which the Group desires to have a presence through direct investments or specific transactions, while remaining duly informed of the commercial initiatives and strategies of the various units within the Group and of the new projects presented thereto; and (ii) reviewing the performance of financial investments and businesses, as well as the international economic situation, and making proposals to adjust risk-country limits, its structure and return and its assignment by businesses and/or units.

This committee comprises six directors, of whom three are executive and three are non-executive, one of which is independent.

Innovation and technology committee

Given the importance assigned to innovation and technology as a strategic priority for the Group, the regulations of the innovation and technology committee have been amended in order to expand the committee's functions by redrafting article 17 quinquies of the Rules and Regulations of the Board upon a board resolution dated 26 January 2016.

The functions of the innovation and technology committee include the following: (i) to study and report on relevant projects regarding innovation and technology; (ii) to assist the board in assessing the quality of technological services, new business models, technologies, systems and platforms; and (iii) to assist the risk supervision, regulation and compliance committee in monitoring the technological and security risks and to supervise all matters relating to cyber-security.

The committee met on three occasions in 2016.

This committee comprises nine directors, of whom four are executive and five are non-executive. Three of these five non-executive directors are independent.

In accordance with the Rules and Regulations of the Board, any director may attend meetings of board committees of which the director is not a member, with the right to participate but not to vote, at the invitation of the chairman of the board and of the respective committee, and by prior request to the chairman of the board.

Additionally, all board members who are not also members of the executive committee may attend its meetings, whatever the chairman's reason is for calling such meeting. In 2016, directors with no seat on the executive committee attended an average of 10.9 meetings of that committee.

The audit, appointments, remuneration and risk supervision, regulation and compliance committees have prepared reports on their activities in 2016. The remuneration committee's report also includes the director remuneration policy. All such reports are made available to shareholders as part of the Bank's annual documentation for 2016.

» International advisory board

Banco Santander's new international advisory board, comprising at-large experts in strategy, IT and innovation, held its first meeting on 26 April 2016 in Boston (US).

The international advisory board's objective is to provide strategic advice to the Group, with a special focus on innovation, digital transformation, cybersecurity and new technologies. It also provides its views on trends in capital markets, corporate governance, brand and reputation, regulation and compliance, and global financial services with a customer-based approach. The board is expected to meet two times per year.



First meeting of the international advisory board held on 26 April 2016 in Boston (US).

Chairman

Mr Larry Summers
*Former US Treasury Secretary and
President Emeritus of Harvard University*

Members

Ms Sheila Bair <i>Former Chair of the Federal Deposit Insurance Corporation and President of Washington College</i>	Mr Francisco D'Souza, <i>CEO of Cognizant and director of General Electric</i>	Mr George Kurtz <i>CEO and co-founder of CrowdStrike</i>	Ms Blythe Masters <i>CEO of Digital Asset Holdings</i>
Mr Charles Phillips <i>CEO of Infor and former President of Oracle</i>	Mr Mike Rhodin <i>Senior Vice President of IBM Watson</i>	Ms Marjorie Scardino <i>Former CEO of Pearson and member of the Board of Directors of Twitter</i>	Mr James Whitehurst <i>CEO of Red Hat</i>

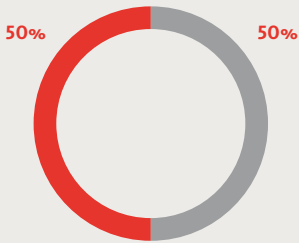
Secretary

Mr Jaime Pérez Renovales

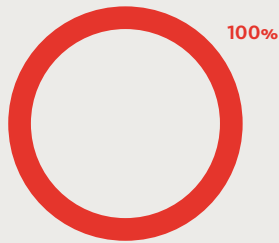
Composition of the committees of the board

● Executive ● Non-executive

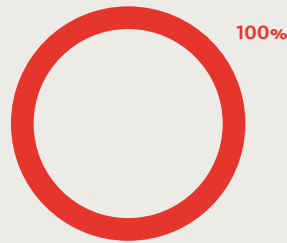
● Executive committee



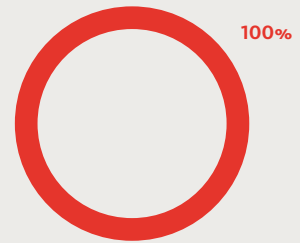
● Audit committee



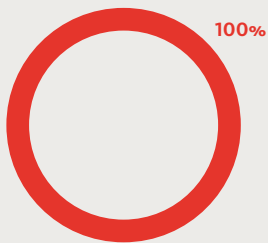
● Appointments committee



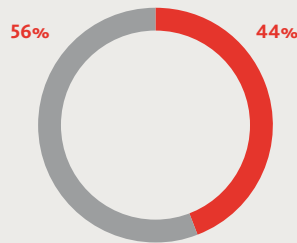
● Remuneration committee



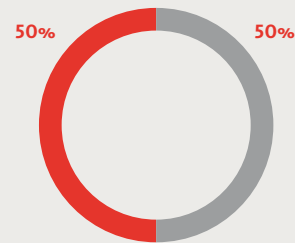
● Risk supervision, regulation and compliance committee



● International committee



● Innovation and technology committee



Number of meetings and estimated average hours devoted by each director

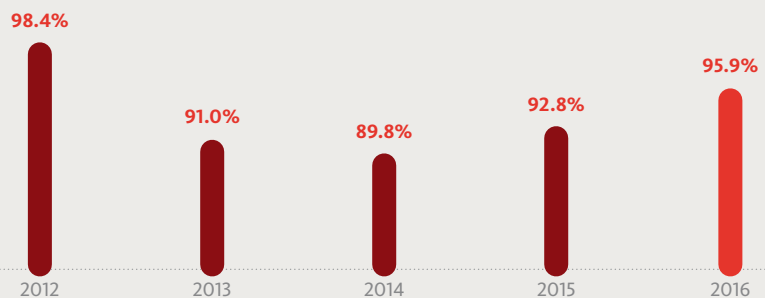
Committees	No. of meetings	Hours
Executive committee	52	260
Audit committee	10	100
Appointments committee	10	40
Remuneration committee	9	36
Risk supervision, regulation and compliance committee	12	120
International committee	-	-
Innovation and technology committee	3	12

Attendance at meetings of the board of directors and its committees in 2016

Pursuant to the Rules and Regulations of the Board (article 20.1), absences from meetings must be limited to unavoidable cases. The average attendance rate at board meetings in 2016 was 95.92%.

● Rate of attendance at board meetings

%



Committees

Directors	Decision-making		Advisory				Reporting	
	Board	Executive	Audit	Appointments	Remuneration	Risk supervision, regulation and compliance	Innovation and technology	International ^a
Average attendance	95.92%	94.71%	91.49%	93.10%	100.00%	89.16%	100.00%	-
Individual attendance								
Ms Ana Botín-Sanz de Sautuola y O'Shea	13/13	50/52					3/3	
Mr José Antonio Álvarez Álvarez	13/13	51/52					3/3	
Mr Bruce Carnegie-Brown	13/13	39/52		10/10	9/9	12/12	3/3	
Mr Rodrigo Echenique Gordillo	13/13	50/52					3/3	
Mr Matías Rodríguez Inciarte	13/13	52/52					3/3	
Mr Guillermo de la Dehesa Romero	13/13	50/52		10/10	9/9	12/12	3/3	
Ms Homaira Akbari ¹	4/4						0/0	
Mr Ignacio Benjumea Cabeza de Vaca	13/13	52/52		10/10	9/9	12/12	3/3	
Mr Javier Botín-Sanz de Sautuola y O'Shea	11/13							
Ms Sol Daurella Comadrán	11/13			10/10	9/9			
Mr Carlos Fernández González	12/13		8/10	6/10		7/12		
Ms Esther Giménez-Salinas i Colomer	13/13						3/3	
Ms Belén Romana García	13/13		10/10			2/2		
Ms Isabel Tocino Biscarolasaga	13/13	50/52	10/10		9/9	11/12		
Mr Juan Miguel Villar Mir	10/13		8/10			9/12		
Mr Ángel Jado Becerro de Bengoa ²	10/10		7/7	8/8	7/7	9/9		

a. No meetings held in 2016.

1. Director since 27 September 2016.

2. Withdrawal from position of director effective 27 September 2016.



- The Bank continues to increase the role played by board committees by broadening their functions and arranging joint meetings to address matters that fall within the remit of more than one such committee.
- Improvements were made to the functioning of the board and its committees. These include the use of devices and technological tools in order to make the documents relating to each item on the agenda available to board members, thereby enhancing their knowledge and awareness of the matters to be addressed, the ensuing discussions, and their ability to challenge any proposals or motions made by the directors.

4. Group structure and governance framework

The structure of the Santander Group is one of a model of subsidiaries whose parent is Banco Santander, S.A. The Group has its traditional headquarters in the city of Santander (Cantabria, Spain) and its corporate centre in Boadilla del Monte (Madrid, Spain).

The Santander Group's subsidiaries model has the following features:

- The governing bodies of each subsidiary shall see to it that their company is managed rigorously and prudently, while ensuring their economic solvency and upholding the interests of their shareholders and other stakeholders.
- Management of the subsidiaries is a local affair carried out by local management teams who provide immense knowledge and experience in relation to local customers and markets, while also benefiting from the synergies and advantages of belonging to the Santander Group.
- The subsidiaries are subject to the regulation and supervision of their respective local authorities, without prejudice to the global supervision of the Group by the European Central Bank.
- Customer funds are secured by virtue of the deposit guarantee funds in place in the relevant country.

Subsidiaries finance themselves autonomously when it comes to both capital and liquidity. The Group's capital and liquidity positions are coordinated by the corporate committees. Intragroup exposure is limited and transparent and any such transactions are invariably arranged under arm's length conditions. Moreover, the Group has listed subsidiaries in certain countries, in which it always retains a controlling stake.

The subsidiaries' autonomy limits the contagion risk between the Group's different units, which reduces systemic risk. Each subsidiary has its own resolution plan.

» Corporate centre

The subsidiaries model of Banco Santander is further complemented with a corporate centre that brings together Group support and control units tasked with functions relating to strategy, risks, auditing, technology, human resources, legal services, communication and marketing, among others. The corporate centre adds value to the Group by:

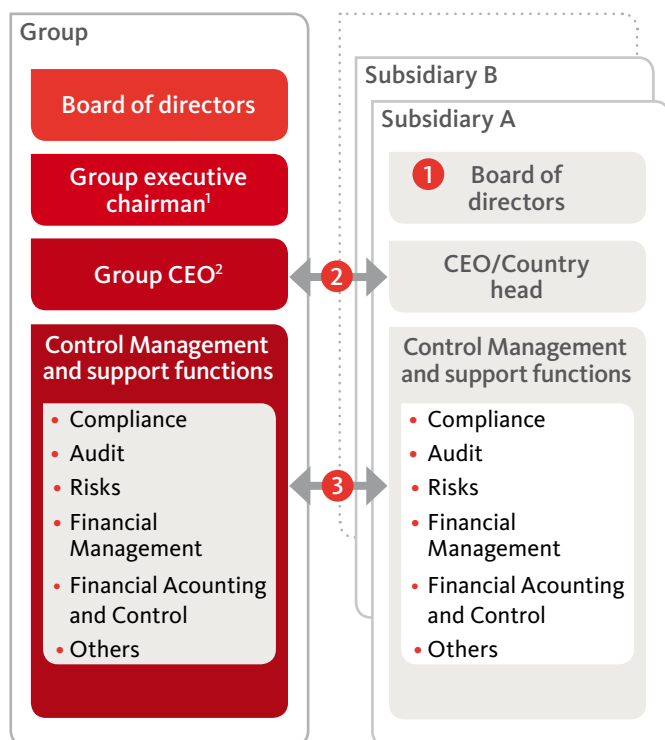
- Making the Group's governance more robust, through policies, models and control frameworks that allow the Group to implement corporate criteria and ensure effective supervision over the Group.
- Making the Group's units more efficient by unlocking cost management synergies, economies of scale and achieving a common brand.
- Sharing the best commercial practices, focusing on global connectivity, launching global commercial initiatives and fostering digitalisation.

» Internal governance of the Santander Group

Santander has an internal governance framework that takes the form of a governance model, establishing a set of principles that regulate relations and the interaction that must exist between the Group and its subsidiaries on three levels:

- On the governing bodies of the subsidiaries, where the Group has devised rules and procedures regulating the structure, composition, make-up and functioning of the boards and their committees (audit, appointments, remuneration and risks), in accordance with international standards and good governance practices, as well as other rules and regulations concerning the appointment, remuneration and succession planning of members of governing bodies.
- Between the CEOs (Chief Executive Officers) and country heads and the Group and between the officers and teams deemed fit to exercise control functions within the Group and at the subsidiaries: CRO (Chief Risk Officer), CCO (Chief Compliance Officer), CAE (Chief Audit Executive); CFO (Chief Financial Officer), CAO (Chief Accounting Officer) or general auditor; and also between certain support functions (IT, Operations, HR, General Secretary's Office, Legal Services, Marketing, Communication and Strategy) and business functions.

In relation to CEOs, country heads and other significant office holders, the governance model establishes, among other aspects, the relevant rules and regulations to be followed in relation to their appointment, fixing of objectives, assessment, and fixing of variable remuneration and succession planning. It also explains how Group officers and their counterparts at the subsidiaries should liaise and interact.



1. Senior executive.
2. Second-ranking executive.

Santander also has thematic frameworks (corporate frameworks), developed as common operating frameworks for those matters considered important due to their impact on the Group's risk profile—notable among which are risks, compliance, technology, auditing, accounts, finances, strategy, human resources and communication and brand—and which specify:

- The way of exercising oversight and control by the Group over the subsidiaries.
- The Group's involvement in certain of the subsidiaries' important decisions, as well as the subsidiaries' involvement in the Group's decision-making processes.

The aforementioned governance model and corporate frameworks effectively comprise the internal governance framework and have been approved by the board of directors of Banco Santander, S.A. for subsequent adherence by the governing bodies of the subsidiaries, with due regard to any local requirements to which the subsidiaries may be subject.

» Internal control framework

- In line with the objective of strengthening the Group's corporate governance, in recent years governance of the risk control functions has been updated and reinforced, and best international practices have been incorporated. The Group is convinced of the need to establish an organisational structure that includes a proper and clear separation of functions, with well-defined responsibilities that are both transparent and consistent so as to ensure the healthy and prudent management of the Group and all its companies.
- The Group relies on a risk management and control model based on three lines of defence: the first is located at the different business and support functions; the second is exercised by the Risks and Compliance functions; while the third is wielded by Internal Audit. There is a sufficient degree of segregation between the risk control function, the compliance function and the internal audit function, and also between them and other functions which control or supervise them.
- The risks control function, the compliance function and the internal audit function are headed by the following group chief executives, each of whom has independent and direct access to the directors and committees for the purpose of reporting on their verification and inspection work.
 - Risks Function: Mr José María Nus Badia (Group Chief Risk Officer-Group CRO).
 - Compliance Function: Ms Mónica López-Monís Gallego (Group Chief Compliance Officer-Group CCO).
 - Internal Audit Function: Mr Juan Guitard Marín (Group Chief Audit Executive-Group CAE).
- Furthermore, and given the Group's structure, a further two functions are considered relevant at Group level, entrusted with financial control functions. Reporting directly to the Group's chief executive officer, they are themselves headed by a group chief executive: These functions are:
 - Financial function: Mr José García Cantera (Group Chief Financial Officer-Group CFO).
 - Financial Accounting and Control function: Mr José Doncel Razola (Group Accounting Officer-Group CAO).

» Governance of the risk function

- In 2015, the board of directors approved a new risk governance model based on the following principles:
 - Separate decision-making functions from control functions;
 - Strengthen the responsibility of the first line of defence in decision-making;
 - Ensure that all decisions concerning risk follow a formal approval process.
 - Ensure there is an overall vision of all types of risks, including those outside the scope of control of the risk function.
 - Strengthen the role of risk control committees, affording them additional powers.
 - To simplify the committee structure.
- There are currently two internal risk committees not specifically envisaged in the Bylaws: the executive risks committee, tasked with global risk management functions and comprising three executive members; and the risk control committee, which is charged with the global risk supervision and control. This organisational model is compliant with best risk governance practices.
- The Bank's risk supervision, regulation and compliance committee was set up in June 2014 with general powers to support and advise the board of directors on risk supervision and control, on determining the Group's risk policies, on relations with supervisory authorities, on regulation and compliance, corporate social responsibility and corporate governance. This committee held 12 meetings in 2016, the estimated time devoted by each member of the committee to preparing and taking part in those meetings was approximately 10 hours per meeting.
- The executive committee held 52 meetings in 2016 and devoted a very significant amount of its time to discussions on the Group's risks.
- The audit committee met 10 times in 2016, the estimated time devoted by each member of the committee to preparing and taking part in those meetings was approximately 10 hours per meeting, it received the report of the head of internal audit and discussed matters relating to conduct risk and the financial reporting process.

● Number of meetings of the executive, the audit, and the risk supervision, regulation and compliance committees

	2012	2013	2014	2015	2016
Executive*	59	58	65	59	52
Audit	11	12	13	13	10
Risk supervision, regulation and compliance	-	-	5	13	12
Total meetings	70	70	81	85	74

* The executive committee devoted a very significant amount of its time to discussions on risks.

5. Shareholder rights and the general shareholders' meeting

» One share, one vote, one dividend. No defensive mechanisms in the Bylaws

The Bank does not have any defensive mechanisms in the Bylaws, fully conforming to the principle of one share, one vote, one dividend.

The Bylaws of Banco Santander provide for only one class of shares (common shares), granting all holders thereof the same rights.

There are no non-voting or multiple-voting shares, or shares giving preferential treatment in the distribution of dividends, or shares that limit the number of votes that can be cast by a single shareholder, or quorum requirements or qualified majorities other than those established by law.

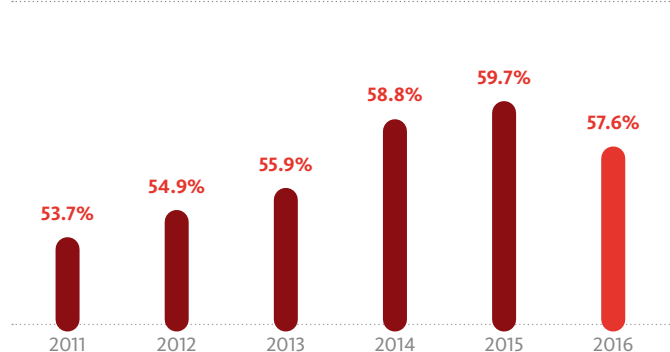
Any individual is eligible for a director position, subject, exclusively, to the limitations established by law.

» Quorum at the annual general shareholders' meeting held in 2016

The informed participation of shareholders at general shareholders' meetings is an objective expressly acknowledged by the board (article 31.3 of the Rules and Regulations of the Board).

The quorum at the 2016 annual general shareholders' meeting was 57.627%.

■ Quorum at annual general shareholders' meetings



» Encouraging the informed participation of shareholders at general shareholders' meetings

Since the annual general meeting held in 2011, shareholders have had access to an electronic shareholders' forum, in compliance with the provisions of the Companies Act. The forum, which the Bank has set up on the corporate website (www.santander.com), allows shareholders to post supplementary proposals to the agenda announced in the call notice, along with requests for support for those proposals, initiatives aimed at reaching the percentage required to exercise any of the minority shareholder rights provided for at law, as well as offers or requests to act as a voluntary proxy.

Furthermore, remote attendance at the shareholders' meetings has been made possible and shareholders are now able to exercise their information and voting rights in real time.



● KEY POINTS OF THE 2016 ANNUAL GENERAL SHAREHOLDERS' MEETING

- Shareholders approved the corporate management of the Bank in 2015 with 94% voting in favour.
- The 2015 annual report on director remuneration received a 92% favourable vote.

» Annual general shareholders' meeting held on 18 March 2016

Information on the call notice, establishment of a quorum, attendance, proxy-granting and voting

A total of 541,072 shareholders attended in person or by proxy, with 8,318,158,012 shares. The quorum was thus 57.627% of the Bank's share capital at the date of the meeting.

The average percentage of affirmative votes upon which the proposals submitted by the board were approved was 93.491%.

The following data are expressed as percentages of the Bank's share capital at the date of the annual general shareholders' meeting:

Physically present	0.863% ¹
By proxy	43.459% ²
Absentee votes	13.305% ³
Total	57.627%

1. Of this percentage (0.863%), 0.003% corresponds to the share capital that attended the meeting remotely via Internet connection.
2. The percentage of share capital that granted proxies through the Internet was 1.064%.
3. Of this percentage (13.305%), 13.039% corresponds to votes cast by post, while the rest is the percentage of electronic votes.

At that meeting, 12 of the board's 15 directors at that date exercised, in accordance with article 186 of the Spanish Corporate Enterprises Act, the right to vote on behalf of a total of 6,194,277,775 shares, equivalent to the same number of votes, the breakdown being as follows:

Ms Ana Botín-Sanz de Sautuola y O'Shea	6,032,110,807
Mr José Antonio Álvarez Álvarez	155,651
Mr Bruce Carnegie-Brown	1,690
Mr Rodrigo Echenique Gordillo	90,323
Mr Matías Rodríguez Inciarte	714,933
Mr Guillermo de la Dehesa Romero	762
Mr Ignacio Benjumea Cabeza de Vaca	742,941
Mr Javier Botín-Sanz de Sautuola y O'Shea	67,993,418
Ms Sol Daurella Comadrán	73,941
Mr Ángel Jado Becerro de Bengoa*	5,180,557
Ms Belén Romana García	33,151
Ms Isabel Tocino Biscarolasaga	154,299

*Stood down from the board on 27 September 2016.

» Resolutions adopted at the 2016 general shareholders' meetings

The full texts of the resolutions adopted at the general shareholders' meetings held in 2016 can be viewed on the corporate website of the Group (www.santander.com) and on the CNMV's own website (www.cnmv.es), since it was filed as a significant event on 18 March 2016.

» Information provided to shareholders and shareholder communication

In 2016, Banco Santander continued to strengthen communication with, service to and its relationship with shareholders and investors.

Channels for shareholder information and service

Telephone service lines	177.884	Queries received
Shareholder and investor mailbox	9.069	E-mails answered
Personal actions	928	Actions carried out

During 2016, there were 928 meetings with investors, analysts and rating agencies, which entailed contact with 531 investors/analysts. In addition, Shareholder Relations maintained direct contact with the Bank's main shareholders during the year to offer them information on Group policies relating to sustainability and governance. London was the venue of the Group's Group Strategy Update in September. During the event, the senior management reviewed the 2018 objectives presented at the 2015 Investor Day in relation to both the Group and its main business units. Over 200 delegates took part in the various Group Strategy Update events, including the Group's main analysts and investors.

In line with CNMV recommendations, announcements of meetings to be held with analysts and investors and the documentation to be used at those meetings are published sufficiently in advance.

» Policy for contacting and communicating with shareholders

The Bank's board of directors has approved a policy for contacting and communicating with shareholders, institutional investors and proxy advisors. This policy is published on the Group's corporate website (www.santander.com). The policy contains the general principles governing communication and contact between the Bank and its shareholders, institutional investors and proxy advisors. It also explains the main channels and procedures in a bid to improve the Bank's existing relations with those stakeholders. In accordance with the principles of transparency, equal treatment and protection of shareholder interests and within the framework of the new Simple, Personal and Fair culture, the Bank makes available to its shareholders and investors the information and communication channels set out in the Shareholder section of this annual report.



Communication between the board and shareholders and investors has been stepped up through the Group Strategy Update and the corporate governance road shows arranged and held by the lead director

6. Grupo Santander management team¹

Everything we do stems from a **sense of responsibility and commitment to our people, to sustainability and to the communities** in which we are present

Ms Ana Botín, executive chairman of Banco Santander
General shareholders' meeting
 18 March 2016

Composición

Group executive chairman	Ms Ana Botín-Sanz de Sautuola y O'Shea
Chief Executive Officer	Mr José Antonio Álvarez Álvarez
Executive vice chairman	Mr Rodrigo Echenique Gordillo
Executive vice chairman ²	Mr Matías Rodríguez Inciarte
Businesses	
Argentina	Mr Enrique Cristofani
Brazil	Mr Sérgio Agapito Lires Rial
Chile	Mr Claudio Melandri Hinojosa
United States	Mr Scott Powell
Spain	Mr Rami Aboukhair Hurtado
Consumer Finance	Ms Magda Salarich Fernández de Valderrama
Mexico	Mr Héctor Blas Grisi Checa
Poland	Mr Gerry Byrne Mr Michal Gajewski
Portugal	Mr Antonio Vieira Monteiro
United Kingdom	Mr Nathan Bostock
Business divisions	
Santander Global Corporate Banking	Mr Jacques Ripoll
Business support divisions	
Retail & Commercial Banking	Mr Ángel Rivera Congosto
Support and control functions	
Risks	Mr José María Nus Badía (<i>Group Chief Risk Officer</i>) Mr Keiran Foad ³
Financial	Mr José Antonio García Cantera (<i>Group Chief Financial Officer</i>)
Office of the General Secretary and Human Resources	Mr Jaime Pérez Renovales
Compliance	Ms Mónica López-Monís Gallego (<i>Group Chief Compliance Officer</i>)
Internal audit	Mr Juan Guitard Marín (<i>Group Chief Audit Executive</i>)
Strategic Alliances in Asset Management and Insurance	Mr Juan Manuel San Román López
Communication, Corporate Marketing and Research	Mr Juan Manuel Cendoya Méndez de Vigo Ms Jennifer Scardino ³
Corporate Development	Mr José Luis de Mora Gil-Gallardo
Innovation	Mr J. Peter Jackson
Financial Accounting and Control	Mr José Francisco Doncel Razola (<i>Group Chief Accounting Officer</i>)
Executive Chairman's Office and Strategy	Mr Víctor Matarranz Sanz de Madrid
Costs	Mr Javier Maldonado Trinchant
Technology and Operations	Mr Andreu Plaza López
Universities	Mr Javier Roglá Puig

1. Information on 31 December 2016. Subsequent to that date it was announced: the integration of the Retail & Commercial Banking and Innovation divisions into a new division called Santander Digital whose will be temporarily occupied by Mr Víctor Matarranz Sanz de Madrid as global head until the appointment of a new person in charge; the departure of the Group of Mr J. Peter Jackson; the appointment of Mr Ángel Rivera Congosto as executive vice president of Banco Comercial de Santander México; and the departure of the Group of Mr Jacques Ripoll and the appointment of D. José María Linares Perou as executive vice president of Santander Global Corporate Banking. Those appointments are subject, where appropriate, to clearance of supervisor.

2. To whom the Group Chief Risk Officer reports.

3. This appointment is subject authorisation and other formalities.

» Remuneration

Information on the remuneration of senior executive vice presidents is provided in note 5 to the Group's annual accounts.

» Related-party transactions

To the Bank's knowledge, no member of senior management who is not a director, no person represented by a member of senior management who is not a director, and no company in which such persons or persons with whom they act in concert or who act through nominees therein are directors, members of senior management or significant shareholders, has carried out any unusual or significant transaction therewith during 2016 and through the date of publication of this report.

» Conflicts of interest

The control mechanisms and the bodies in charge of resolving this type of situation are described in the Code of Conduct in Securities Markets, which is available on the Group's corporate website (www.santander.com).

7. Transparency and independence

Santander has been included in the DJSI and FTSE4Good indices since 2000 and 2002, respectively, and its corporate governance model is recognised by socially responsible investment indices.

» Financial information and other relevant information

Financial information

Pursuant to the provisions of its Rules and Regulations (article 34.2), the board has taken the necessary actions to ensure that the quarterly and half-yearly information and any other information made available to the markets is prepared following the same principles, standards and professional practices as are used to prepare the financial statements. To such end, this information is reviewed by the audit committee prior to being released.

Other relevant information

Pursuant to the provisions of the Code of Conduct in Securities Markets, the Compliance area is responsible for informing the CNMV of the relevant information generated in the Group.

Such communication is simultaneous to the release of relevant information to the market or to the media and occurs as soon as the decision in question is made or the resolution in question has been signed or carried out. Relevant information shall be disseminated in a true, clear, complete and equitable fashion and on a timely basis and, whenever practicable, such information shall be quantified.

In 2016, the Bank published 57 significant events, which are available on the Group's corporate website (www.santander.com) and from the website of the CNMV (www.cnmv.es).

» Relationship with the auditor

Independence of the auditor

In line with good corporate governance recommendations regarding the rotation of the external auditor, the annual general shareholders' meeting held on 18 March 2016 agreed to designate PricewaterhouseCoopers Auditores, S.L. (PwC) as external auditor of both the Bank and its wider consolidated Group for the years 2016, 2017 and 2018, obtaining the favourable vote of 94.663% of all capital present and represented by proxy

The Bank has the necessary mechanisms in place to ensure the independence of the external auditor, and its audit committee verifies that the services provided by this auditor comply with applicable legislation.

In addition, the Rules and Regulations of the Board imposes certain restrictions when arranging non-audit services with the audit firm insofar these could jeopardise the independence of the auditor. In this regard, the audit committee must approve such services. They also require the board to make public the overall fees paid by the Bank to the auditor for non-audit services. The information for 2016 is contained in note 48 to the Group's annual accounts.

The Rules and Regulations of the Board set out the mechanisms used to prepare the accounts so as to ensure that an unqualified audit report is eventually issued. Nevertheless, the Bylaws and the Rules and Regulations also provide that, whenever the board believes that its opinion must prevail, it shall provide an explanation, through the chairman of the audit committee, of the content and scope of the discrepancy and shall endeavour to ensure that the auditor issue a report in this regard. The financial statements of the Bank and of the consolidated Group for 2016 are submitted without qualifications.

At its meeting of 15 February 2017, the audit committee received written confirmation from the external auditor of its independence in respect of the Bank and the entities directly or indirectly related thereto, as well as information regarding additional services of any kind provided to such entities by the auditors or by entities related thereto, in accordance with that provided in legislation governing financial audits.

At that same meeting, the audit committee issued a report expressing a favourable opinion regarding the independence of the external auditors and reporting, among other matters, on the provision of additional services as mentioned in the preceding paragraph.

The report, which was issued prior to the financial audit report, can be viewed on the Group's corporate website (www.santander.com) as part of the annual report on the activities of the audit committee.



- The Bylaws, the Rules and Regulations for the General Shareholders' Meeting and the Rules and Regulations of the Board were amended in 2016 to bring them in line with both legislative changes and best practices in corporate governance.

» Intra-group transactions

There were no intra-group transactions in 2016 that were not eliminated in the consolidation process and that are not part of the ordinary course of business of the Bank or of the Group companies as regards their purpose and conditions.

» Group's corporate website

Since 2004, the Group's corporate website (www.santander.com) has disclosed, in the Shareholders and Investors section of the main menu, all information required under applicable law (mainly the Corporate Enterprises Act; Order ECC/461/2013, of 20 March; CNMV Circular 3/2015, of 23 June; and Banco of Spain Circular 2/2016, of 2 February).

The Group's website, which is presented with specific sections for institutional investors and shareholders and can be viewed in Spanish, English and Portuguese, receives approximately 145,000 visits per week.

The information available on such website includes:

- The Bylaws.
- The Rules and Regulations for the General Shareholders' Meeting.
- The Rules and Regulations of the Board.
- The composition of the board and its committees.
- Professional profiles and other information on the directors.
- The annual report.
- The annual corporate governance report and the annual report on director remuneration.
- The Code of Conduct in Securities Markets.
- The General Code of Conduct.
- The sustainability report.
- The reports of the board committees.
- Pillar III disclosures report.

The call notice for the 2017 annual general shareholders' meeting may be viewed as from the date of publication thereof, together with the information relating thereto, which shall include the proposed resolutions and mechanisms for exercising rights to receive information, to grant proxies and to vote, including an explanation of the mechanisms for exercising such rights by means of data transmission and the rules applicable to the electronic shareholders' forum that the Bank will make available on the Group's corporate website (www.santander.com).

» Good governance code of listed companies

Banco Santander follows the recommendations for good corporate governance contained in the good governance code of listed companies.

Banco Santander follows the good governance recommendations and best practices for credit institutions, such as the corporate governance principles for banks of the Basel Committee and the recommendations of the Organisation for Economic Co-operation and Development, and also takes into account the good governance codes of the stock markets on which its shares are listed.

8. Goals for 2017

The board's goals for 2017 with regard to corporate governance are as follows:

- Disseminating the culture and corporate values of Simple, Personal and Fair across the entire organisation.
- Consolidating the governance model so as to further strengthen the relations between the parent bank and its subsidiaries, especially with regard to corporate governance, ensuring gradual implementation of the model at all of the Group's main units. The purpose here is to ensure the consistency and soundness of decision-making processes, control systems, information flows and control mechanisms on a Group scale.
- Consolidating interaction between board members, especially between non-executive directors and the management team.
- Arranging and encouraging joint meetings between the risk supervision, regulation and compliance committee and the audit committee, and also between the former and the remuneration committee, so as to ensure an effective and efficient exchange of information and proper coverage of all risks.
- Incorporate into the functioning of the board the improvements resulting from the self-assessment process by counteracting the growing number of matters the board must address -especially regulatory affairs- with an agile and effective system for making well-informed decisions.



Santander

4

Relatório econômico e financeiro

- **98** Relatório financeiro consolidado
 - 98** Relatório financeiro consolidado
 - 100** Resultados Grupo Santander
 - 106** Balanço Grupo Santander
 - 111** Recursos próprios e índice de solvência do Banco Santander
- **114** Negócios geográficos
 - 116** Europa continental
 - 130** Reino Unido
 - 133** América Latina
 - 147** Estados Unidos
 - 150** Centro Corporativo
- **152** Negócios globais
 - 152** Banco Comercial
 - 155** Global Corporate Banking

Relatório financeiro consolidado

» Resumo do exercício 2016 para o Grupo Santander

Em 2016 a nossa **estratégia e modelo de negócio** continuaram gerando valor para os nossos clientes e acionistas. A nossa diversificação geográfica, com massa crítica nos nossos dez principais mercados, e liderança em eficiência, nos dão uma evidente vantagem competitiva que tem permitido contrabalançar um cenário econômico difícil, especialmente para os bancos, alguns episódios de alta volatilidade e a maior pressão fiscal de alguns países.

Nesse contexto, encerramos um ano com resultados financeiros sólidos, gerando rentabilidades sustentáveis e previsíveis, e cumprindo os nossos compromissos financeiros e comerciais.

O lucro e os dividendos aumentaram, crescemos em volumes sem impacto das taxas de câmbio, o balanço manteve uma estrutura equilibrada, com índices de liquidez muito acima dos exigidos, além de termos melhorado significativamente a nossa posição de capital e a nossa qualidade do crédito. Ainda assim, sendo capazes de avançar no nosso processo de transformação comercial, renovando a relação com nossos clientes e melhorando a sua experiência com o banco.

Os aspectos de maior destaque do Grupo em 2016 são:

Solidez dos resultados. O modelo de negócio do Santander demonstrou solidez nos últimos anos, o que tem permitido obter resultados muito previsíveis, situando-nos entre os líderes em eficiência e rentabilidade.

O **lucro ordinário antes de impostos** atingiu **11.288 milhões** no ano, com um aumento de 3% com relação a 2015. Em euros constantes o aumento é de 12%, com aumentos em 9 dos 10 principais mercados.

As principais linhas da DRE refletem a estratégia aplicada no exercício:

- **Boa evolução de receitas**, apoiadas na margem de juros e nas comissões, que juntas representam 94% das receitas.
- **Rigorous controle de despesas** pelo terceiro ano consecutivo, com uma redução em 2016 de 2% em termos reais e sem alteração de perímetro.
- **Nova redução anual de provisões** e melhora do custo de crédito, graças ao fortalecimento da cultura de riscos corporativa.

Na parte baixa da DRE, registra-se uma maior carga fiscal, com inclusão de novos impostos em algumas unidades, bem como a contabilização de alguns resultados não recorrentes positivos e negativos, que em conjunto representam um cargo líquido de impostos de 417 milhões de euros em 2016. Em 2015 os resultados não recorrentes foram de 600 milhões de euros negativos.

Assim, o Grupo Santander obteve um **lucro atribuível de 6.204 milhões de euros**, 4% superior a 2015 ou 15% superior em euros constantes.

Processo de transformação comercial. Em 2016 continuamos progredindo na transformação do nosso modelo comercial, visando a um maior foco em vinculação, digitalização e satisfação do cliente.

Houve avanços em todas as unidades para melhorar a vinculação dos clientes, desenvolvendo novos produtos e serviços, tanto para pessoas físicas como para empresas, que oferecem soluções inovadoras e propostas globais. Exemplos disso são: *Mundo 1/2/3*, *Santander Select*, *Santander Private Banking*, *Santander Pymes*, *Santander Trade Network*, *Global Treasury Solutions*, *Santander Flame* e novos aplicativos digitais em todos os países.

Para melhorar a vinculação da base de clientes precisamos assegurar a excelência operacional que para nós significa a melhor experiência e eficiência do cliente. Aproveitar as novas tecnologias é crucial para alcançar isto. Nesse sentido, continuamos trabalhando em diferentes níveis de transformação digital.

Nossos clientes exigem maior disponibilidade e proximidade através dos canais digitais, reforçando ao mesmo tempo o atendimento e tratamento pessoal que sempre caracterizou o Santander. Por isso, foi dispendido muito esforço para aprimorar também as agências com o projeto *Smart Red* e os *contact centres*. Não menos destacado é o grande avanço da nossa ferramenta de inteligência comercial *Santander NEO CRM* que integra as informações de todos os canais (agências, *contact centres*, meios digitais, etc.) e incorpora novas capacidades de transações, permitindo conhecer melhor os nossos clientes para oferecer-lhes propostas de valor, com base na sua experiência e necessidades, e ajudando a economizar em despesas.

Como resultado desse processo de transformação, atingimos uma cifra de **15,2 milhões de clientes vinculados** (+10% no ano) e de **20,9 milhões de clientes digitais** (+26% no ano). Esses aumentos refletem-se na melhoria da nossa base de receitas, principalmente em comissões, onde duplicamos o crescimento verificado no ano anterior.

Quanto à satisfação do cliente, os resultados também melhoraram este ano. Temos agora de **8 unidades**, três a mais que em 2015, **entre os três melhores bancos locais em termos de experiência do cliente**.

Crescimento da atividade. Esta maior vinculação de clientes e a estratégia comercial se refletem em um aumento do volume de negócios em geral, especialmente em mercados emergentes, mantendo um perfil de risco médio-baixo e uma carteira bem diversificada.

Os créditos apresentam maior aumento na América Latina, Santander Consumer Finance e Polônia, e mais moderadamente no Reino Unido. Destaca-se o Brasil, que encerra o ano em equilíbrio (+0,4%), após melhorar a tendência na segunda metade do exercício. A Espanha e Portugal, por sua vez, ainda se encontram em processo de desalavancagem e os E.U.A. foram parcialmente afetados pela venda de carteiras de menor qualidade.

Em recursos de clientes, todas as unidades cresceram, principalmente em depósitos à vista e fundos de investimento, como parte da nossa estratégia de melhorar o custo de financiamento.

Solvência reforçada. Em termos de capital, voltamos a demonstrar a nossa capacidade de tornar compatível a geração de capital sustentável e o pagamento de dividendos. Nosso **índice CET1 fully loaded** encontra-se em **10,55%** no encerramento do exercício, superando o objetivo que havíamos estabelecido e avançando consistentemente com relação a nossa meta de 11% para 2018.

O índice total *fully loaded* e o índice de alavancagem também melhoraram no ano. Além disso, em termos regulatórios, encerramos o ano com um CET1 de 12,53%, muito acima do mínimo exigido pelo Banco Central Europeu.

Melhoria da qualidade do crédito. O Santander mantém um perfil de risco médio-baixo e uma alta qualidade dos seus ativos. Todos os indicadores de qualidade do crédito melhoraram no ano. O índice de inadimplência do Grupo baixou 43 pontos-base, até chegar a 3,93%, a cobertura subiu um ponto percentual, alcançando 74% e o custo de crédito diminuiu 7 pontos-base, atingindo 1,18%.

Essa evolução positiva registra-se praticamente em todas as geografias e está diretamente relacionada com o fortalecimento da nossa cultura de riscos em todo o Grupo, denominada *risk pro*.

Criação de valor para nossos acionistas. Neste exercício voltou a ser uma das nossas principais prioridades.

Aumentamos o lucro por ação em 1%, o dividendo por ação em espécie em 8% e continuamos oferecendo uma rentabilidade entre as melhores do setor em termos de RoTE.

Além disso, aumentamos o nosso capital em mais de 3.000 milhões de euros, em termos de *fully loaded* e o valor contábil tangível por ação (*tangible book value per share*) aumentou, chegando a 4,22 euros por ação, apresentando crescimento pelo terceiro ano consecutivo.

Tudo isso se refletiu no aumento da cotação no ano de 8,8% e de 14,2% no retorno total para o acionista, ambos com muito melhor desempenho que aquele oferecido pelos índices *DJ Stoxx Banks* e o *DJ Stoxx 50*.

■ Taxas de câmbio: Paridade 1 euro / moeda

	2016		2015	
	Câmbio final	Câmbio médio	Câmbio final	Câmbio médio
Dólar USA	1,054	1,106	1,089	1,109
Libra	0,856	0,817	0,734	0,725
Real brasileiro	3,431	3,831	4,312	3,645
Peso mexicano	21,772	20,637	18,915	17,568
Peso chileno	707,612	747,500	773,772	724,014
Peso argentino	16,705	16,316	14,140	10,207
Zloty polonês	4,410	4,362	4,264	4,182

RESULTADOS DO GRUPO SANTANDER

● **Lucro atribuível de 6.204 milhões de euros, 4% superior a 2015 ou 15% maior sem o impacto das taxas de câmbio. Esta evolução explica-se principalmente por:**

- **Solidez das receitas comerciais, apoiadas tanto na margem de juros como nas comissões.**
- **Rigorous controle de despesas pelo terceiro ano consecutivo. Diminuição de 2% em 2016 em termos reais e sem alteração de perímetro, principalmente pela economia resultante das medidas de racionalização e simplificação de estruturas.**
- **Nova redução de provisões e do custo de crédito (1,18% contra 1,25% em dezembro de 2015) em vista da melhoria da qualidade das carteiras.**

● **A eficiência encontra-se em 48,1%, entre as melhores dos concorrentes.**

● **RoTE ordinário de 11,1%, referência do setor bancário.**

● **O lucro por ação, o,41 euros, aumentou 1%.**

Resultados

Milhões de euros

	2016	2015	Varição absoluta	%	% sem TC	2014
Margem de juros	31.089	32.189	(1.101)	(3,4)	2,3	29.548
Comissões líquidas	10.180	10.033	147	1,5	8,1	9.696
Resultados líquidos de operações financeiras	1.723	2.386	(663)	(27,8)	(24,0)	2.850
Outras receitas	862	665	197	29,7	26,1	519
Rendimentos sobre instrumentos de capital	413	455	(41)	(9,1)	(7,7)	435
Resultados de equivalência patrimonial	444	375	69	18,3	26,0	243
Outras receitas/despesas operacionais (líquidos)	5	(165)	170	—	—	(159)
Margem bruta	43.853	45.272	(1.419)	(3,1)	2,5	42.612
Despesas totais	(21.088)	(21.571)	483	(2,2)	3,5	(20.038)
Despesas administrativas	(18.723)	(19.152)	429	(2,2)	3,7	(17.781)
Despesas de pessoal	(10.997)	(11.107)	110	(1,0)	4,5	(10.213)
Outras despesas administrativas	(7.727)	(8.045)	318	(4,0)	2,6	(7.568)
Amortização de ativos tangíveis e intangíveis	(2.364)	(2.419)	54	(2,3)	2,2	(2.257)
Margem líquida	22.766	23.702	(936)	(3,9)	1,6	22.574
Provisões para perdas com créditos	(9.518)	(10.108)	590	(5,8)	(2,1)	(10.562)
Perdas com outros ativos	(247)	(462)	215	(46,5)	(45,6)	(375)
Outros resultados e provisões	(1.712)	(2.192)	480	(21,9)	(19,0)	(1.917)
Resultado ordinário antes dos impostos sobre o lucro	11.288	10.939	349	3,2	11,7	9.720
Imposto de renda	(3.396)	(3.120)	(276)	8,9	16,4	(2.696)
Lucro líquido ordinário das operações continuadas	7.892	7.819	73	0,9	9,8	7.024
Resultado de operações descontinuadas (líquida)	0	—	0	—	—	(26)
Lucro líquido ordinário do período	7.893	7.819	73	0,9	9,8	6.998
Resultado atribuído aos acionistas não controladores	1.272	1.253	18	1,5	6,2	1.182
Lucro líquido ordinário atribuível à Controladora	6.621	6.566	55	0,8	10,5	5.816
Líquido de ganhos e saneamentos	(417)	(600)	183	(30,5)	(30,5)	—
Lucro líquido atribuível à Controladora	6.204	5.966	238	4,0	15,1	5.816
LPA ordinário (euros)	0,44	0,45	(0,01)	(2,1)		0,48
LPA diluído ordinário (euros)	0,43	0,44	(0,01)	(2,3)		0,48
LPA (euros)	0,41	0,40	0,00	1,0		0,48
LPA diluído (euros)	0,41	0,40	0,00	0,9		0,48

Promemória:

Ativos Totais Médios	1.337.661	1.345.657	(7.996)	(0,6)		1.203.260
Recursos Próprios Médios*	88.744	90.798	(2.054)	(2,3)		82.545

(*)- Em 2014, dado proforma inclui a ampliação de capital de janeiro de 2015.

O lucro atribuível obtido pelo Grupo Santander no ano de 2016 é de 6.204 milhões de euros, o que representa um aumento de 4% com relação aos 5.966 milhões obtidos no ano passado. Sem o efeito da variação das taxas de câmbio, o aumento é de 15%.

O lucro indicado inclui, tanto em 2016 como em 2015, alguns resultados não recorrentes de -417 milhões de euros em 2016 e de -600 milhões de euros em 2015, como segue:

- Em 2016: 227 milhões de euros pelo ganho de capital obtido na venda de VISA Europe, -475 milhões de custos de reestruturação, -137 milhões para a constituição de um fundo para cobrir eventuais reclamações relacionadas com produtos de seguros de proteção de pagamentos (PPI) no Reino Unido, e -32 milhões após o restatement dos dados de Santander Consumer USA.
- Em 2015: 835 milhões de euros pelo resultado líquido da reversão de passivos fiscais no Brasil, 283 milhões pelo badwill de Banif em Portugal, -600 milhões para a constituição de um fundo para cobrir

eventuais reclamações relacionadas a produtos de seguros de proteção de pagamentos (PPI) no Reino Unido, -683 milhões para deterioração de ativos intangíveis e -435 milhões para outras provisões (ágio e outros).

Antes de considerar esses resultados não recorrentes e os impostos, que refletem o aumento da pressão fiscal, o resultado ordinário antes de impostos é de 11.288 milhões de euros, com um aumento com relação ao ano anterior de 3% (12% em euros constantes), em vista do bom desempenho das receitas comerciais, um rigoroso controle de despesas e a queda das provisões e do custo de crédito.

Por unidades, crescimentos generalizados, já que nove das dez principais unidades subiram e seis delas em dois dígitos.

Esse desempenho é ainda mais relevante se levarmos em conta o ambiente a que o setor bancário está sendo submetido desde o início da crise financeira:

Resultados por trimestres

Milhões de euros

	2015				2016			
	1T	2T	3T	4T	1T	2T	3T	4T
Margem de juros	8.038	8.281	7.983	7.888	7.624	7.570	7.798	8.096
Comissões líquidas	2.524	2.586	2.474	2.448	2.397	2.549	2.597	2.637
Resultados líquidos de operações financeiras	695	372	634	684	504	366	440	412
Outras receitas	186	379	225	(126)	204	445	245	(32)
Rendimentos sobre instrumentos de capital	33	239	75	107	44	209	37	124
Resultados de equivalência patrimonial	99	101	93	82	83	112	119	130
Outras receitas/despesas operacionais (líquidos)	53	39	57	(315)	78	124	90	(286)
Margem bruta	11.444	11.618	11.316	10.894	10.730	10.929	11.080	11.113
Despesas totais	(5.377)	(5.429)	(5.342)	(5.422)	(5.158)	(5.227)	(5.250)	(5.453)
Despesas administrativas	(4.785)	(4.826)	(4.731)	(4.810)	(4.572)	(4.632)	(4.692)	(4.828)
<i>Despesas de pessoal</i>	<i>(2.755)</i>	<i>(2.836)</i>	<i>(2.717)</i>	<i>(2.799)</i>	<i>(2.683)</i>	<i>(2.712)</i>	<i>(2.726)</i>	<i>(2.876)</i>
<i>Outras despesas administrativas</i>	<i>(2.030)</i>	<i>(1.989)</i>	<i>(2.015)</i>	<i>(2.011)</i>	<i>(1.889)</i>	<i>(1.920)</i>	<i>(1.966)</i>	<i>(1.952)</i>
Amortização de ativos tangíveis e intangíveis	(592)	(603)	(611)	(612)	(586)	(595)	(558)	(626)
Margem líquida	6.067	6.189	5.974	5.472	5.572	5.703	5.831	5.660
Provisões para perdas com créditos	(2.563)	(2.508)	(2.479)	(2.558)	(2.408)	(2.205)	(2.499)	(2.406)
Perdas com outros ativos	(60)	(78)	(110)	(215)	(44)	(29)	(16)	(159)
Outros resultados e provisões	(454)	(605)	(606)	(526)	(389)	(515)	(376)	(432)
Resultado ordinário antes dos impostos sobre o lucro	2.990	2.998	2.778	2.173	2.732	2.954	2.940	2.663
Imposto de renda	(922)	(939)	(787)	(471)	(810)	(970)	(904)	(712)
Lucro líquido ordinário das operações continuadas	2.067	2.059	1.991	1.702	1.922	1.984	2.036	1.951
Resultado de operações descontinuadas (líquida)	0	0	(0)	—	—	0	(0)	0
Lucro líquido ordinário do período	2.067	2.059	1.991	1.702	1.922	1.984	2.036	1.951
Resultado atribuído aos acionistas não controladores	350	350	311	242	288	338	341	305
Lucro líquido ordinário atribuível à Controladora	1.717	1.709	1.680	1.460	1.633	1.646	1.695	1.646
Líquido de ganhos e saneamentos	—	835	—	(1.435)	—	(368)	—	(49)
Lucro líquido atribuível à Controladora	1.717	2.544	1.680	25	1.633	1.278	1.695	1.598
LPA ordinário (euros)	0,12	0,12	0,11	0,10	0,11	0,11	0,11	0,11
LPA diluído ordinário (euros)	0,12	0,12	0,11	0,10	0,11	0,11	0,11	0,11
LPA (euros)	0,12	0,18	0,11	(0,01)	0,11	0,08	0,11	0,10
LPA diluído (euros)	0,12	0,17	0,11	(0,01)	0,11	0,08	0,11	0,10

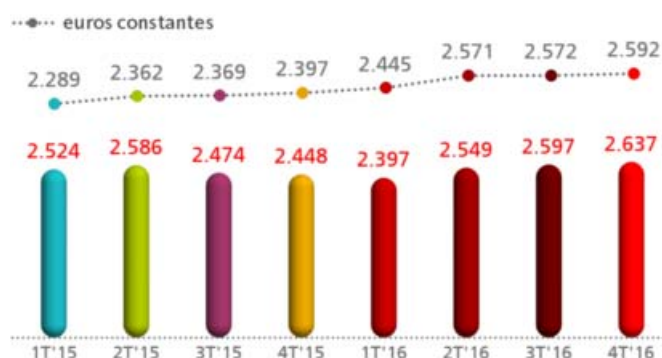
Margem de juros

Milhões de euros



Comissões

Milhões de euros



- As economias em mercados maduros continuam com baixas taxas de juros, apresentam maiores exigências regulatórias, altos níveis de ativos improdutivos, estagnação da demanda de crédito, entrada de novos concorrentes, o desafio tecnológico e uma rentabilidade ainda abaixo do custo de capital.
- Os mercados emergentes, por sua vez, oferecem ritmos de crescimento maiores em volumes, taxas de juros mais altas e elevado potencial de bancarização.

Por último, dois efeitos devem ser levados em conta na comparação anual, o primeiro, um efeito perímetro levemente positivo em função das operações em SCF e a aquisição do Banif em Portugal, e outro negativo, decorrente da evolução das taxas de câmbio das diversas moedas em que o Grupo opera com relação ao euro. Esse último representa 6 p.p. para o total do Grupo na comparação de receitas e despesas, e 11 p.p. no lucro atribuível.

Em seguida comentaremos a evolução das principais linhas da demonstração de resultados.

Receitas

As receitas atingem 43.853 milhões de euros, com uma redução de 3% com relação ao exercício de 2015, devido ao impacto das taxas de câmbio. Excluindo esse efeito, as receitas aumentaram 3%, em vista da melhoria na sua qualidade, já que foram impulsionadas pelas receitas de clientes.

A nossa estrutura de receitas, em que a margem de juros e comissões representa 94% do total das receitas, muito acima da média de nossos concorrentes, permite que continuem apresentando um crescimento consistente e recorrente. Reflexo disso é o aumento em seis dos últimos sete trimestres. Detalhando:

- A **margem de juros** encontra-se em 31.089 milhões de euros (71% das receitas), com redução de 3% devido ao impacto das taxas de câmbio. Em termos constantes, aumentou 2%, crescimento decorrente dos maiores volumes de créditos e depósitos, aos quais se soma uma boa gestão do custo do passivo.

Por unidades e sem taxa de câmbio, crescimentos de 28% na Argentina, 14% no México, 11% no Santander Consumer Finance e Polônia e 7% no Chile. Aumentaram também no Brasil (+2%) e Reino Unido (+0,4%).

As únicas quedas ocorreram na Espanha, em vista dos menores volumes e pressão de taxas de juros sobre o ativo, e nos E.U.A., afetados pela queda de saldos na carteira de automóveis no Santander Consumer USA e a alteração de *mix* para um perfil de menor risco.

- As **comissões** atingiram 10.180 milhões de euros, com aumento de 1% ou 8% sem o efeito da taxa de câmbio. Este último duplica a taxa de crescimento de 2015, reflexo da maior atividade e vinculação de nossos clientes. Por negócios, subiram tanto as procedentes do Banco Comercial (86% do total de comissões) como as de Global Corporate Banking.

Comissões Líquidas

Milhões de euros

	2016	2015	Varição absoluta	%	2014
Comissões por serviços	6.261	6.040	220	3,6	5.827
Fundos de investimento e pensão	757	862	(105)	(12,2)	913
Serviços de títulos	913	905	9	1,0	763
Seguros	2.249	2.225	23	1,0	2.193
Comissões Líquidas	10.180	10.033	147	1,5	9.696

Despesas totais

Milhões de euros



Por geografias, crescimentos generalizados relacionados com o aumento de clientes vinculados em todas as unidades, a oferta de produtos de maior valor agregado e uma melhor experiência de nossos clientes.

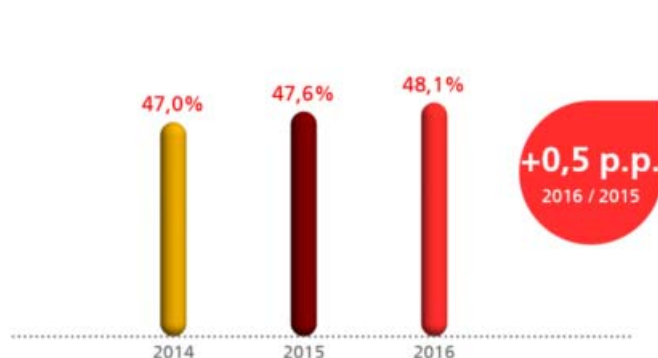
- Os **resultados por operações financeiras**, que representam apenas 4% das receitas, diminuíram 24% em euros constantes, afetados pelas receitas maiores em 2015 provenientes da gestão de carteiras de coberturas devido a taxas de juros e de câmbio.
- Por último, o **restante das receitas** representa 2% das receitas. Nesta linha são incluídos os dividendos que baixaram 41 milhões, os resultados pelo método de equivalência patrimonial, que aumentaram 69 milhões e os "outros resultados" que melhoraram 170 milhões, em parte devido às receitas mais altas resultantes da atividade de *leasing* nos Estados Unidos.

Despesas

As despesas foram de 21.088 milhões de euros e registraram uma redução de 2% (+4% sem taxa de câmbio). Em termos reais e sem

Eficiência

%



perímetro, reduziram em 2%, sendo o terceiro ano consecutivo com crescimento estável ou redução em termos reais.

Quando à disciplina na sua gestão, este ano foram tomadas medidas de racionalização e simplificação de estruturas que estão permitindo continuar investindo na transformação comercial (ferramentas comerciais, processos mais simples, novos modelos de agências...) e melhorar a satisfação dos clientes, uma vez que a Corporação se torna mais eficiente.

Por unidades, continuamos realizando uma gestão muito ativa ao longo do ano, adaptando a base à realidade do negócio em cada mercado. Isso permitiu a redução das despesas em sete das dez unidades principais em termos reais e sem perímetro, bem como no Centro Corporativo. As duas unidades que mais aumentam são México, pelos planos de expansão comercial e investimentos em tecnologias, e Estados Unidos, em vista da adaptação às exigências regulatórias e o desenvolvimento da franquia.

A evolução de receitas em um ambiente sob alta pressão e o controle de despesas se refletem na estabilidade do índice de eficiência que se encontra em 48,1% (47,6% em 2015). Essa taxa se

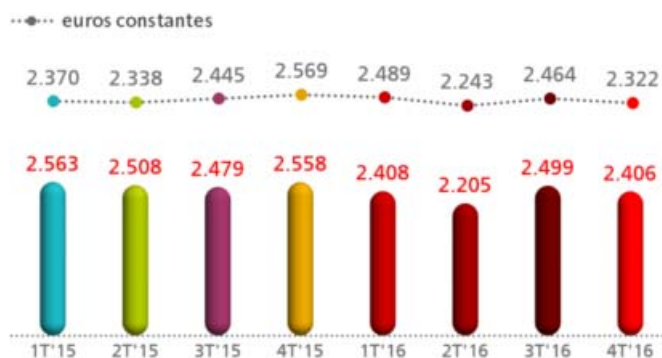
Despesas totais

Milhões de euros

	2016	2015	Varição absoluta	%	2014
Despesas de pessoal	10.997	11.107	(110)	(1,0)	10.213
Outras despesas administrativas	7.727	8.045	(318)	(4,0)	7.568
Tecnologia e sistemas	1.094	1.039	55	5,3	936
Comunicações	499	587	(88)	(15,0)	489
Publicidade	691	705	(14)	(2,0)	654
Imóveis e instalações	1.708	1.786	(78)	(4,4)	1.775
Impressos e suprimentos	146	157	(11)	(6,8)	155
Despesas tributárias	484	529	(45)	(8,5)	460
Outras despesas	3.105	3.243	(138)	(4,3)	3.098
Despesas administrativas	18.723	19.152	(429)	(2,2)	17.781
Amortizações	2.364	2.419	(54)	(2,3)	2.257
Despesas totais	21.088	21.571	(483)	(2,2)	20.038

● Provisões para perdas com créditos

Milhões de euros



● Provisões para perdas com créditos

Milhões de euros

	2016	2015	Varição absoluta	%	2014
Para créditos	11.097	11.484	(387)	(3,4)	11.922
Para risco-país	3	(0)	3	—	(24)
Ativos em suspenso recuperados	(1.582)	(1.375)	(207)	15,1	(1.336)
Total	9.518	10.108	(590)	(5,8)	10.562

compara muito favoravelmente aos principais concorrentes europeus e norte-americanos.

Provisões para perdas com créditos

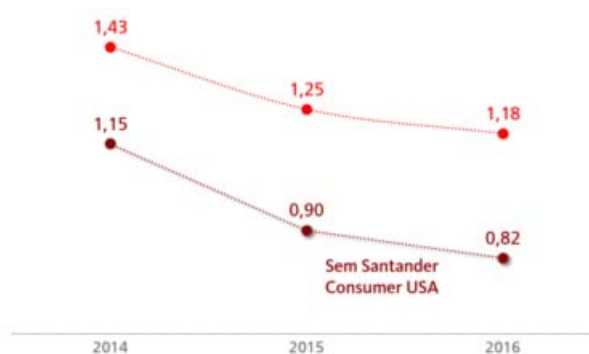
As provisões para perdas com créditos são de 9,518 milhões de euros, 6% inferior ao ano anterior. Sem taxa de câmbio, a redução das provisões é de 2%.

Por unidades, e sem efeito das taxas de câmbio, foram registradas quedas significativas de provisões em todas as unidades europeias: Espanha (-41%), Reino Unido (-39%), Santander Consumer Finance (-27%), Portugal (-25%) e Polônia (-10%). Por outro lado, aumentos nos países latino-americanos em conformidade com o aumento do crédito, à exceção do Chile, onde reduziram.

O custo de crédito continua melhorando trimestre a trimestre, reflexo da estratégia seletiva de crescimento e uma adequada política de gestão do risco, tendo passado de 1,25% em dezembro de 2015 para 1,18% em dezembro de 2016. Esta melhora no ano é registrada em quase todas as unidades do Grupo, destacando-se a Espanha, Portugal, Argentina e SCF, embora também apresente diminuição no México, Chile e Polônia. O Brasil, por sua vez, manteve-se praticamente estável, encerrando o ano abaixo dos 5% que haviam sido estabelecidos como objetivo máximo.

● Custo de crédito

%

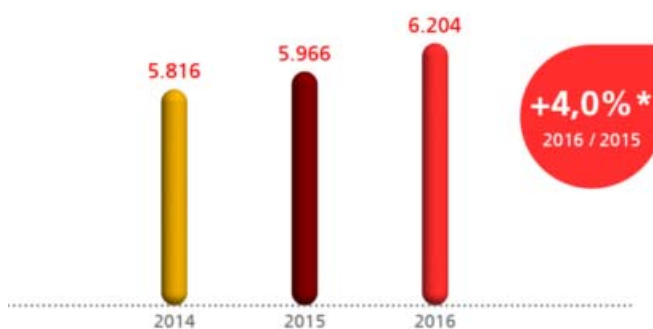


Outros resultados e provisões

O conjunto de outros resultados e provisões contabiliza uma cifra negativa de 1.959 milhões de euros, inferior aos 2.654 milhões, também negativos, do ano passado. Nessas rubricas são registradas provisões de natureza muito diversa, bem como ganhos, perdas e deterioração de ativos financeiros. A redução com relação a 2015 está muito diluída por conceitos, países e negócios.

● Lucro líquido atribuível ao Grupo

%



(*) Em euros constantes: +15,1%

Resultados não recorrentes. 2015

Milhões de euros



Resultados não recorrentes. 2016

Milhões de euros



Lucro ordinário antes de impostos

Conforme já comentado, o lucro ordinário antes de impostos chega a 11.288 milhões de euros, um aumento de 3% (+12% a taxas de câmbio constantes), reflexo da boa evolução das receitas, do controle das despesas e do bom desempenho das provisões e do custo de crédito.

Por geografias, destaca-se que, apesar da dificuldade do ambiente em alguns mercados em 2016, todas as unidades aumentaram, à exceção dos Estados Unidos, e seis delas em mais de 15%.

Os impostos subiram de maneira geral, com aumento da pressão fiscal em algumas unidades, especialmente no Chile, Reino Unido e Polônia, nesses dois últimos pela introdução de novos impostos no setor. Para o conjunto do Grupo, a alíquota de tributação encontra-se em 30%.

Lucro atribuível ao Grupo

Conforme indicado anteriormente, o lucro atribuível ao Grupo é afetado pelos resultados não recorrentes positivos e negativos. Não os levando em conta, o lucro ordinário atribuível é de 6.621 milhões de euros, com um aumento de 1% (+10% a taxas de câmbio constantes).

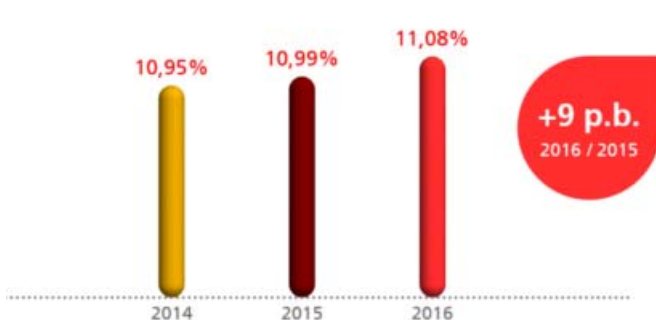
Dessa forma, em 2016 encerramos um ano com resultados financeiros sólidos, com crescimento do lucro e com um RoTE ordinário de 11,08%, que se mantém em um nível entre os mais altos do setor bancário. O RoRWA ordinário também melhorou, passando de 1,30% em 2015 para 1,36% em 2016.

Por último, o lucro atribuível ao Grupo é de 6.204 milhões de euros no ano, 4% mais que em 2015 ou 15% mais a taxas de câmbio constantes.

O lucro por ação (LPA), por sua vez, aumentou 1% no ano, situando-se em 41 centavos de euro contra 40 centavos em 2015. O RoTE total é de 10,38% (9,99% em 2015) e o RoRWA total de 1,29% (1,20% em 2015).

RoTE ordinário

%



RoRWA ordinário

%



Balança

Milhões de euros

Ativo	2016	2015	Varição absoluta	%	2014
Dinheiro, saldos em dinheiro em bancos centrais e outros depósitos à vista	76.454	77.751	(1.297)	(1,7)	69.853
Ativos financeiros mantidos para negociar	148.187	146.346	1.841	1,3	148.094
<i>Instrumentos de dívida</i>	48.922	43.964	4.958	11,3	54.374
<i>Instrumentos de patrimônio</i>	14.497	18.225	(3.728)	(20,5)	12.920
<i>Empréstimos e abonos a clientes</i>	9.504	6.081	3.423	56,3	2.921
<i>Empréstimos e abonos a bancos centrais e entidades de crédito</i>	3.221	1.352	1.869	138,2	1.020
<i>Derivativos</i>	72.043	76.724	(4.681)	(6,1)	76.858
Ativos financeiros por valor justo com alterações em resultados	31.609	45.043	(13.434)	(29,8)	42.673
<i>Empréstimos e abonos a clientes</i>	17.596	14.293	3.303	23,1	8.971
<i>Empréstimos e abonos a bancos centrais e entidades de crédito</i>	10.069	26.403	(16.334)	(61,9)	28.592
<i>Outros (instrumentos de dívida e de patrimônio)</i>	3.944	4.347	(403)	(9,3)	5.111
Ativos financeiros disponíveis para venda	116.774	122.036	(5.262)	(4,3)	115.251
<i>Instrumentos de dívida</i>	111.287	117.187	(5.900)	(5,0)	110.249
<i>Instrumentos de patrimônio</i>	5.487	4.849	638	13,2	5.001
Empréstimos e rúblicas a receber	840.004	836.156	3.848	0,5	782.005
<i>Instrumentos de dívida</i>	13.237	10.907	2.330	21,4	7.510
<i>Empréstimos e abonos a clientes</i>	763.370	770.474	(7.104)	(0,9)	722.819
<i>Empréstimos e abonos a bancos centrais e entidades de crédito</i>	63.397	54.775	8.622	15,7	51.676
Investimentos mantidos até o vencimento	14.468	4.355	10.113	232,2	—
Investimentos em negócios conjuntos e associados	4.836	3.251	1.585	48,8	3.471
Ativos tangíveis	23.286	25.320	(2.034)	(8,0)	23.256
Ativos intangíveis	29.421	29.430	(9)	(0,0)	30.401
<i>dos quais: ágio</i>	26.724	26.960	(236)	(0,9)	27.548
Outros ativos	54.086	50.572	3.514	6,9	51.293
Total ativo	1.339.125	1.340.260	(1.135)	(0,1)	1.266.296
Passivo e patrimônio líquido					
Passivos financeiros mantidos para negociar	108.765	105.218	3.547	3,4	109.792
<i>Depósitos de clientes</i>	9.996	9.187	809	8,8	5.544
<i>Obrigação por emissão de títulos</i>	—	—	—	—	—
<i>Depósitos captados junto à bancos centrais e à instituições de crédito</i>	1.395	2.255	(860)	(38,1)	7.572
<i>Derivativos</i>	74.369	76.414	(2.045)	(2,7)	79.048
<i>Outros</i>	23.005	17.362	5.643	32,5	17.628
Passivos financeiros por valor justo com alterações em resultados	40.263	54.768	(14.505)	(26,5)	62.318
<i>Depósitos de clientes</i>	23.345	26.357	(3.012)	(11,4)	33.127
<i>Obrigação por emissão de títulos</i>	2.791	3.373	(582)	(17,3)	3.830
<i>Depósitos captados junto à bancos centrais e à instituições de crédito</i>	14.127	25.037	(10.910)	(43,6)	25.360
<i>Outros</i>	—	1	(1)	(100,0)	—
Passivos financeiros avaliados pelo custo amortizado	1.044.240	1.039.343	4.897	0,5	961.053
<i>Depósitos de clientes</i>	657.770	647.598	10.172	1,6	609.034
<i>Obrigação por emissão de títulos</i>	226.078	222.787	3.291	1,5	209.865
<i>Depósitos captados junto à bancos centrais e à instituições de crédito</i>	133.876	148.081	(14.205)	(9,6)	122.685
<i>Outros</i>	26.516	20.877	5.639	27,0	19.468
Passivos abrangidos por contratos de seguro	652	627	25	4,0	713
Provisões	14.459	14.494	(35)	(0,2)	15.376
Outros passivos	28.047	27.057	990	3,7	27.331
Total passivo	1.236.426	1.241.507	(5.081)	(0,4)	1.176.581
Fundos próprios	105.977	102.402	3.575	3,5	91.664
Capital	7.291	7.217	74	1,0	6.292
Reservas	94.149	90.765	3.384	3,7	80.026
Lucro líquido atribuível à Controladora	6.204	5.966	238	4,0	5.816
<i>Menos: dividendos e remunerações</i>	(1.667)	(1.546)	(121)	7,8	(471)
Outro resultado global acumulado	(15.039)	(14.362)	(677)	4,7	(10.858)
Participação de acionistas não controladores	11.761	10.713	1.048	9,8	8.909
Patrimônio líquido total	102.699	98.753	3.946	4,0	89.714
Total passivo e patrimônio líquido	1.339.125	1.340.260	(1.135)	(0,1)	1.266.296

● BALANÇO DO GRUPO SANTANDER*

- Os créditos aumentaram 2% com avanços nos principais segmentos e aumento em sete das dez principais geografias do Grupo.
- O índice de inadimplência melhorou, chegando a 3,93%, abaixo de 4% pela primeira vez desde março de 2012.
- O custo de crédito apresentou melhora, ficando em 1,18%, cumprindo já o objetivo estabelecido no *Investor Day* para a média 2016-2018.
- Em recursos, crescimento de 5% devido aos saldos à vista e aos fundos de investimento. As dez principais unidades cresceram.
- Melhorou o índice de créditos líquidos / depósitos do Grupo, que ficou em 114% (116% em dezembro de 2015).

* Variações sem efeito das taxas de câmbio

O total de negócio administrado e comercializado no encerramento de 2016 é de 1.521.633 milhões de euros, dos quais 1.339.125 milhões correspondem a ativos em balanço e o restante a fundos de investimento, fundos de pensões e patrimônios administrados.

No conjunto do Grupo, impacto negativo das taxas de câmbio na evolução dos créditos (-3 p.p.) e dos recursos de clientes (-2 p.p.). Os impactos foram muito diferentes nas principais unidades do Grupo: Brasil (+26 p.p.); Chile (+10 p.p.); Estados Unidos (+3 p.p.); Polônia (-4 p.p.); México (-14 p.p.); Reino Unido (-15 p.p.) e Argentina (-21 p.p.).

O efeito perímtero, por sua vez, foi irrelevante, não chegando a 1%.

Créditos brutos a clientes (sem operações compromissadas)

Em 2016 o conjunto de créditos (sem operações compromissadas) diminuiu 1%. Sem considerar a incidência da variação das taxas de câmbio, aumentou 2% com o seguinte detalhe por geografia:

- Os aumentos mais significativos ocorrem na Argentina (+37%), Santander Consumer Finance (+14%, favorecido pelo acordo com PSA Finance), México e Polônia (+8% em ambos) e Chile (+7%).
- Crescimentos mais moderados no Reino Unido (+2%) e no Brasil, que cresceu 0,4% no ano, após aumentar os seus saldos em 5% no último trimestre, reflexo da mudança de tendência, especialmente em hipotecas, observada na segunda metade do exercício.

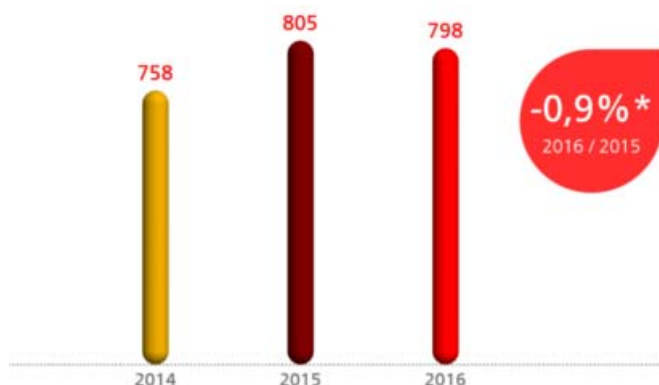
● Crédito a clientes

Milhões de euros

	2016	2015	Varição absoluta	%	2014
Crédito à Administrações Públicas Espanholas	14.127	13.993	133	1,0	17.465
Crédito a outros setores residentes	147.246	153.863	(6.617)	(4,3)	154.905
Carteira comercial	9.567	9.037	531	5,9	7.293
Crédito com garantia real	87.509	92.478	(4.969)	(5,4)	96.426
Outros créditos	50.170	52.348	(2.178)	(4,2)	51.187
Crédito ao setor não residente	653.490	649.509	3.981	0,6	589.557
Crédito com garantia real	387.546	409.136	(21.590)	(5,3)	369.266
Outros créditos	265.944	240.373	25.571	10,6	220.291
Créditos a clientes (bruto)	814.863	817.366	(2.503)	(0,3)	761.928
Provisões para perdas - crédito	24.393	26.517	(2.125)	(8,0)	27.217
Créditos a clientes (líquido)	790.470	790.848	(378)	(0,0)	734.711
Promemoria: Ativos Duvidosos	32.573	36.133	(3.560)	(9,9)	40.424
Administração Pública	101	145	(44)	(30,3)	167
Outros setores residentes	12.666	16.301	(3.635)	(22,3)	19.951
Não residentes	19.806	19.686	120	0,6	20.306

● **Crédito bruto a clientes**
(sem operações compromissadas)

Bilhões de euros



(*) Sem efeito das taxas de câmbio: +1,9%

- Quedas de 2% nos Estados Unidos, em parte afetada pela venda de carteiras, de 4% na Espanha, principalmente devido a saldos em instituições, hipotecas e a redução de saldos duvidosos, e de 5% em Portugal. Essas últimas ocorreram em mercados em desalavancagem, onde os aumentos de produções ainda não são suficientes para aumentar o estoque.
- Considerando a segmentação dos créditos, crescimentos tanto em pessoas físicas como em PME e empresas, favorecidos pelas estratégias 1|2|3 e PMEs. Deve-se destacar que o esforço realizado na comercialização de produtos e serviços para PMEs foram reconhecidos pela revista Euromoney, que nos concedeu este ano o prêmio de *Melhor Banco do Mundo para PMEs*.
- Com relação à Atividade Imobiliária na Espanha, os créditos líquidos sofreram uma redução de 29% em comparação ao ano anterior, tendo sido dada continuidade à estratégia dos últimos anos.

Risco de crédito

As entradas líquidas em inadimplência, excluídos os efeitos perimetro e taxa de câmbio, são de 7.362 milhões, 4% menos que em 2015.

● **Gestão de risco de crédito***

Milhões de euros

	2016	2015	Varição absoluta	%	2014
Ativos inadimplentes e duvidosos	33.643	37.094	(3.450)	(9,3)	41.709
Índice de inadimplência (%)	3,93	4,36	(0,43)		5,19
Provisões	24.835	27.121	(2.286)	(8,4)	28.046
Específicas	15.466	17.707	(2.241)	(12,7)	21.784
Coletivas	9.369	9.414	(45)	(0,5)	6.262
Índice de cobertura (%)	73,8	73,1	0,7		67,2
Custo de crédito (%) **	1,18	1,25	(0,07)		1,43

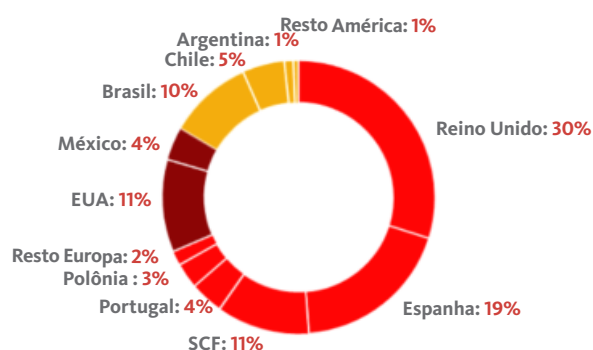
(*).- Não considera risco país

(**).- Provisões para perdas com créditos 12 meses / carteira de crédito média

Nota: Índice de inadimplência: Ativos inadimplentes e duvidosos/Carteira de Crédito com garantias e avais

● **Créditos brutos a clientes**
(sem operações compromissadas)

% sobre áreas operacionais. Dezembro 2016



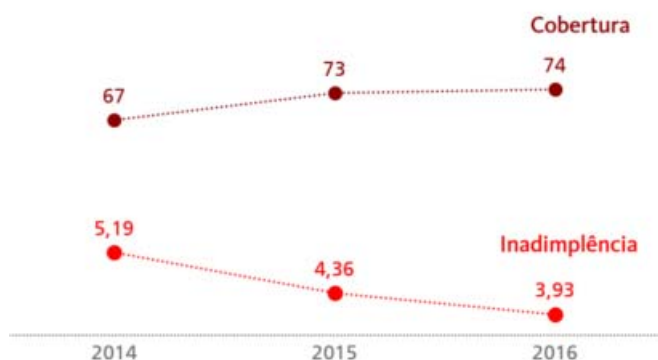
Os riscos inadimplentes e duvidosos encerram o ano em 33.643 milhões de euros, com uma redução de 9% com relação ao ano anterior (-11% sem taxa de câmbio). Esse saldo coloca o índice de inadimplência do Grupo em 3,93%, após melhor 43 p.b. com relação a dezembro de 2015. Merece destaque a queda contínua em todos os trimestres do ano e que, pela primeira vez desde março de 2012, encontra-se abaixo de 4%.

Para cobrir essa inadimplência, é contabilizado um fundo para insolvências de 24.835 milhões de euros, que corresponde a uma cobertura de 74% (73% em dezembro de 2015). Para avaliar esse número deve-se levar em conta que os índices do Reino Unido e da Espanha são afetados pelo peso dos saldos hipotecários que requerem provisões menores no balanço por contarem com garantias colaterais.

A melhora na qualidade do crédito reflete-se na redução de 6% nas provisões para perdas com créditos com relação ao exercício anterior (-2% sem efeito de taxa de câmbio) e na consequente melhora do custo de crédito, que em dezembro de 2016 é de 1,18% contra 1,25% em dezembro de 2015. Excluindo Santander Consumer USA, que pelo seu tipo de negócio tem um elevado nível de

● Inadimplência e cobertura. Total Grupo

%



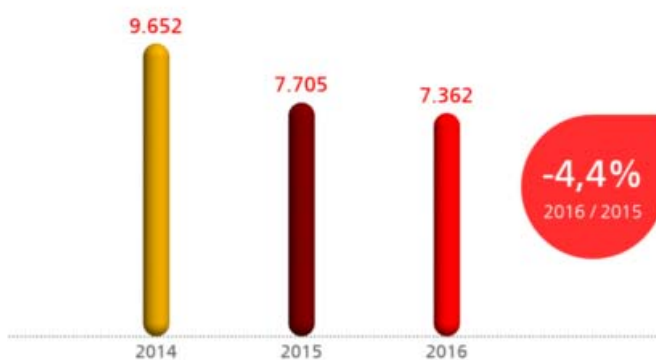
provisões e recuperações, o custo de crédito é de 0,82%, contra 0,90% em dezembro de 2015.

Esta evolução positiva dos índices de qualidade do crédito está sendo registrada em praticamente todas as regiões de atuação do Grupo.

Informação mais ampla sobre a evolução do risco de crédito, dos sistemas de controle e acompanhamento, ou dos modelos internos de riscos para o cálculo de provisões, consta no capítulo específico de Gestão do Risco deste Relatório.

● Entradas líquidas em inadimplência

Milhões de euros



Recursos de clientes sob gestão e comercializados

O conjunto de recursos (depósitos sem operações compromissadas, e fundos de investimento) aumentou 3% no ano de 2016. À taxa de câmbio constante o aumento é de 5%.

Todas as principais geografias de atuação do Grupo aumentam seus recursos no ano, com os seguintes aspectos específicos, sem a incidência da taxa de câmbio:

- Crescimentos de dois dígitos na Argentina (+49%), México (+12%) e Polônia (+10%).

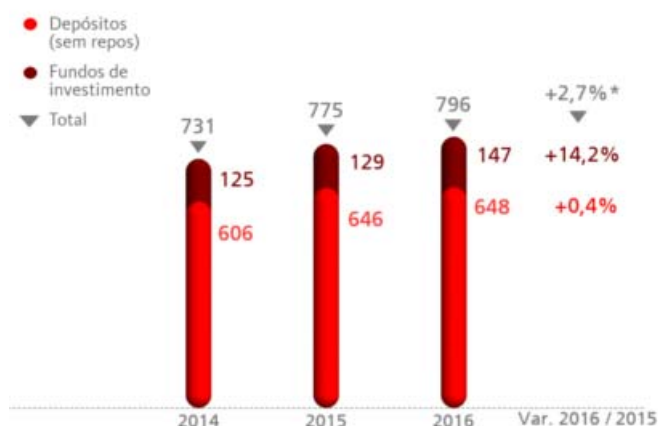
● Recursos de clientes sob gestão e comercializados

Milhões de euros

	2016	2015	Varição absoluta	%	2014
Administrações Públicas residentes	8.699	11.737	(3.038)	(25,9)	9.349
Outros setores residentes	160.026	157.611	2.415	1,5	163.340
Vista	119.425	108.410	11.016	10,2	88.312
Prazo	39.506	47.297	(7.791)	(16,5)	67.495
Outros	1.094	1.904	(809)	(42,5)	7.532
Setor não residente	522.387	513.795	8.592	1,7	475.017
Vista	328.736	313.175	15.561	5,0	273.889
Prazo	134.528	146.317	(11.789)	(8,1)	151.113
Outros	59.123	54.303	4.820	8,9	50.015
Depósitos de clientes	691.112	683.142	7.970	1,2	647.706
Obrigação por emissão de títulos	228.869	226.160	2.709	1,2	213.696
Recursos de clientes em balanço	919.981	909.302	10.679	1,2	861.402
<i>dos quais: passivos subordinados</i>	19.897	21.151	(1.254)	(5,9)	16.884
Fundos de investimento	147.416	129.077	18.340	14,2	124.708
Fundos de pensão	11.298	11.376	(78)	(0,7)	11.481
Patrimônios administrados	23.793	25.808	(2.015)	(7,8)	25.599
Outros recursos de clientes sob gestão e comercializados	182.508	166.260	16.247	9,8	161.788
Recursos de clientes sob gestão e comercializados	1.102.488	1.075.563	26.926	2,5	1.023.189

● Recursos de clientes
(depósitos sem operações compromissadas + f. de investimento)

Bilhões de euros



(*) Sem efeito das taxas de câmbio: +4,7%

- Aumentos mais moderados nos Estados Unidos e SCF (+7%), e no Reino Unido e Chile (+6%).
- Por último, altas de 3% no Brasil e Espanha e de 2% em Portugal, nesses dois últimos casos em função da estratégia de redução de saldos a prazo. Em vista disso, por outro lado, os saldos aumentaram em 10.000 e 4.000 milhões de euros, respectivamente.

Por produtos e segundo a estratégia estabelecida no ano para redução do custo do passivo, os saldos à vista aumentaram 10%, apresentando crescimento em todos os países, e os fundos de investimento aumentaram 7%, também com aumentos generalizados. Por outro lado, os saldos a prazo sofreram redução de 9%.

Junto à captação de depósitos de clientes, o Grupo considera estratégico manter uma política seletiva de emissão nos mercados internacionais de renda fixa, procurando adaptar a frequência e volume das operações de mercado às necessidades estruturais de liquidez de cada unidade, bem como à receptividade de cada mercado.

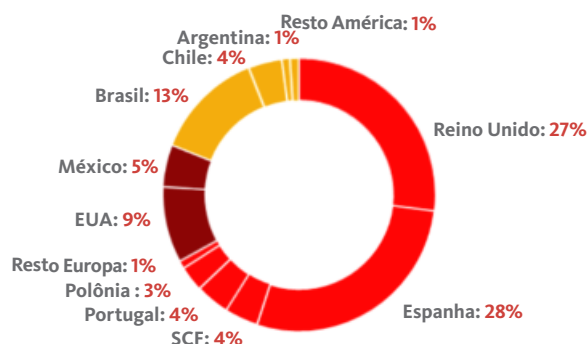
Em 2016 foram realizadas por diferentes unidades do Grupo:

- Emissões a médio e longo prazo de dívida sênior no montante de 24.309 milhões de euros, de cédulas de 4.720 milhões e de dívida subordinada de 2.239 milhões.
- Securitizações colocadas no mercado no montante de 13.144 milhões de euros.
- Os vencimento de dívida a médio e longo prazo foram, por sua vez, de 35.597 milhões de euros.

O índice de créditos com relação a depósitos encontrava-se em 114% em dezembro de 2016, contra 116% em dezembro de 2015. O índice de depósitos mais financiamento a médio / longo prazo sobre créditos, por sua vez, é de 114%, representando uma estrutura confortável de financiamento.

■ Recursos de clientes
(depósitos sem operações compromissadas + f. de investimento)

% sobre áreas operacionais. Dezembro 2016



Outras rubricas do balanço

Os ativos financeiros disponíveis para venda encontravam-se em dezembro de 2016 em 116.774 milhões de euros, com uma redução no ano de 5.262 milhões e 4%, devido a posições mais baixas na Espanha e Estados Unidos.

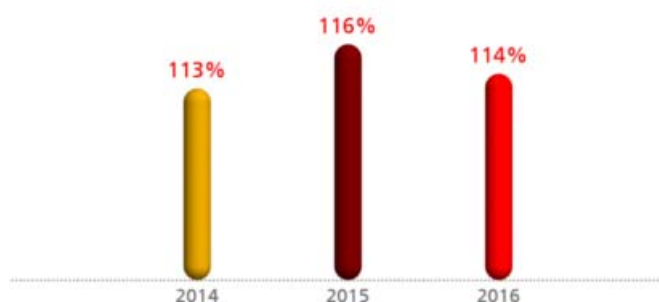
Os investimentos mantidos até o vencimento elevaram-se, por sua vez, a 14.468 milhões de euros, tendo aumentado em 2016 principalmente devido à compra de uma carteira de títulos de dívida soberana inglesa no montante de 7.765 milhões de euros, cujo objetivo se enquadra na gestão de balanço da atividade do ALCO.

O ágio é de 26.724 milhões de euros, cifra muito similar aos 26.960 milhões de dezembro de 2015.

Por último, os ativos tangíveis atingiram 23.286 milhões de euros, com uma redução no ano de 2.034 milhões, devido à desconsolidação de ativos decorrente da fusão Metrovacesa / Merlín, o que compensa amplamente o aumento registrado nos Estados Unidos em virtude dos ativos associados ao negócio de *leasing*.

■ Créditos / depósitos. Total Grupo

%



● RECURSOS PRÓPRIOS E ÍNDICES DE SOLVÊNCIA DO GRUPO SANTANDER

- O índice CET1 *fully loaded* aumentou 50 p.b., até chegar a 10,55%, superando o objetivo estabelecido. Aumento em todos os trimestres do ano.
- Os recursos próprios tangíveis por ação, 4,22 euros, aumentaram pelo terceiro ano consecutivo (+4%).
- O índice de alavancagem *fully loaded* é de 5,0% (4,7% em dezembro de 2015).

Os recursos próprios computáveis CET1 *fully loaded* chegam a 62.068 milhões de euros, o que significa um aumento de mais de 3.300 milhões e 6% no ano, na maior parte em virtude do lucro retido após o pagamento de dividendos.

Em termo *fully loaded*, o índice CET1 passou de 10,05% em dezembro de 2015 para 10,55% em dezembro de 2016, tendo aumentado em todos os trimestres do ano.

O índice de capital total *fully loaded* encontra-se, por sua vez, em 13,87%, tendo subido 82 p.b. no ano.

Do ponto-de-vista qualitativo, o Grupo tem índices sólidos e adequados ao seu modelo de negócio, estrutura de balanço e perfil de risco.

O Grupo Santander tem um modelo de negócio que gera resultados de forma estável e previsível. Esse modelo nos permite acumular capital de maneira orgânica, de forma recorrente, ao mesmo tempo que financiamos o crescimento da atividade de crédito para os

■ Índices de capital (*fully loaded*)



Nota: em 3 de fevereiro de 2016, o BCE autorizou a utilização do Método Padrão Alternativo para o cálculo dos requisitos de capital em nível consolidado por risco operacional no Banco Santander (Brasil) S.A.

■ Fundos próprios computáveis (*fully loaded*)*

Milhões de euros

	2016	2015	Variação absoluta	%	2014
Capital	101.437	98.193	3.244	3,3	93.748
Lucro atribuído	6.204	5.966	238	4,0	5.816
Dividendos	(2.469)	(2.268)	(201)	8,8	(1.014)
Outras receitas retidas	(16.116)	(15.448)	(668)	4,3	(11.468)
Participação de acionistas não controladores	6.784	6.148	636	10,3	4.131
Ágio e intangíveis	(28.405)	(28.254)	(151)	0,5	(29.164)
Valores próprios e outras deduções	(5.368)	(5.633)	265	(4,7)	(5.767)
Core CET1	62.068	58.705	3.363	5,7	56.282
Participações preferenciais e outros computables T1	5.767	5.504	262	4,8	4.728
Tier 1	67.834	64.209	3.625	5,6	61.010
Fundos de insolvência genéricos e instrumentos T2	13.749	12.000	1.749	14,6	7.561
Fundos próprios computáveis	81.584	76.209	5.375	7,1	68.570
Ativos ponderados por risco	588.088	583.917	4.171	0,7	583.366
Índice de capital CET1	10,55	10,05	0,50		9,65
Índice de capital T1	11,53	11,00	0,53		10,46
Índice de capital total	13,87	13,05	0,82		11,75

(*)- Em 2014, dado proforma incluindo a ampliação de capital de janeiro de 2015

● Fundos próprios computáveis (*phase-in*)

Milhões de euros

	2016	2015
CET1 (Capital Principal Nivel I)	73.709	73.478
Fundos próprios base	73.709	73.478
Fundos próprios computável	86.337	84.350
Ativos ponderados pelo risco	588.088	585.633
Índice de capital CET1	12,53	12,55
Índice de capital T1	12,53	12,55
Índice de capital total	14,68	14,40

nossos clientes. E tudo isso compatível com o aumento da distribuição de dividendos em espécie aos nossos acionistas.

Além disso, nos testes de stress realizados pela Associação Bancária Europeia (EBA) em 2016, o Grupo obteve novamente excelentes resultados. Em situações adversas, o Santander apresenta maior resistência que os concorrentes pela elevada geração recorrente de receitas e resultados, decorrente do seu modelo de banco comercial e de uma diversificação geográfica única.

A contínua melhora dos índices de capital é reflexo, por um lado, da estratégia de crescimento rentável do Grupo, com o objetivo de aumentar créditos e lucros acima do aumento dos ativos ponderados pelo risco. Por outro lado, pelas diferentes ações desenvolvidas pelo Grupo, entre as quais, o esforço realizado para melhorar e aprofundar uma cultura de gestão de capital mais ativa em todos os níveis da organização.

Para tanto, foram ativadas ou reforçadas diversas alavancas ao longo do ano, dentre as quais se destacam:

- O aumento das equipes dedicadas à gestão de capital, uma vez que continuamos melhorando a coordenação do Centro Corporativo e equipes locais.

● Índices de capital

%



- Um maior peso do capital nos incentivos de 2016.
- O lançamento de um programa de formação de alcance global.
- Todos os países e unidades de negócio desenvolveram seus planos individuais de capital focados em um negócio que, no futuro, consuma menos capital por unidade de retorno.

Os recursos próprios tangíveis por ação passaram, por sua vez, de 4,07 euros em 2015 para 4,22 euros em 2016 (+4%).

Com relação ao índice de alavancagem *fully loaded*, encontra-se em 5,0% (4,7% em dezembro de 2015).

Em termos regulatórios, os recursos próprios computáveis *phase-in* encontram-se em 86.337 milhões de euros, o que equivale a um índice de capital total de 14,68% e um índice CET 1 *phase-in* de 12,53%.

Os índices mínimos exigidos pelo Banco Central Europeu para o Grupo Santander em base consolidada para o ano de 2017 são de 11,25% no índice de capital total e de 7,75% no CET1.

AGÊNCIAS DE RATING

- O acesso do Grupo aos mercados de financiamento de atacado, bem como o custo das emissões, depende em parte das classificações das agências de rating.
- As agências de rating revisam periodicamente os ratings do Grupo. A classificação da dívida depende de uma série de fatores endógenos da entidade (solvência, modelo de negócio, capacidade de geração de resultados...) e de outros exógenos relacionados com o ambiente econômico geral, a situação do setor e do risco soberano das geografias onde opera.
- Durante 2016, as agências DBRS, Fitch, Moody's e Standard & Poor's confirmaram as classificações, em todos os casos com perspectiva estável. Em 2017, Standard & Poor's reafirmou as classificações, melhorando a perspectiva de estável para positiva.

Agências de rating

	Longo prazo	Curto prazo	Perspectiva
DBRS	A	R-1 (baixo)	Estável
Fitch Ratings	A-	F2	Estável
Moody's	A3	P-2	Estável
Standard & Poor's	A-	A-2	Positiva
Scope	A+	S-1	Estável

Descrição dos negócios

No exercício de 2016, o Grupo Santander manteve os critérios gerais aplicados desde o terceiro trimestre de 2015, quando foram implementadas algumas alterações nos critérios aplicados e na composição de algumas unidades, com o propósito de aumentar a transparência do Grupo, facilitar a análise das unidades de negócio e valorizar a atividade desenvolvida pela Corporação.

A única exceção, assim como nos exercícios anteriores, consiste no ajuste anual do perímetro do Modelo de Relação Global de clientes entre Banco Comercial e Santander Global Corporate Banking, cujos dados de períodos anteriores foram reformulados, incluindo ditos ajustes.

Essa alteração não teve impacto nem nos negócios regionais nem nas cifras do Grupo consolidado, que não apresentaram nenhuma alteração.

A preparação das demonstrações financeiras de cada unidade de negócio é feita a partir reunião das unidades operacionais básicas existentes no Grupo. A informação de base corresponde tanto aos dados contábeis das unidades jurídicas que integram cada negócio como àquela disponível nos sistemas de informação de gestão. Em todos os casos, aplicam-se os mesmos princípios gerais utilizados no Grupo.

As áreas de negócio operacionais são apresentadas em dois níveis:

Negócios geográficos. Segmenta a atividade das unidades operacionais por áreas geográficas. Esta visão coincide com o primeiro nível de gestão do Grupo e reflete o posicionamento do Santander nas três áreas de influência monetária no mundo (euro, libra e dólar). Os segmentos incluídos são os seguintes:

- **Europa continental.** Abrange todos os negócios realizados na região. Inclui informações financeiras detalhadas da Espanha, Portugal, Polônia e Santander Consumer Finance (que abrange todo o negócio na região, inclusive dos três países mencionados).
- **Reino Unido.** Inclui os negócios desenvolvidos pelas diversas unidades e agências do Grupo nesta região.
- **América Latina.** Reúne todas atividades financeiras que o Grupo desenvolve por meio de seus bancos e sociedades subsidiárias na região. São detalhadas as contas do Brasil, México e Chile.
- **E.U.A.** Inclui a entidade holding *Intermediate Holding Company* (IHC) e suas subsidiárias Santander Bank, Banco Santander Puerto Rico, Santander Consumer USA, Banco Santander International e Santander Investment Securities, bem como a agência do Santander em Nova York.

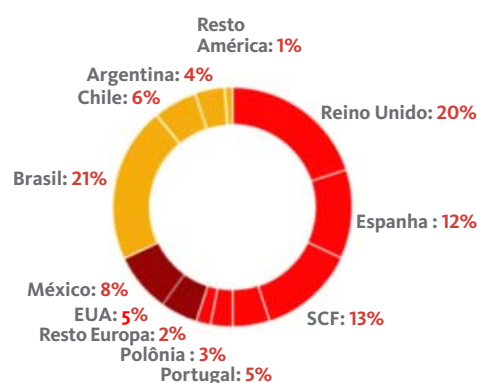
Negócios globais. A atividade das unidades operacionais é distribuída por tipo de negócio entre Banco Comercial, Santander Global Corporate Banking e a unidade Actividad Inmobiliaria España.

- **Banco Comercial.** Abrange todos os negócios de banco de clientes, inclusive os de consumo, salvo os de banco corporativo que são administrados pelo SGCB. Foram incluídos também neste negócio os resultados das posições de cobertura realizadas em cada país, consideradas no âmbito da Comissão de Gestão de Ativos e Passivos de cada um deles.
- **Santander Global Corporate Banking (SGCB).** Reflete os rendimentos resultantes dos negócios de banco corporativo global, banco de investimento e mercados em todo o mundo, incluídas as tesourarias com gestão global (sempre depois da respectiva distribuição com clientes de Banco Comercial), bem como o negócio de renda variável.

Além dos negócios operacionais descritos, tanto por áreas geográficas como por negócios, o Grupo conta com um **Centro Corporativo** que abrange os negócios de gestão centralizada referentes a participações financeiras, a gestão financeira da posição estrutural de câmbio, considerada a partir do âmbito do Comitê de Gestão de Ativos e Passivos corporativo do Grupo, bem como a gestão da liquidez e dos recursos próprios através de emissões.

Como *holding* do Grupo, o Centro Corporativo administra o total de capital e reservas, as alocações de capital e liquidez com o restante dos negócios. A parte de provisionamentos contempla provisões de natureza muito diversa e incorpora o deterioro de ágios. As despesas não incluem os gastos dos serviços centrais do Grupo que são atribuídos às áreas, à exceção dos gastos corporativos e institucionais relativos ao funcionamento do Grupo.

Distribuição do lucro líquido ordinário atribuível por negócios geográficos*. 2016



(*) Sobre áreas operacionais, sem incluir a unidade de Atividade Imobiliária Espanha nem Centro Corporativo

Os dados das diferentes unidades do Grupo que figuram a seguir foram elaborados de acordo com os mesmos critérios utilizados para o Grupo, e podem não coincidir com aqueles publicados individualmente por cada entidade.

● Margem líquida

Milhões de euros	2016	2015	Variação absoluta	%	% sem TC
Europa continental	6.025	6.093	(68)	(1,1)	(0,3)
dos quais: Espanha	2.311	2.646	(335)	(12,7)	(12,7)
Santander Consumer Finance	2.357	2.192	166	7,6	8,6
Polónia	735	683	53	7,7	12,3
Portugal	620	522	99	18,9	18,9
Reino Unido	2.850	3.025	(176)	(5,8)	6,1
América Latina	11.073	10.851	222	2,0	11,6
dos quais: Brasil	6.845	6.689	157	2,3	7,6
México	1.928	1.947	(19)	(1,0)	16,3
Chile	1.435	1.332	103	7,7	11,2
Estados Unidos	4.334	4.774	(440)	(9,2)	(9,4)
Áreas operacionais	24.282	24.744	(462)	(1,9)	3,6
Centro Corporativo	(1.516)	(1.042)	(474)	45,5	45,5
Total Grupo	22.766	23.702	(936)	(3,9)	1,6

● Lucro líquido atribuível ao Grupo

Milhões de euros	2016	2015	Variação absoluta	%	% sem TC
Europa continental	2.599	2.218	381	17,2	18,5
dos quais: Espanha	1.022	977	45	4,6	4,6
Santander Consumer Finance	1.093	938	155	16,5	17,9
Polónia	272	300	(29)	(9,5)	(5,6)
Portugal	399	300	99	33,0	33,0
Reino Unido	1.681	1.971	(290)	(14,7)	(4,0)
América Latina	3.386	3.193	193	6,1	18,6
dos quais: Brasil	1.786	1.631	154	9,5	15,0
México	629	629	0	0,1	17,5
Chile	513	455	58	12,7	16,4
Estados Unidos	395	678	(283)	(41,8)	(41,9)
Áreas operacionais	8.060	8.059	1	0,0	7,8
Centro Corporativo*	(1.856)	(2.093)	237	(11,3)	(11,3)
Total Grupo	6.204	5.966	238	4,0	15,1

(*)- Inclui líquido de ganhos em saneamentos. Sem eles, 2016: -1.439 milhões; 2015: -1.493 milhões

● Crédito bruto a clientes sem operações compromissadas

Milhões de euros	2016	2015	Variação absoluta	%	% sem TC
Europa continental	302.564	298.720	3.845	1,3	1,3
dos quais: Espanha	150.960	157.162	(6.201)	(3,9)	(3,9)
Santander Consumer Finance	87.742	76.561	11.182	14,6	13,9
Polónia	20.697	19.805	892	4,5	8,1
Portugal	29.030	30.564	(1.534)	(5,0)	(5,0)
Reino Unido	242.510	277.718	(35.208)	(12,7)	1,9
América Latina	159.134	137.331	21.804	15,9	4,5
dos quais: Brasil	80.306	63.636	16.670	26,2	0,4
México	28.017	29.739	(1.722)	(5,8)	8,4
Chile	38.800	33.309	5.491	16,5	6,5
Estados Unidos	89.638	88.412	1.226	1,4	(1,8)
Áreas operacionais	793.847	802.181	(8.334)	(1,0)	1,7
Total Grupo	798.312	805.395	(7.083)	(0,9)	1,9

● Recursos (depósitos sem operações compromissadas + f. de investimento)

Milhões de euros	2016	2015	Variação absoluta	%	% sem TC
Europa continental	322.606	312.482	10.124	3,2	3,4
dos quais: Espanha	224.798	219.263	5.535	2,5	2,5
Santander Consumer Finance	35.052	32.597	2.455	7,5	7,0
Polónia	25.898	24.421	1.477	6,0	9,7
Portugal	31.438	30.684	754	2,5	2,5
Reino Unido	210.611	231.960	(21.349)	(9,2)	5,9
América Latina	187.516	158.322	29.194	18,4	7,3
dos quais: Brasil	99.771	76.751	23.020	30,0	3,4
México	36.438	37.499	(1.061)	(2,8)	11,8
Chile	34.559	29.680	4.879	16,4	6,5
Estados Unidos	74.166	66.870	7.296	10,9	7,4
Áreas operacionais	794.899	769.634	25.265	3,3	5,3
Total Grupo	795.767	774.839	20.928	2,7	4,7

Europa continental

Milhões de euros

Resultados	2016	2015	Varição absoluta	%	% sem TC
Margem de juros	8.161	8.006	155	1,9	2,8
Comissões líquidas	3.497	3.417	80	2,3	3,0
Resultados líquidos de operações financeiras	818	1.186	(369)	(31,1)	(30,8)
Outras receitas*	330	220	110	49,9	49,1
Margem bruta	12.806	12.830	(24)	(0,2)	0,5
Despesas totais	(6.781)	(6.736)	(44)	0,7	1,3
Despesas administrativas	(6.342)	(6.274)	(68)	1,1	1,7
Despesas de pessoal	(3.257)	(3.223)	(34)	1,1	1,7
Outras despesas administrativas	(3.085)	(3.051)	(34)	1,1	1,7
Amortização de ativos tangíveis e intangíveis	(439)	(463)	24	(5,2)	(4,6)
Margem líquida	6.025	6.093	(68)	(1,1)	(0,3)
Provisões para perdas com créditos	(1.342)	(1.975)	632	(32,0)	(31,6)
Outros resultados e provisões	(671)	(753)	82	(10,9)	(10,8)
Resultado antes dos impostos sobre o lucro	4.012	3.366	646	19,2	20,5
Imposto de renda	(1.083)	(887)	(196)	22,1	23,2
Lucro líquido das operações continuadas	2.929	2.479	450	18,2	19,6
Resultado de operações descontinuadas (líquida)	—	—	—	—	—
Lucro líquido do período	2.929	2.479	450	18,2	19,6
Resultado atribuído aos acionistas não controladores	330	261	69	26,5	29,2
Lucro líquido atribuível à Controladora	2.599	2.218	381	17,2	18,5

Balança

Crédito a clientes**	297.214	287.253	9.961	3,5	3,5
Ativos financeiros mantidos para negociar (sem créditos)	53.966	60.151	(6.185)	(10,3)	(10,2)
Ativos financeiros disponíveis para venda	55.736	60.913	(5.177)	(8,5)	(8,3)
Bancos centrais e entidades de crédito **	58.085	76.111	(18.026)	(23,7)	(23,9)
Ativos tangíveis e intangíveis	7.902	11.798	(3.896)	(33,0)	(33,2)
Outros ativos	47.231	42.420	4.811	11,3	11,4
Total ativo/passivo e patrimônio líquido	520.134	538.645	(18.511)	(3,4)	(3,5)
Depósitos de clientes**	269.934	263.462	6.472	2,5	2,6
Obrigação por emissão de títulos **	53.064	51.104	1.960	3,8	3,5
Passivos amparados por contratos de seguro ou reaseguro	652	626	26	4,1	4,1
Bancos centrais e entidades de crédito **	103.816	132.688	(28.872)	(21,8)	(22,0)
Outros passivos	61.485	58.251	3.234	5,6	5,7
Recursos próprios ***	31.183	32.515	(1.332)	(4,1)	(4,2)
Outros recursos de clientes sob gestão e comercializados	73.624	71.389	2.236	3,1	3,2
Fundos de investimento e de pensão	65.308	62.669	2.640	4,2	4,4
Patrimônios administrados	8.316	8.720	(404)	(4,6)	(4,9)
Recursos de clientes sob gestão e comercializados	396.622	385.954	10.668	2,8	2,9

Indicadores (%) e outras informações

RoTE	8,07	7,27	0,80		
Eficiência (com amortizações)	52,9	52,5	0,4		
Índice de inadimplência	5,92	7,27	(1,35)		
Índice de cobertura	60,0	64,2	(4,2)		
Número de funcionários	57.259	58.049	(790)	(1,4)	
Número de agências	4.805	5.548	(743)	(13,4)	

(*)- Inclui rendimentos sobre instrumentos de capital, resultados de equivalência patrimonial e outras receitas/despesas operacionais

(**)- Inclui a totalidade de saldos em balanço neste conceito

(***)- Capital + reservas + lucro + outro resultado global acumulado

EUROPA CONTINENTAL*

2.599 M€
Lucro líquido atribuível

DESTAQUES EM 2016

- O crescimento econômico da Europa foi moderado no ano e diferenciado nos países.
- O Santander acelerou a vinculação de clientes e o crescimento dos clientes digitais.
- Leve crescimento de volumes, compatível com uma grande melhoria na qualidade do crédito e melhor estrutura dos recursos.
- Crescimento do lucro antes de impostos de 21%, com as quatro unidades aumentando.

* Variações em moeda constante

Ambiente econômico

O PIB da Zona do Euro registrou em 2016 um crescimento moderado (de 1,7 %, estimado) e inferior ao do ano anterior, mas resistente se considerarmos as notícias adversas ao longo do exercício.

O risco de deflação parece afastar-se, mas os preços aumentaram a um ritmo distante do objetivo de 2%, o que levou o BCE a reduzir as taxas de juros a novos mínimos.

Estratégia

A dinâmica do setor bancário na Europa continental continua sendo moderada. Nesse ambiente, a estratégia concentrou-se no crescimento de clientes vinculados, em ganhar cota de mercado, controlar despesas e melhorar a qualidade do crédito.

Destaca-se no ano o fato de ter sido concluído com êxito o acordo entre Santander Consumer Finance e Banque PSA Finance, bem como a integração tecnológica e operacional do Banco Internacional do Funchal (Banif) em Portugal dentro dos prazos previstos.

Os clientes vinculados e digitais continuaram com sua tendência ascendente, tanto em pessoas físicas (+12%) como, especialmente, em PME e empresas (+48%). O esforço em multicanais também se reflete em um aumento de 11% em clientes digitais.

Atividade

O crédito aumentou 1% com relação a dezembro de 2015 em euros constantes. Essa evolução é o valor líquido entre os crescimentos de SCF e Polônia e as quedas registradas na Espanha e em Portugal.

Os recursos aumentaram 3%, com as quatro unidades apresentando crescimento. No ano foi mantida a estratégia de aumentar depósitos à vista (+11%) e fundos de investimento (+6%). Os saldos a prazo diminuíram 12%.

Resultados

O lucro atribuível na Europa continental chegou a 2.599 milhões de euros, 18% mais, em euros constantes, que em 2015.

Essa melhora se explica fundamentalmente por menores provisões para perdas com créditos (-32%), uma dinâmica que pode ser observada nas principais unidades e que reflete a melhora nos índices de inadimplência e no custo de crédito.

O rigoroso controle de despesas também contribuiu para a conta de resultados (+1%, -3% sem perímetro).

Finalmente, leve melhora da margem de juros e comissões, em um ambiente de taxas de juros em patamares mínimos históricos e forte concorrência, que tem impacto sobre os *spreads* de crédito.

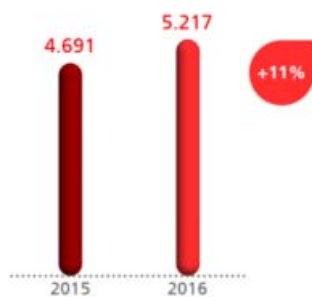
Clientes vinculados

Milhares



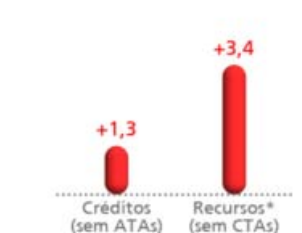
Clientes digitais

Milhares



Atividade

% var. 2016 / 2015 (sem TC)



(*) Depósitos clientes + f. investimento

Lucro líquido atribuível

Milhões de euros constantes



(*) Em euros: +17,2%

Espanha

Milhões de euros

Resultados	2016	2015	Varição absoluta	%
Margem de juros	3.077	3.430	(353)	(10,3)
Comissões líquidas	1.781	1.688	93	5,5
Resultados líquidos de operações financeiras	595	784	(189)	(24,1)
Outras receitas*	155	178	(24)	(13,2)
Margem bruta	5.608	6.080	(472)	(7,8)
Despesas totais	(3.297)	(3.434)	137	(4,0)
Despesas administrativas	(3.156)	(3.244)	87	(2,7)
Despesas de pessoal	(1.632)	(1.670)	38	(2,3)
Outras despesas administrativas	(1.524)	(1.573)	49	(3,1)
Amortização de ativos tangíveis e intangíveis	(140)	(190)	50	(26,1)
Margem líquida	2.311	2.646	(335)	(12,7)
Provisões para perdas com créditos	(585)	(992)	406	(41,0)
Outros resultados e provisões	(267)	(263)	(4)	1,7
Resultado antes dos impostos sobre o lucro	1.459	1.392	67	4,8
Imposto de renda	(416)	(393)	(23)	5,8
Lucro líquido das operações continuadas	1.043	999	44	4,4
Resultado de operações descontinuadas (líquida)	—	—	—	—
Lucro líquido do período	1.043	999	44	4,4
Resultado atribuído aos acionistas não controladores	21	22	(1)	(5,5)
Lucro líquido atribuível à Controladora	1.022	977	45	4,6

Balança

Crédito a clientes**	152.850	155.204	(2.354)	(1,5)
Ativos financeiros mantidos para negociar (sem créditos)	51.470	57.401	(5.931)	(10,3)
Ativos financeiros disponíveis para venda	39.267	44.057	(4.790)	(10,9)
Bancos centrais e entidades de crédito **	42.701	53.582	(10.881)	(20,3)
Ativos tangíveis e intangíveis	3.147	2.874	273	9,5
Outros ativos	22.919	13.920	8.999	64,6
Total ativo/passivo e patrimônio líquido	312.354	327.039	(14.685)	(4,5)
Depósitos de clientes**	176.779	174.828	1.951	1,1
Obrigação por emissão de títulos **	20.863	22.265	(1.402)	(6,3)
Passivos amparados por contratos de seguro ou reaseguro	552	536	15	2,9
Bancos centrais e entidades de crédito **	50.687	68.995	(18.308)	(26,5)
Outros passivos	50.690	47.502	3.188	6,7
Recursos próprios ***	12.783	12.913	(129)	(1,0)
Outros recursos de clientes sob gestão e comercializados	66.649	63.931	2.718	4,3
Fundos de investimento e de pensão	59.716	57.017	2.699	4,7
Patrimônios administrados	6.932	6.914	19	0,3
Recursos de clientes sob gestão e comercializados	264.291	261.024	3.267	1,3

Indicadores (%) e outras informações

RoTE	7,74	8,15	(0,41)	
Eficiência (com amortizações)	58,8	56,5	2,3	
Índice de inadimplência	5,41	6,53	(1,12)	
Índice de cobertura	48,3	48,1	0,2	
Número de funcionários	23.017	24.216	(1.199)	(5,0)
Número de agências	2.911	3.467	(556)	(16,0)

(*)- Inclui rendimentos sobre instrumentos de capital, resultados de equivalência patrimonial e outras receitas/despesas operacionais

(**)- Inclui a totalidade de saldos em balanço neste conceito

(***)- Capital + reservas + lucro + outro resultado global acumulado

ESPAÑA

1.022 M€
Lucro líquido atribuível

DESTAQUES EM 2016

- Mantivemos a estratégia 1|2|3 para estimular uma relação mais sólida e duradoura com nossos clientes.
- Essa estratégia nos permitiu aumentar a vinculação, incrementar a atividade e melhorar tanto a satisfação como o perfil de risco dos clientes.
- Em 2016, aumento de 32% em clientes vinculados, maior atividade em financiamento ao consumo, folhas de pagamento, produtos de poupança, seguros e cartões, ao mesmo tempo em que continuamos liderando os segmentos de banco de atacado e private banking.
- O lucro atribuível aumentou 5% com relação ao exercício anterior, graças à melhora da qualidade do crédito, ao reflexo nas comissões da maior transacionalidade e ao controle de despesas.

Ambiente econômico

A economia espanhola cresceu em torno de 3,2% estimado, ritmo similar a 2015 e sensivelmente mais alto que o crescimento do conjunto da Zona do Euro. O crescimento teve uma ampla base, mas apoiou-se novamente na demanda interna. O emprego sustentou um extraordinário dinamismo que permitiu reduzir a taxa de desemprego para 19%.

A recuperação continua sendo muito equilibrada, ao conciliar o crescimento com uma inflação moderada e o superávit externo, fruto da melhora de competitividade nos últimos exercícios. O déficit público também melhorou. Essa situação favorece um crescimento sustentado.

Estratégia

Nesse ambiente, o Santander España avançou em direção à transformação comercial do banco e à consecução dos objetivos propostos. A estratégia 1|2|3 é o eixo desta transformação e está permitindo aumentar a vinculação com nossos clientes, incrementar a nossa atividade e melhorar tanto a satisfação como o perfil de risco dos mesmos. Isso se reflete em:

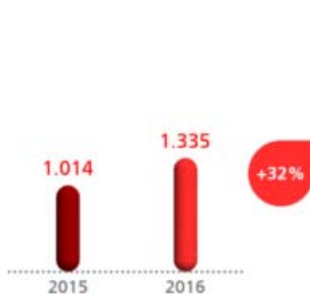
- 50% da nova produção procede de clientes 1|2|3.
- Estamos ganhando cota de mercado em produção de consumo, captação de folhas de pagamento e produtos de transacionais.
- Melhora do perfil de risco, que se reflete em uma redução de 112 p.b. no índice de inadimplência no exercício.

- A satisfação do cliente passou do 5º lugar, antes do lançamento da estratégia 1|2|3, para o Top 3.
- A base de clientes vinculados aumentou 32% (pessoas físicas 27%; e empresas 48%).

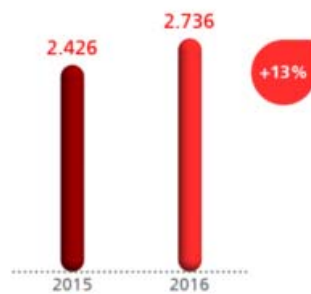
Os marcos mais significativos do período foram os seguintes:

- Estamos transformando a nossa rede comercial com a criação de um novo modelo de agências *Smart Red* de tamanho maior, que permite uma melhor assessoria e serviço ao cliente, bem como a integração com os canais digitais.
- Foram realizados grandes avanços na transformação tecnológica e operacional do banco. Chegamos a 2,7 milhões de clientes digitais e superamos 950.000 clientes mobile, crescendo 45% graças ao desenvolvimento de novos *apps* e o crescimento de pagamentos por telefone.
- Lançamento exclusivo de *Apple Pay* na Espanha, como exemplo da grande aposta do banco na liderança digital e inovação.
- Recebemos o prêmio *Melhor CRC Oro Excelência* em Atendimento ao Cliente, o mais prestigiado no setor dos contact centre.
- Início do patrocínio de *LaLiga Santander*, um acordo estratégico que permite melhorar a nossa imagem de marca e incrementar a proximidade de nossos clientes.

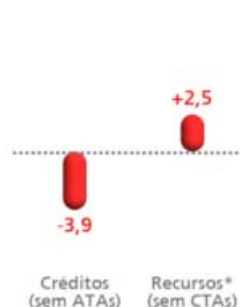
Clientes vinculados Milhares



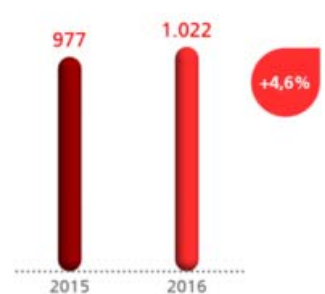
Clientes digitais Milhares



Atividade % var. 2016 / 2015



Lucro líquido atribuível Milhões de euros



(*) Depósitos clientes + f. investimento

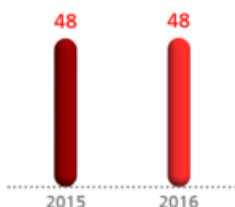
Inadimplência

%



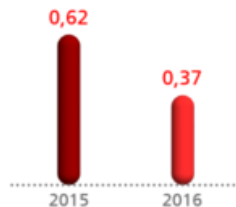
Cobertura

%



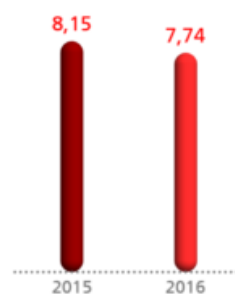
Custo de crédito

%



RoTE

%



Atividade

A atividade de crédito mostra maiores produções, embora estas não reflitam ainda o aumento do estoque. Os créditos caíram 4% afetados, principalmente, pela amortização de hipotecas, pela redução do crédito a instituições e pela forte queda de saldos duvidosos.

A produção de pessoas físicas aumentou 16%. Por produtos, consumo (+91%) e hipotecas (+18%) impulsionaram o crescimento.

Continuamos liderando os segmentos de banco de atacado e private banking. No banco corporativo global mantivemos nossa liderança nas league tables de mercado para financiamento estruturado e de mercados, participando na maioria das listagens em bolsa do mercado espanhol. Em Private Banking o saldo do investimento aumentou 6%.

Em recursos, mantivemos a estratégia de redução do custo dos depósitos, com um crescimento de 8% em depósitos à vista e de 6% em fundos de investimento, enquanto os depósitos a prazo diminuíram 14%.

Resultados

O lucro atribuível do exercício atingiu 1.022 milhões de euros com um crescimento de 5% com relação ao ano anterior, graças à melhora da qualidade do crédito, ao plano de eficiência e ao bom desempenho das comissões.

- Substantial melhora do custo de crédito, que continua o seu processo de normalização graças a um ciclo mais favorável, ao melhor perfil dos clientes 1|2|3 e a uma gestão ativa com foco na antecipação. As provisões caíram 41% no ano, sendo a principal alavanca de melhora do lucro.

Essa evolução esteve vinculada a uma redução do índice de inadimplência até 5,41%, caindo 112 p.b. durante o exercício de 2016.

- Redução das despesas (-4%), absorvendo parte do impacto do plano de eficiência implementado no exercício.
- Em receitas, boa evolução das comissões (+6%), especialmente as procedentes de banco comercial, muito vinculadas à maior transacionalidade decorrente da estratégia de vinculação de clientes.
- Por outro lado, menor margem de juros, devido a um ambiente de baixas taxas de juros, reprecificação das hipotecas e impacto das menores receitas de carteiras ALCO. Também menores resultados por operações financeiras (-24%).

ESTRATÉGIA EM 2017

- Aumentar a cota de mercado de maneira orgânica, sustentável, rentável e previsível.
- Ser o banco de referência das empresas, reforçando o nosso posicionamento comercial, enquanto mantemos a liderança em Banco de Atacado e Grandes Empresas.
- Dar continuidade à transformação digital para incrementar a vinculação e melhorar a experiência integral do cliente.
- Dar continuidade à implementação de nossa cultura Simples, Pessoal e Justo com o compromisso de ser o melhor banco para trabalhar.

Santander Consumer Finance

Milhões de euros

Resultados	2016	2015	Varição absoluta	%	% sem TC
Margem de juros	3.391	3.096	295	9,5	10,7
Comissões líquidas	862	876	(14)	(1,6)	(1,2)
Resultados líquidos de operações financeiras	(14)	(11)	(3)	25,8	27,2
Outras receitas*	23	4	19	508,5	428,2
Margem bruta	4.262	3.965	296	7,5	8,5
Despesas totais	(1.904)	(1.774)	(131)	7,4	8,3
Despesas administrativas	(1.719)	(1.602)	(118)	7,3	8,4
Despesas de pessoal	(810)	(746)	(63)	8,5	9,6
Outras despesas administrativas	(910)	(855)	(54)	6,4	7,3
Amortização de ativos tangíveis e intangíveis	(185)	(172)	(13)	7,6	8,2
Margem líquida	2.357	2.192	166	7,6	8,6
Provisões para perdas com créditos	(387)	(537)	150	(28,0)	(27,3)
Outros resultados e provisões	(168)	(152)	(16)	10,2	10,6
Resultado antes dos impostos sobre o lucro	1.803	1.502	301	20,0	21,3
Imposto de renda	(521)	(426)	(95)	22,2	23,2
Lucro líquido das operações continuadas	1.282	1.076	206	19,2	20,5
Resultado de operações descontinuadas (líquida)	—	—	—	—	—
Lucro líquido do período	1.282	1.076	206	19,2	20,5
Resultado atribuído aos acionistas não controladores	189	137	51	37,3	38,1
Lucro líquido atribuível à Controladora	1.093	938	155	16,5	17,9

Balanco

Crédito a clientes**	85.180	73.709	11.471	15,6	14,8
Ativos financeiros mantidos para negociar (sem créditos)	25	94	(69)	(73,2)	(74,1)
Ativos financeiros disponíveis para venda	3.836	3.654	182	5,0	3,9
Bancos centrais e entidades de crédito **	2.894	2.297	597	26,0	24,2
Ativos tangíveis e intangíveis	632	692	(59)	(8,6)	(8,8)
Outros ativos	7.054	8.087	(1.033)	(12,8)	(13,1)
Total ativo/passivo e patrimônio líquido	99.622	88.534	11.088	12,5	11,8
Depósitos de clientes**	35.050	32.595	2.455	7,5	7,0
Obrigação por emissão de títulos **	27.892	23.347	4.545	19,5	18,5
Passivos amparados por contratos de seguro ou reaseguro	—	—	—	—	—
Bancos centrais e entidades de crédito **	23.399	20.314	3.085	15,2	14,3
Outros passivos	5.470	4.325	1.145	26,5	26,0
Recursos próprios ***	7.811	7.953	(142)	(1,8)	(2,6)
Outros recursos de clientes sob gestão e comercializados	7	7	0	2,5	2,5
Fundos de investimento e de pensão	7	7	0	2,5	2,5
Patrimônios administrados	—	—	—	—	—
Recursos de clientes sob gestão e comercializados	62.950	55.950	7.000	12,5	11,8

Indicadores (%) e outras informações

RoTE	14,86	12,63	2,23
Eficiência (com amortizações)	44,7	44,7	(0,0)
Índice de inadimplência	2,68	3,42	(0,74)
Índice de cobertura	109,1	109,1	—
Número de funcionários	14.928	14.533	395
Número de agências	567	588	(21)

(*)- Inclui rendimentos sobre instrumentos de capital, resultados de equivalência patrimonial e outras receitas/despesas operacionais

(**)- Inclui a totalidade de saldos em balanço neste conceito

(***)- Capital + reservas + lucro + outro resultado global acumulado

SANTANDER CONSUMER FINANCE*

1.093 M€
Lucro líquido atribuível

* Variações em moeda constante

DESTAQUES EM 2016

- Foi concluído com êxito o acordo celebrado com Banque PSA Finance (BPF), aumentando a atividade do SCF em 11 países europeus.
- Outros focos de gestão foram: aumentar o financiamento de automóveis e de consumo e potencializar os canais digitais.
- Como resultado, a produção aumentou em todos os países e o lucro atribuível ficou em 1.093 milhões de euros, 18% mais que em 2015, o que significa crescimento pelo sétimo ano consecutivo.
- Alta rentabilidade, com o RoTE em torno de 15% e o RoRWA acima de 2%. Além disso, o ano encerrou com um excelente custo de crédito.

Ambiente econômico

Os principais mercados da Europa onde o Santander Consumer Finance (SCF) desenvolve suas atividades apresentaram crescimento de suas economias entre 0,9% na Itália e 3,2% na Espanha. Esse crescimento se apoiou na recuperação, tanto de indicadores de consumo, como de emplacamentos de automóveis (+7% em comparação ao ano anterior).

Estratégia

O SCF é líder em financiamento ao consumo na Europa com presença em 14 países, oferecendo financiamento e serviços através de mais de 130.000 pontos de venda associados (concessionárias de automóveis e estabelecimentos comerciais). Além disso, conta com um importante número de acordos de financiamento com fabricantes de automóveis e motos e grupos de distribuição varejista.

Em 2016, o SCF continuou ganhando cota de mercado, apoiado em um sólido modelo de negócio: alta diversificação geográfica com massa crítica em produtos chave, melhor eficiência que os

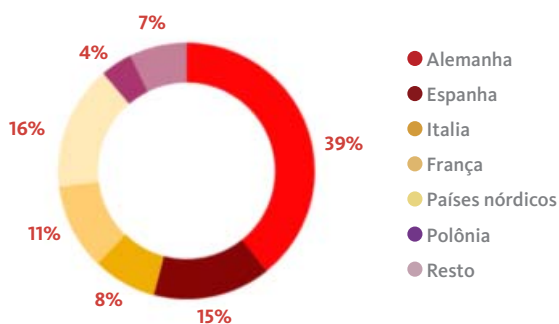
concorrentes e um sistema de controle de riscos e recuperações que permite manter uma alta qualidade do crédito.

Os focos de gestão do ano foram:

- Concluir os acordos com Banque PSA Finance (BPF) para a criação de *joint-ventures* em 11 países.
- Aumentar o financiamento de automóveis e incrementar o financiamento ao consumo, estendendo os acordos com os principais revendedores.
- Potencializar os canais digitais.

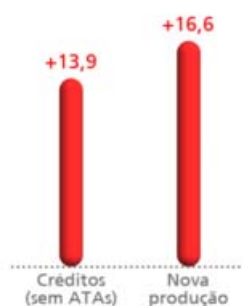
Com relação à criação de *joint-ventures*, cumprimos os prazos previstos. Em 2015 foram criadas as da Espanha, Portugal, Reino Unido, França e Suíça, e em 2016 as de outros seis países: Itália e Holanda (1º trimestre), Bélgica (2º trimestre), Alemanha e Áustria (3º trimestre) e, por último, Polônia (4º trimestre).

Distribuição do crédito por geografias 2016



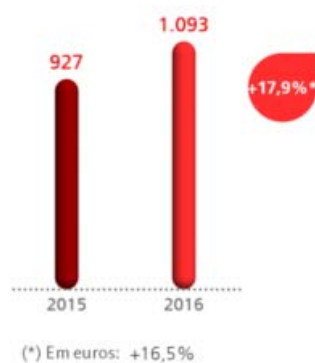
Atividade

% var. 2016 / 2015 (sem TC)



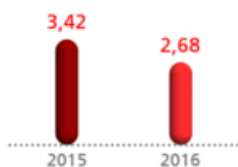
Lucro líquido atribuível

Milhões de euros constantes



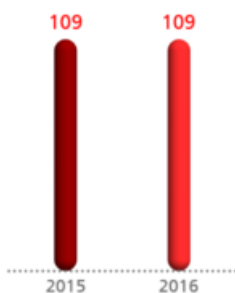
Inadimplência

%



Cobertura

%



Custo de crédito

%



RoTE

%



Atividade

Além do acordo com BPF, continuamos avançando na assinatura e desenvolvimento de novos acordos, tanto com distribuidores varejistas como com fabricantes.

O crédito aumentou 14% no ano, com a nova produção crescendo 17% com relação a 2015, apoiada principalmente no setor de automóveis que cresceu 28% com relação ao ano anterior. Por países, observou-se crescimentos generalizados em todas as unidades.

Em relação ao passivo, destaca-se o aumento de 7% nos depósitos de clientes, elemento diferencial com relação aos concorrentes. O volume de financiamento de atacado captado no ano foi de 12.484 milhões de euros, através de emissões sênior, securitizações e outras emissões de longo prazo.

Em dezembro, os depósitos de clientes e emissões-securitizações a médio e longo prazo colocadas no mercado cobriam 72% do crédito líquido.

Resultados

No ano de 2016 o lucro atribuível foi de 1.093 milhões de euros, o que significa um aumento de 18% com relação ao ano de 2015. O aumento no ano foi favorecido por dois fatores:

- o atual ambiente de juros baixos, muito positivo para o negócio de consumo, tanto em receitas como em provisões.

- o impacto das unidades incorporadas, que reflete crescimentos das principais linhas da DRE.

As receitas aumentaram, principalmente, devido à margem de juros (80% das receitas), que cresceu 11% com relação ao ano anterior.

As despesas aumentaram também (+8%) em linha com o setor e com as novas incorporações, mantendo-se o índice de eficiência em torno de 45%, igual ao ano anterior.

As provisões diminuíram 27%, com grande melhora do custo de crédito (0,47%, contra 0,77% em 2015), que se encontra em níveis muito baixos para o negócio de consumo. Isso foi possível graças ao bom desempenho das carteiras e uma redução do índice de inadimplência que se encontra em 2,68%, tendo diminuído 74 p.b. com relação a 2015. A cobertura, por sua vez, mantém-se em 109%.

Por unidades, destaca-se o bom desempenho do lucro atribuível da Espanha (+22%), Países Nórdicos (+24%) e Itália (+226%).

Em resumo, uma sólida dinâmica orgânica e boa execução dos acordos, o que proporciona um grande potencial para seguir crescendo em 2017, ganhar cota de mercado e manter um alto nível de rentabilidade e eficiência.

ESTRATÉGIA EM 2017

- Aumentar e maximizar o setor de financiamento de automóveis por meio da gestão proativa dos acordos de marcas e o desenvolvimento de projetos digitais.
- Crescimento sustentado e focado na criação de valor, mantendo alta rentabilidade ajustada ao risco.
- Crescimento do setor de financiamento ao consumo, mediante a aceleração do processo de transformação digital, aumentando a presença nesses canais.

Polônia

Milhões de euros

Resultados	2016	2015	Varição absoluta	%	% sem TC
Margem de juros	834	782	52	6,6	11,2
Comissões líquidas	400	422	(22)	(5,3)	(1,2)
Resultados líquidos de operações financeiras	83	112	(29)	(25,8)	(22,6)
Outras receitas*	(2)	(40)	38	(94,6)	(94,4)
Margem bruta	1.314	1.276	38	3,0	7,4
Despesas totais	(579)	(594)	15	(2,5)	1,7
Despesas administrativas	(521)	(550)	28	(5,2)	(1,1)
Despesas de pessoal	(303)	(324)	21	(6,6)	(2,6)
Outras despesas administrativas	(219)	(226)	7	(3,1)	1,1
Amortização de ativos tangíveis e intangíveis	(58)	(44)	(14)	30,9	36,5
Margem líquida	735	683	53	7,7	12,3
Provisões para perdas com créditos	(145)	(167)	23	(13,5)	(9,8)
Outros resultados e provisões	(83)	(4)	(78)	—	—
Resultado antes dos impostos sobre o lucro	508	511	(3)	(0,7)	3,6
Imposto de renda	(121)	(101)	(20)	19,6	24,7
Lucro líquido das operações continuadas	387	410	(23)	(5,6)	(1,6)
Resultado de operações descontinuadas (líquida)	—	—	—	—	—
Lucro líquido do período	387	410	(23)	(5,6)	(1,6)
Resultado atribuído aos acionistas não controladores	115	110	5	5,0	9,5
Lucro líquido atribuível à Controladora	272	300	(29)	(9,5)	(5,6)

Balança

Crédito a clientes**	19.979	18.977	1.002	5,3	8,9
Ativos financeiros mantidos para negociar (sem créditos)	634	894	(259)	(29,0)	(26,6)
Ativos financeiros disponíveis para venda	5.974	5.305	669	12,6	16,5
Bancos centrais e entidades de crédito **	911	1.153	(242)	(21,0)	(18,3)
Ativos tangíveis e intangíveis	258	260	(2)	(0,7)	2,7
Outros ativos	2.023	2.523	(500)	(19,8)	(17,1)
Total ativo/passivo e patrimônio líquido	29.779	29.112	667	2,3	5,8
Depósitos de clientes**	22.780	21.460	1.320	6,2	9,8
Obrigação por emissão de títulos **	504	498	6	1,2	4,6
Passivos amparados por contratos de seguro ou reaseguro	—	—	—	—	—
Bancos centrais e entidades de crédito **	853	1.152	(298)	(25,9)	(23,3)
Outros passivos	3.249	3.515	(267)	(7,6)	(4,4)
Recursos próprios ***	2.393	2.487	(94)	(3,8)	(0,5)
Outros recursos de clientes sob gestão e comercializados	3.202	3.209	(7)	(0,2)	3,2
Fundos de investimento e de pensão	3.118	3.106	12	0,4	3,8
Patrimônios administrados	84	103	(19)	(18,6)	(15,8)
Recursos de clientes sob gestão e comercializados	26.487	25.168	1.319	5,2	8,9

Indicadores (%) e outras informações

RoTE	11,64	12,89	(1,25)	
Eficiência (com amortizações)	44,1	46,5	(2,5)	
Índice de inadimplência	5,42	6,30	(0,88)	
Índice de cobertura	61,0	64,0	(3,0)	
Número de funcionários	12.001	11.474	527	4,6
Número de agências	658	723	(65)	(9,0)

(*)- Inclui rendimentos sobre instrumentos de capital, resultados de equivalência patrimonial e outras receitas/despesas operacionais

(**)- Inclui a totalidade de saldos em balanço neste conceito

(***)- Capital + reservas + lucro + outro resultado global acumulado

POLÔNIA*

272 M€
Lucro líquido atribuível

* Variações em moeda local

DESTAQUES EM 2016

- O Santander continua sendo líder em mobile e internet banking e ocupa a segunda posição do mercado em cartões.
- Em créditos, aumento da cota de mercado com foco em PMEs e hipotecas. Em depósitos, foco em depósitos à vista.
- Em resultados, gestão de margens, receitas e despesas, em um ambiente de taxas de juros baixas. Grande melhora do custo de crédito.
- As alterações regulatórias decorrentes da introdução da nova taxa sobre ativos em fevereiro de 2016 afetaram os resultados do ano. Sem esse efeito, o aumento do lucro atribuível seria de 14%.

Ambiente econômico

A economia na Polônia teve o seu crescimento desacelerado em 2016 (2,8% estimado contra 3,9% em 2015) devido ao pior desempenho dos investimentos e das exportações, bem como um crescimento do consumo inferior ao esperado.

Após 28 meses consecutivos de taxas negativas (-0,6% em média em 2016), a inflação começou a ser positiva em dezembro (0,8% em comparação ao ano anterior). A baixa inflação não repercutiu negativamente nas decisões de compra e no perfil de desaceleração do PIB, motivo pelo qual o Banco Nacional da Polônia pôde manter a taxa oficial de referência em 1,5% durante todo o ano.

A taxa de câmbio encerrou o ano em 4,41 zlotys por euro, o que significa uma depreciação de 3%. Esse enfraquecimento explica-se principalmente por fatores globais (referendo no Reino Unido, eleições nos E.U.A.).

Estratégia

O banco manteve em 2016 o objetivo de ser bank of first choice para os clientes.

Continuamos líderes em mobile e internet banking e ocupamos o segundo lugar em número de cartões de crédito ativos. Somos também segundo colocados no mercado em cartões de débito. Estamos em terceiro lugar em total de ativos (dados de setembro de 2016) e quarto em número de contas correntes na Polônia, praticamente empatados com o terceiro colocado.

Promovemos os canais digitais, melhorando o nosso banco digital mediante:

- A introdução da nova versão do aplicativo móvel BZ WBK24 com novas características, como por exemplo pagamentos *BLIK*, opção de câmbio *fx*, *Touch ID*.
- A incorporação da funcionalidade que permite realizar vendas de produtos de crédito sem visita à agência na nova versão do *BZ WBK24 Internet*.
- O protocolo de segurança TLS 1.2. nos dois canais (mobile e internet)

Tudo isso fez com que em junho de 2016 o *BZWBK24* fosse novamente premiado como um dos melhores aplicativos de mobile banking na Europa. Pelo segundo ano consecutivo a empresa Forrester Research premiou o *BZWBK24* como o melhor aplicativo na Polônia e o terceiro entre os 11 principais bancos da Europa.

Estamos também introduzindo melhorias nos processos:

- Continuamos fortalecendo o negócio de hipotecas, com foco no aprimoramento dos processos. Como resultado desse esforço, 2016 foi um ano recorde no que tange a vendas de hipotecas, que cresceram 30% em comparação ao ano anterior. A participação nas novas vendas do setor encontra-se em torno de 15%, o que nos coloca na terceira posição.

Clientes vinculados

Milhares



Clientes digitais

Milhares



Atividade

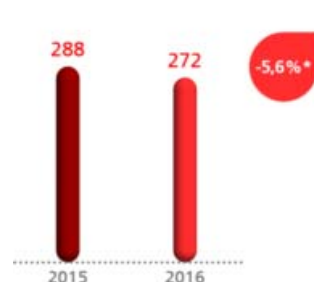
% var. 2016 / 2015 (sem TC)



(*) Depósitos clientes + f. investimento

Lucro líquido atribuível

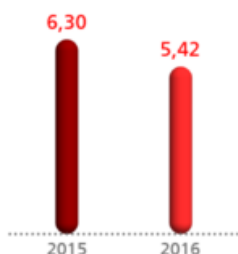
Milhões de euros constantes



(*) Em euros: -9,5%

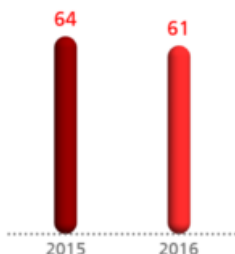
Inadimplência

%



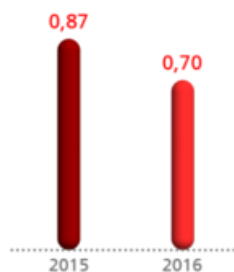
Cobertura

%



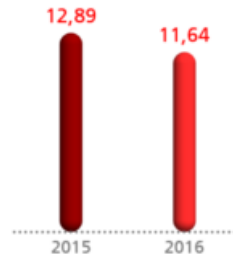
Custo de crédito

%



RoTE

%



- Ao longo do ano também implantamos a ferramenta CRM, para prestar um melhor atendimento e serviço aos clientes, concentrando-nos em suas necessidades e expectativas. Com essa ferramenta, o banco pode dar uma resposta personalizada, com base no conhecimento do cliente, seu comportamento e perfil de risco, além de oferecer um serviço e comunicação contínuos por meio dos diferentes canais de distribuição.

Essas ações resultaram em um crescimento dos clientes vinculados de 4% e de 5% dos digitais.

Atividade

Em volumes, o banco cresceu mais que o setor, destacando-se o aumento da cota de créditos, que aumentaram 8% no ano, apoiados tanto no segmento corporativo como de pessoas físicas. No primeiro caso aumentaram PME's (+9%), empresas (+6%) e Global Corporate Banking (+17%). As pessoas físicas, por sua vez, aumentaram 11%, devido a hipotecas (+12%), *cash loans* (+8%) e cartões de crédito (+12%).

Os depósitos cresceram 11% em relação com o ano anterior, com aumento equilibrado entre pessoas físicas e jurídicas.

Essa evolução mantém nossa sólida estrutura de financiamento (índice créditos líquidos / depósitos de 88%).

Resultados

O lucro atribuível do ano foi de 272 milhões de euros, com uma redução de 6% com relação a 2015, devido à aplicação no ano de uma nova taxa sobre ativos de 0,44%. Sem considerar essa última, o lucro aumentou 14% com relação ao ano anterior, com o seguinte desempenho por linhas:

- As receitas aumentaram 7%. Dentre elas, muito bom desempenho da margem de juros, que aumentou 11%, principalmente em função do crescimento de volumes. As comissões sofreram uma leve redução, afetadas por questões regulatórias, mas apresentaram uma evolução melhor que o setor. Menores receitas de resultados de operações financeiras, em vista de menores vendas de carteiras ALCO em 2016.
- As despesas subiram 2% com relação ao ano anterior, devido ao aumento das amortizações, que subiram 37%. Por outro lado, as despesas com pessoal baixaram 3%.
- As provisões caíram 10% em vista da significativa melhora da qualidade do crédito. O índice de inadimplência diminuiu para 5,42% (6,30% em dezembro de 2015) e o custo de crédito encontrou-se em 0,70% (0,87% em 2015).

ESTRATÉGIA EM 2017

- Top 3 em qualidade de serviço, aumentando a base de clientes vinculados.
- Avançar na transformação digital end to end para manter a liderança em canais digitais na Polônia.
- Crescer acima dos concorrentes em volumes, ganhando cota de mercado.
- Manter a liderança em rentabilidade em um ambiente com maior pressão regulatória.

Portugal

Milhões de euros

Resultados	2016	2015	Varição absoluta	%
Margem de juros	733	555	178	32,0
Comissões líquidas	314	263	50	19,1
Resultados líquidos de operações financeiras	112	164	(53)	(31,9)
Outras receitas*	51	33	18	54,1
Margem bruta	1.209	1.016	193	19,0
Despesas totais	(589)	(494)	(95)	19,1
Despesas administrativas	(551)	(458)	(93)	20,3
Despesas de pessoal	(339)	(291)	(48)	16,6
Outras despesas administrativas	(212)	(167)	(45)	26,6
Amortização de ativos tangíveis e intangíveis	(38)	(36)	(2)	4,7
Margem líquida	620	522	99	18,9
Provisões para perdas com créditos	(54)	(72)	18	(25,4)
Outros resultados e provisões	(34)	(31)	(3)	9,1
Resultado antes dos impostos sobre o lucro	533	419	114	27,2
Imposto de renda	(131)	(118)	(13)	11,4
Lucro líquido das operações continuadas	402	301	101	33,4
Resultado de operações descontinuadas (líquida)	—	—	—	—
Lucro líquido do período	402	301	101	33,4
Resultado atribuído aos acionistas não controladores	2	1	2	197,8
Lucro líquido atribuível à Controladora	399	300	99	33,0

Balanco

Crédito a clientes**	27.328	28.221	(893)	(3,2)
Ativos financeiros mantidos para negociar (sem créditos)	1.553	1.678	(126)	(7,5)
Ativos financeiros disponíveis para venda	5.769	6.799	(1.030)	(15,2)
Bancos centrais e entidades de crédito **	1.320	2.104	(784)	(37,3)
Ativos tangíveis e intangíveis	703	720	(17)	(2,4)
Outros ativos	8.148	10.046	(1.898)	(18,9)
Total ativo/passivo e patrimônio líquido	44.820	49.568	(4.749)	(9,6)
Depósitos de clientes**	30.002	29.173	830	2,8
Obrigação por emissão de títulos **	3.805	4.994	(1.189)	(23,8)
Passivos amparados por contratos de seguro ou reaseguro	39	20	20	101,1
Bancos centrais e entidades de crédito **	6.743	11.307	(4.564)	(40,4)
Outros passivos	904	1.351	(447)	(33,1)
Recursos próprios ***	3.326	2.724	603	22,1
Outros recursos de clientes sob gestão e comercializados	2.770	2.842	(72)	(2,5)
Fundos de investimento e de pensão	2.369	2.426	(58)	(2,4)
Patrimônios administrados	402	416	(14)	(3,3)
Recursos de clientes sob gestão e comercializados	36.578	37.009	(431)	(1,2)

Indicadores (%) e outras informações

RoTE	13,03	12,53	0,50	
Eficiência (com amortizações)	48,7	48,7	0,0	
Índice de inadimplência	8,81	7,46	1,35	
Índice de cobertura	63,7	99,0	(35,3)	
Número de funcionários	6.306	6.568	(262)	(4,0)
Número de agências	657	752	(95)	(12,6)

(*)- Inclui rendimentos sobre instrumentos de capital, resultados de equivalência patrimonial e outras receitas/despesas operacionais

(**)- Inclui a totalidade de saldos em balanço neste conceito

(***)- Capital + reservas + lucro + outro resultado global acumulado

PORTUGAL

399 M€
Lucro líquido atribuível

DESTAQUES EM 2016

- Foi concluída a integração tecnológica e operacional do negócio procedente do Banco Internacional do Funchal (Banif).
- Prosseguiu a melhora do modelo comercial para aumentar a eficiência e a qualidade de serviço ao cliente.
- O lucro atribuível aumentou 33%, por maiores receitas e menores provisões.

Ambiente econômico

A economia portuguesa perdeu impulso a partir da segunda metade de 2015. O crescimento do PIB ficou em uma taxa estimada de 1,3% contra 1,6% no ano anterior. Ocorreu estagnação do investimento e o ambiente externo pesou sobre as exportações, entretanto apresentaram uma dinâmica positiva.

A demanda interna se manteve e a taxa de desemprego continuou caindo.

A inflação teve um desempenho similar ao ano anterior, fechando em 0,6%, o que continuou apoiando o crescimento das receitas.

Estratégia

O banco continua muito focado nas melhorias estruturais do modelo comercial para incrementar a eficiência e a qualidade do serviço ao clientes, por meio da plataforma de CRM, da multicanalidade e da simplificação de processos.

Dentro da nossa estratégia comercial, avançamos nas seguintes ações:

- No Banco de pessoas físicas (segmento *Mid @ Mass Market e Select*), a atividade comercial seguiu apoiada no programa *Mundo 1/2/3*, com significativos aumentos no número de contas, cartões de crédito e seguros de proteção.
- Por outro lado, obtivemos aumentos significativos nas linhas de produção de crédito para pessoas físicas e jurídicas.
- Todas as melhoras obtidas se refletiram em um aumento no ano 21% nos clientes vinculados e de 32% nos clientes digitais.

Por outro lado, e em linha com os prazos previstos, no último mês de outubro foi concluída a integração tecnológica e operacional das atividades procedentes do Banif, de modo que atualmente todas as agências estão operando sob a mesma plataforma tecnológica.

Clientes vinculados

Milhares



Clientes digitais

Milhares



Atividade

% var. 2016 / 2015



Lucro líquido atribuível

Milhões de euros



(*) Sem Banco Internacional do Funchal (Banif)

(*) Depósitos clientes + f. investimento

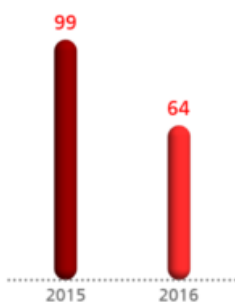
Inadimplência

%



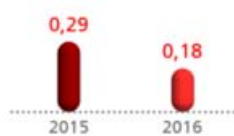
Cobertura

%



Custo de crédito

%



RoTE

%



Essa operação permite ao banco ter uma carteira de empréstimos mais equilibrada e ganhar cota de mercado em empresas.

O bom trabalho do Santander Totta foi reconhecido com prêmios como: *Best Bank in Portugal* e *Best Private Banking Services Overall - Portugal* concedidos pela revista *Euromoney*, na categoria de grandes bancos; a revista *Exame* atribuiu os prêmios: *Melhor Banco*, *Banco mais sólido*, *Banco mais rentável* e *Banco que mais cresce*.

Atividade

Os créditos reduziram 5% no ano. Apesar dos níveis de produção de hipotecas continuarem muito dinâmicos, ainda não compensaram as amortizações, o que se traduz em uma redução de 1% do estoque. Além disso, a evolução da carteira de crédito em 2016 reflete também a venda de carteiras.

O total de recursos, por sua vez, registra um aumento de 2%, com melhor evolução dos depósitos, indicação do bom posicionamento do banco dentro do sistema financeiro português. Nesses últimos, destaca-se o aumento de 46% nos depósitos à vista, dentro da estratégia de melhoria do custo dos depósitos.

Resultados

O lucro atribuível foi de 399 milhões de euros, 33% maior que em 2015, devido ao bom desempenho de receitas comerciais e provisões e certo impacto de perímetro.

- As receitas cresceram 19%, com aumentos de 32% na margem de juros e de 19% nas comissões. Os resultados de operações financeiras reduziram 32% em comparação a níveis muito altos no ano anterior, quando foram registradas maiores vendas de carteira de dívida pública e da participação no Banco Caixa Geral Totta Angola.
- As despesas aumentaram 19%, devido ao efeito perímetro. Em termos reais baixaram 5% com um índice de eficiência de 49%.
- As provisões de crédito diminuíram 25% e o custo de crédito melhorou chegando a 0,18% contra 0,29% em 2015.
- Por último, o índice de inadimplência, afetado pelas carteiras procedentes do Banif, começou a baixar na segunda metade do ano.

ESTRATÉGIA EM 2017

- Aumentar clientes vinculados e digitais.
- Prosseguir ganhando cota de mercado rentável (empresas e PME), ao mesmo tempo em que se otimiza o custo de financiamento.
- Melhorar os níveis de eficiência e custo de crédito.
- Normalizar e adequar a estrutura de capital às novas exigências regulatórias.

Reino Unido

Milhões de euros

Resultados	2016	2015	Variação absoluta	%	% sem TC
Margem de juros	4.405	4.942	(538)	(10,9)	0,4
Comissões líquidas	1.032	1.091	(59)	(5,4)	6,5
Resultados líquidos de operações financeiras	319	302	17	5,7	19,1
Outras receitas*	61	47	14	30,7	47,3
Margem bruta	5.816	6.382	(565)	(8,9)	2,7
Despesas totais	(2.967)	(3.356)	390	(11,6)	(0,4)
Despesas administrativas	(2.656)	(3.009)	353	(11,7)	(0,6)
Despesas de pessoal	(1.418)	(1.592)	174	(10,9)	0,3
Outras despesas administrativas	(1.238)	(1.417)	179	(12,6)	(1,6)
Amortização de ativos tangíveis e intangíveis	(311)	(347)	37	(10,5)	0,8
Margem líquida	2.850	3.025	(176)	(5,8)	6,1
Provisões para perdas com créditos	(58)	(107)	49	(45,7)	(38,9)
Outros resultados e provisões	(339)	(354)	15	(4,2)	7,9
Resultado antes dos impostos sobre o lucro	2.452	2.564	(112)	(4,4)	7,7
Imposto de renda	(736)	(556)	(180)	32,4	49,2
Lucro líquido das operações continuadas	1.716	2.008	(292)	(14,6)	(3,8)
Resultado de operações descontinuadas (líquida)	—	—	—	—	—
Lucro líquido do período	1.716	2.008	(292)	(14,6)	(3,8)
Resultado atribuído aos acionistas não controladores	35	37	(2)	(5,8)	6,0
Lucro líquido atribuível à Controladora	1.681	1.971	(290)	(14,7)	(4,0)

Balança

Crédito a clientes**	251.250	282.673	(31.423)	(11,1)	3,7
Ativos financeiros mantidos para negociar (sem créditos)	33.986	40.138	(6.152)	(15,3)	(1,2)
Ativos financeiros disponíveis para venda	12.336	12.279	57	0,5	17,2
Bancos centrais e entidades de crédito **	15.305	14.083	1.222	8,7	26,8
Ativos tangíveis e intangíveis	2.581	3.025	(444)	(14,7)	(0,5)
Outros ativos	39.502	30.957	8.545	27,6	48,9
Total ativo/passivo e patrimônio líquido	354.960	383.155	(28.195)	(7,4)	8,1
Depósitos de clientes**	212.113	231.947	(19.834)	(8,6)	6,7
Obrigação por emissão de títulos **	71.108	74.260	(3.151)	(4,2)	11,7
Passivos amparados por contratos de seguro ou reaseguro	—	—	—	—	—
Bancos centrais e entidades de crédito **	21.559	23.610	(2.051)	(8,7)	6,5
Outros passivos	34.068	36.162	(2.094)	(5,8)	9,9
Recursos próprios ***	16.112	17.176	(1.064)	(6,2)	9,4
Outros recursos de clientes sob gestão e comercializados	8.564	9.703	(1.139)	(11,7)	3,0
Fundos de investimento e de pensão	8.447	9.564	(1.117)	(11,7)	3,0
Patrimônios administrados	118	139	(22)	(15,5)	(1,4)
Recursos de clientes sob gestão e comercializados	291.785	315.910	(24.125)	(7,6)	7,7

Indicadores (%) e outras informações

RoTE	10,59	11,83	(1,24)	
Eficiência (com amortizações)	51,0	52,6	(1,6)	
Índice de inadimplência	1,41	1,52	(0,11)	
Índice de cobertura	32,9	38,2	(5,3)	
Número de funcionários	25.688	25.866	(178)	(0,7)
Número de agências	844	858	(14)	(1,6)

(*)- Inclui rendimentos sobre instrumentos de capital, resultados de equivalência patrimonial e outras receitas/despesas operacionais

(**)- Inclui a totalidade de saldos em balanço neste conceito

(***)- Capital + reservas + lucro + outro resultado global acumulado

REINO UNIDO*

1.681 M€
Lucro líquido atribuível

* Variações em libras

DESTAQUES EM 2016

- **Sólida evolução do negócio, disciplina de despesas e boa qualidade de crédito, apoiada no crescimento da economia.**
- **Bom desempenho das produções de pessoas físicas e jurídicas. Crescimento do crédito a empresas em um mercado competitivo e com algumas incertezas.**
- **A transformação digital continua apoiando a melhora na eficiência operacional e na experiência do cliente.**
- **Lucro atribuível de 2016 afetado pela sobretaxa de 8% no imposto aos bancos. Antes de impostos aumentou 8%.**

Ambiente econômico

A economia britânica cresceu 2,0% estimado em 2016, levemente abaixo do ano anterior (2,2%). O Banco da Inglaterra minimizou o impacto da incerteza provocada pelo voto no referendo da U.E.. Em agosto reduziu a sua taxa de referência em 25 pontos-base, levando-a a 0,25% no restante do ano e lançou um pacote de expansão quantitativa importante para apoiar o crescimento.

No mercado de trabalho, a taxa de desemprego manteve sua tendência decrescente, chegando a 4,8% em outubro; a inflação ficou em 1,6% em dezembro na comparação anual, a taxa mais alta desde julho de 2014; e a libra sofreu uma depreciação de 14% frente ao euro.

Estratégia

Nos últimos anos tem sido utilizada uma estratégia de transformação que, junto com a nossa escala e presença, nos permite oferecer hoje uma linha completa de produtos e serviços, bem como um negócio bem diversificado no âmbito de uma cultura centrada no cliente.

Nosso objetivo é transformar-nos no banco dos nossos clientes e assegurar-nos de que somos o melhor banco que podemos ser, enquanto estimulamos a maneira Simples, Pessoal e Justa de fazer as coisas. Para tanto, em 2016:

- Continuamos desenvolvendo a nossa proposta digital com diversos aprimoramentos que têm sido bem recebidos pelos clientes, como

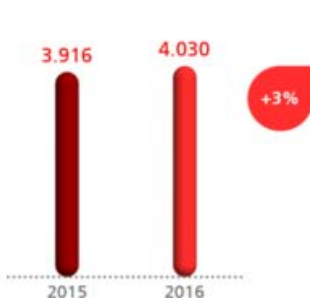
o lançamento do *Investment Hub*, um aplicativo para gestão de empréstimos hipotecários online, e ampliamos a capacidade do *mobile banking*, mediante a introdução do *Android Pay*.

- Continuamos nos apoiando na estratégia *Mundo 1|2|3*, que transformou nosso negócio. A gama 1|2|3 já conta com 5,1 milhões de clientes, tendo aumentado em 483.000 clientes desde dezembro de 2015. As contas correntes de pessoas físicas subiram 11.600 milhões de libras, mantendo um bom ritmo de crescimento.
- Em relação às empresas, seguimos aprofundando a relação com os nossos clientes e o crescimento do negócio, graças à nossa infraestrutura centrada no cliente e nossa proposta premiada internacionalmente. Isso leva a um crescimento de mais de 24.000 clientes vinculados, empresas e PMEs em doze meses.
- Os clientes digitais, por sua vez, chegaram já aos 4,6 milhões (+25% na comparação anual).

Por último, é importante destacar que a agenda de alterações regulatórias é muito exigente para o setor bancário no Reino Unido, principalmente a reforma bancária, com relação à qual tanto o nosso planejamento como implantação estão muito avançados. Revisamos o nosso enfoque, visando a minimizar o impacto para o cliente e manter uma flexibilidade a longo prazo em um ambiente macroeconômico inconstante.

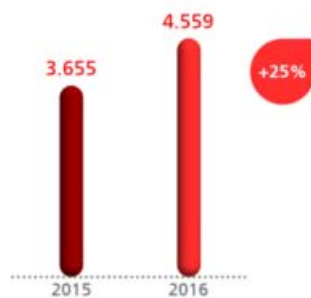
Clientes vinculados

Milhares



Clientes digitais

Milhares



Atividade

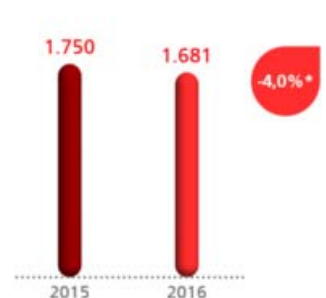
% var. 2016 / 2015 (sem TC)



(*) Depósitos clientes + f. investimento

Lucro líquido atribuível

Milhões de euros constantes



(*) Em euros: -14,7%

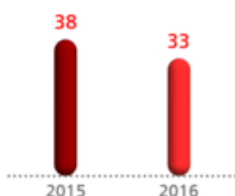
Inadimplência

%



Cobertura

%



Custo de crédito

%



RoTE

%



Atividade

O crédito aumentou 2% com relação a dezembro de 2015. Destaca-se a evolução de pessoas jurídicas (+3%) e hipotecas (+1%). A produção bruta em hipotecas é de 25.800 milhões de libras, incluindo empréstimos a 25.300 adquirentes da primeira casa própria.

Crescimento também dos depósitos sem operações compromissadas (+6% em comparação ao ano anterior), devido às contas correntes da gama 1|2|3, que mais que compensaram a escassa demanda em produtos de poupança.

O Santander UK está concentrado em manter a solidez do balanço. Produto disso são os resultados dos testes de esforço realizados pela Prudential Regulation Authority (PRA) em 2016, que indicam que excedemos com folga os requisitos regulatórios mínimos com impacto no CET1 de -170 p.b.

Resultados

Lucro atribuível de 1.373 milhões de libras no ano, 4% menos, afetado pela nova sobretaxa de 8% sobre bancos. Sem esse impacto, o lucro antes de impostos aumentou 8% apoiado nas comissões, disciplina de despesas e boa evolução do crédito, parcialmente compensados pela pressão sobre a margem de juros.

Após aumentar no quarto trimestre, a margem de juros se manteve praticamente estável no ano devido aos maiores volumes de ativo e melhora da margem do passivo, o que foi parcialmente compensado pela redução do saldo de hipotecas SVR (Standard Variable Rate) e a pressão sobre as margens de ativo.

As comissões aumentaram 7% em comparação ao ano anterior, principalmente devido ao aumento das comissões 1|2|3 em Banco de Varejo e as de pagamentos digitais e internacionais de banco comercial. Por outro lado, as comissões procedentes de cartões e de fundos de investimento foram afetadas por impactos regulatórios.

As despesas se mantiveram inalteradas, já que a melhoria na eficiência absorveu os investimentos no crescimento do negócio, o custo da reforma bancária (que chega a 85 milhões de libras) e a melhoria dos canais digitais.

A carteira de crédito manteve-se robusta, favorecida pelo critério conservador em risco e o ambiente de baixas taxas de juros. Isso se reflete em um índice de inadimplência que melhorou, chegando a 1,41% (1,52 em dezembro de 2015) e na redução das provisões (-39%).

ESTRATÉGIA EM 2017

- Foco contínuo na vinculação de clientes como principal alavanca do crescimento.
- Prioridade em excelência operacional e digital para proporcionar a melhor experiência ao cliente.
- Nosso objetivo é aumentar o lucro de maneira previsível, ao mesmo tempo em que mantemos um balanço sólido.

América Latina

Milhões de euros

Resultados	2016	2015	Varição absoluta	%	% sem TC
Margem de juros	13.346	13.752	(407)	(3,0)	6,2
Comissões líquidas	4.581	4.452	128	2,9	15,2
Resultados líquidos de operações financeiras	806	517	290	56,1	85,1
Outras receitas*	32	36	(4)	(10,9)	(38,0)
Margem bruta	18.764	18.757	8	0,0	10,2
Despesas totais	(7.692)	(7.906)	214	(2,7)	8,1
Despesas administrativas	(7.007)	(7.230)	223	(3,1)	7,8
Despesas de pessoal	(3.886)	(3.955)	70	(1,8)	8,8
Outras despesas administrativas	(3.121)	(3.274)	153	(4,7)	6,5
Amortização de ativos tangíveis e intangíveis	(685)	(676)	(9)	1,3	12,0
Margem líquida	11.073	10.851	222	2,0	11,6
Provisões para perdas com créditos	(4.911)	(4.950)	39	(0,8)	7,2
Outros resultados e provisões	(785)	(893)	107	(12,0)	(7,3)
Resultado antes dos impostos sobre o lucro	5.377	5.008	369	7,4	19,7
Imposto de renda	(1.363)	(1.219)	(143)	11,7	25,3
Lucro líquido das operações continuadas	4.014	3.789	225	5,9	17,9
Resultado de operações descontinuadas (líquida)	—	—	—	—	—
Lucro líquido do período	4.014	3.789	225	5,9	17,9
Resultado atribuído aos acionistas não controladores	628	596	32	5,4	14,3
Lucro líquido atribuível à Controladora	3.386	3.193	193	6,1	18,6

Balanco

Crédito a clientes**	152.187	133.138	19.049	14,3	3,5
Ativos financeiros mantidos para negociar (sem créditos)	43.422	33.670	9.752	29,0	23,6
Ativos financeiros disponíveis para venda	29.840	25.926	3.914	15,1	1,9
Bancos centrais e entidades de crédito **	48.612	35.523	13.090	36,8	15,6
Ativos tangíveis e intangíveis	4.111	3.522	589	16,7	2,2
Outros ativos	42.596	36.106	6.490	18,0	5,0
Total ativo/passivo e patrimônio líquido	320.768	267.885	52.884	19,7	7,6
Depósitos de clientes**	143.747	122.413	21.334	17,4	6,7
Obrigação por emissão de títulos **	47.436	39.527	7.909	20,0	2,7
Passivos amparados por contratos de seguro ou reaseguro	1	1	(1)	(49,1)	(59,5)
Bancos centrais e entidades de crédito **	47.585	42.393	5.192	12,2	1,6
Outros passivos	57.473	43.872	13.601	31,0	18,1
Recursos próprios ***	24.526	19.678	4.849	24,6	12,7
Outros recursos de clientes sob gestão e comercializados	81.482	65.690	15.792	24,0	6,7
Fundos de investimento e de pensão	75.002	61.096	13.906	22,8	5,7
Patrimônios administrados	6.480	4.594	1.886	41,0	18,8
Recursos de clientes sob gestão e comercializados	272.665	227.631	45.034	19,8	6,0

Indicadores (%) e outras informações

RoTE	15,56	15,20	0,36	
Eficiência (com amortizações)	41,0	42,1	(1,2)	
Índice de inadimplência	4,81	4,96	(0,15)	
Índice de cobertura	87,3	79,0	8,3	
Número de funcionários	86.312	89.819	(3.507)	(3,9)
Número de agências	5.818	5.841	(23)	(0,4)

(*)- Inclui rendimentos sobre instrumentos de capital, resultados de equivalência patrimonial e outras receitas/despesas operacionais

(**)- Inclui a totalidade de saldos em balanço neste conceito

(***)- Capital + reservas + lucro + outro resultado global acumulado

AMÉRICA LATINA*

3.386 M€
Lucro líquido atribuível

* Variações em moeda constante

DESTAQUES EM 2016

- Queda do PIB pelo segundo ano consecutivo em um ambiente internacional complexo.
- As ações desenvolvidas quanto à inovação, simplificação de processos e ações comerciais se refletem no forte aumento de clientes vinculados e digitais.
- O Santander cresce tanto em créditos como em recursos, especialmente em depósitos à vista.
- Sem o efeito da taxa de câmbio, o lucro atribuível na região cresceu 19%, com todas as unidades aumentando em dois dígitos. Destaca-se o Brasil, que subiu 15% em um ambiente em recessão.

Ambiente econômico

O PIB caiu pelo segundo ano consecutivo na região, resultado de uma evolução muito diferenciada por países, tanto do PIB como das taxas de câmbio e dos mercados em geral. Contudo, a mudança na orientação da política econômica da Argentina e do Brasil e, em geral, o avanço dos ajustes da inflação e do déficit externo permitiram estabelecer as bases de uma recuperação.

Em geral, a dinâmica econômica não foi favorável ao negócio, principalmente pela desvalorização generalizada das moedas e especificamente pela contração do PIB no Brasil.

Estratégia

O foco continuou em aprofundar a relação com os clientes, melhorando a sua experiência e satisfação, bem como na aceleração da transformação digital.

Para tanto, foram consolidadas as propostas de valor para clientes pessoa física com o lançamento de produtos inovadores e acordos com outras empresas prestadoras de serviços. Da mesma maneira, continua a evolução dos planos para PMEs em todas as geografias.

Desta forma, mantiveram-se sólidos crescimentos de clientes. Durante 2016, os principais países da região cresceram, em conjunto, 13% em clientes vinculados e 36% em clientes digitais.

Atividade

O crédito sem operações compromissadas aumentou 5% com relação a dezembro de 2015 em euros constantes.

Os depósitos sem operações compromissadas aumentaram 8% em comparação ao ano anterior, também em euros constantes. Os depósitos à vista cresceram 13%, os saldos a prazo 4% e os fundos de investimento 6%.

Resultados

O lucro atribuível na América Latina chegou a 3.386 milhões, um aumento de 19%, com os seguintes pontos a destacar:

- As receitas aumentaram 10%, impulsionadas tanto pela margem de juros como pelas comissões.
- As despesas aumentaram 8% por conta de acordos salariais, despesas indexadas ao dólar e investimentos. O crescimento foi moderado, quando medido em termos reais.
- As provisões, por sua vez, tiveram um bom desempenho, crescendo 7%, o que reflete a melhora no índice de inadimplência (-15 p.b.) e na cobertura (+8 pontos percentuais), ficando em 4,81% e 87%, respectivamente.

Clientes vinculados

Milhares



Clientes digitais

Milhares



Atividade

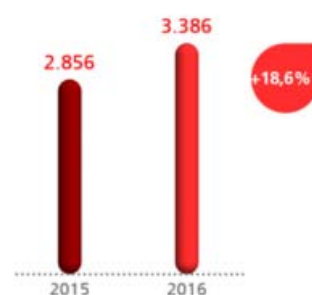
% var. 2016 / 2015 (sem TC)



(*) Depósitos clientes + f. investimento

Lucro líquido atribuível

Milhões de euros constantes



(*) Em euros: +6,1%

Brasil

Milhões de euros

Resultados	2016	2015	Varição absoluta	%	% sem TC
Margem de juros	8.062	8.320	(257)	(3,1)	1,8
Comissões líquidas	2.940	2.643	297	11,2	16,9
Resultados líquidos de operações financeiras	238	42	196	467,9	496,8
Outras receitas*	80	135	(55)	(40,8)	(37,8)
Margem bruta	11.321	11.140	180	1,6	6,8
Despesas totais	(4.475)	(4.452)	(24)	0,5	5,7
Despesas administrativas	(4.046)	(4.040)	(6)	0,1	5,3
Despesas de pessoal	(2.253)	(2.205)	(48)	2,2	7,4
Outras despesas administrativas	(1.793)	(1.835)	42	(2,3)	2,7
Amortização de ativos tangíveis e intangíveis	(429)	(411)	(18)	4,3	9,6
Margem líquida	6.845	6.689	157	2,3	7,6
Provisões para perdas com créditos	(3.377)	(3.297)	(80)	2,4	7,6
Outros resultados e provisões	(696)	(878)	182	(20,7)	(16,7)
Resultado antes dos impostos sobre o lucro	2.772	2.513	259	10,3	15,9
Imposto de renda	(773)	(689)	(84)	12,2	17,9
Lucro líquido das operações continuadas	1.999	1.824	175	9,6	15,2
Resultado de operações descontinuadas (líquida)	—	—	—	—	—
Lucro líquido do período	1.999	1.824	175	9,6	15,2
Resultado atribuído aos acionistas não controladores	213	193	20	10,5	16,1
Lucro líquido atribuível à Controladora	1.786	1.631	154	9,5	15,0

Balanco

Crédito a clientes**	75.474	60.238	15.236	25,3	(0,3)
Ativos financeiros mantidos para negociar (sem créditos)	26.007	13.360	12.647	94,7	54,9
Ativos financeiros disponíveis para venda	16.851	15.814	1.037	6,6	(15,2)
Bancos centrais e entidades de crédito **	36.430	26.692	9.737	36,5	8,6
Ativos tangíveis e intangíveis	2.704	2.280	424	18,6	(5,6)
Outros ativos	24.036	20.150	3.886	19,3	(5,1)
Total ativo/passivo e patrimônio líquido	181.502	138.534	42.968	31,0	4,2
Depósitos de clientes**	72.478	56.636	15.842	28,0	1,8
Obrigação por emissão de títulos **	31.679	26.171	5.507	21,0	(3,7)
Passivos amparados por contratos de seguro ou reaseguro	1	1	(1)	(49,1)	(59,5)
Bancos centrais e entidades de crédito **	27.226	21.600	5.626	26,0	0,3
Outros passivos	34.571	24.085	10.486	43,5	14,2
Recursos próprios ***	15.547	10.040	5.507	54,8	23,2
Outros recursos de clientes sob gestão e comercializados	59.631	45.607	14.024	30,7	4,0
Fundos de investimento e de pensão	55.733	42.961	12.772	29,7	3,2
Patrimônios administrados	3.898	2.646	1.252	47,3	17,2
Recursos de clientes sob gestão e comercializados	163.788	128.414	35.373	27,5	1,5

Indicadores (%) e outras informações

RoTE	13,84	14,09	(0,25)	
Eficiência (com amortizações)	39,5	40,0	(0,4)	
Índice de inadimplência	5,90	5,98	(0,08)	
Índice de cobertura	93,1	83,7	9,4	
Número de funcionários	46.728	49.520	(2.792)	(5,6)
Número de agências	3.431	3.443	(12)	(0,3)

(*)- Inclui rendimentos sobre instrumentos de capital, resultados de equivalência patrimonial e outras receitas/despesas operacionais

(**)- Inclui a totalidade de saldos em balanço neste conceito

(***)- Capital + reservas + lucro + outro resultado global acumulado

BRASIL*

1.786 M€
Lucro líquido atribuível

* Variações em moeda local

DESTAQUES EM 2016

- Ações comerciais, inovações digitais e simplificação de processos contribuíram para aumentar a transacionalidade e a vinculação.
- Lucro atribuível de 1.786 milhões de euros em 2016 (+15%), com dinâmica positiva dos negócios e crescimento recorrente ao longo de todos os trimestres do ano.
- A gestão preventiva do risco reflete provisões e qualidade do crédito sob controle. As melhoras de produtividade e eficiência contribuíram para que os custos subissem abaixo da inflação média.
- O Santander Brasil foi reconhecido como uma das melhores empresas para trabalhar segundo *Great Place to Work* e como o melhor banco para as PME's segundo a *Euromoney*.

Ambiente econômico

Em 2016 a economia brasileira continuou em recessão pelo segundo ano consecutivo. Contudo, à medida que o ano avançou, a recessão perdeu intensidade e os mercados registraram uma clara recuperação. Isso sugere que o PIB esteja a ponto de recuperar taxas de crescimento positivas.

O Banco Central assegurou sua credibilidade e conseguiu que a inflação final em 2016 (6,3%) ficasse abaixo do limite superior da banda objetivo (6,5%). As perspectivas de inflação para 2017 e 2018 aproximam-se da meta central de 4,5%, o que permitiu baixar a taxa de juros oficial de 14,25% para 13,75% na parte final do ano e indicar uma clara tendência de baixa, que já iniciou em janeiro de 2017 com um novo corte de 75 p.b., passando para 13%.

A taxa de câmbio do real teve uma notável recuperação, encerrando o ano a 1 EUR=3,43 BRL contra 4,31 BRL um ano antes.

Estratégia

Em um ambiente de incerteza política e econômica, o Santander Brasil deu continuidade ao seu processo de transformação, ao mesmo tempo que apresentou um excelente desempenho no aumento de clientes e nos resultados. Seguem abaixo algumas das atuações de maior destaque dentro do processo de transformação.

Atuações para impulsionar a digitalização:

- Aceleração da transformação digital. Com as novas funcionalidades no *Mobile Banking* para pessoas físicas, alcançamos uma avaliação

de 4,5 estrelas na *Apple Store* e 4,2 estrelas no *Google Play* (antes 2 estrelas), tendo triplicado as vendas através do *e-commerce*.

- Lançamento, em banco comercial, do canal de atendimento digital para clientes *Van Gogh* e *Empresas 1* e, em banco de atacado, de um canal remoto para 100% dos clientes Corporate e GCB.
- Desenvolvimento do *Santander Way*, um aplicativo que permite a gestão de cartões em tempo real. Além disso, fomos o primeiro banco a oferecer o *Samsung Pay* aos clientes.
- Conclusão da aquisição de 100% da *ContaSuper*, plataforma de pré-pagamento digital.
- Em financiamento ao consumo, lançamento da nova plataforma digital + *Negócios*, ferramenta que digitaliza toda a experiência do cliente, com grande potencial de crescimento dos negócios.

Lançamento de ações comerciais para melhorar ou consolidar nossa presença no mercado:

- Ampliação da presença no mercado de crédito em folhas de pagamento com *Olé Consignado*, que combina a experiência do Banco Bonsucesso e Santander.
- Grande crescimento do negócio de cartões de crédito, com aumento no faturamento três vezes maior que o mercado. Além disso, anunciamos o acordo comercial com a *American Airlines Inc.* para acumulação de milhas aos clientes.

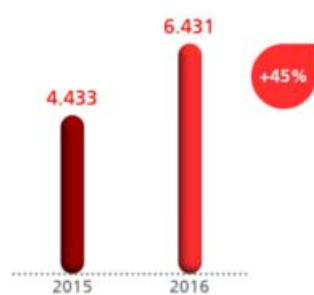
Clientes vinculados

Milhares



Clientes digitais

Milhares



Atividade

% var. 2016 / 2015 (sem TC)



(*) Depósitos clientes + f. investimento

Lucro líquido atribuível

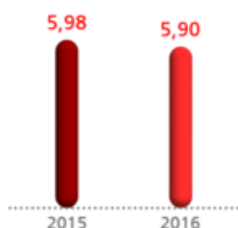
Milhões de euros constantes



(*) Em euros: +9,5%

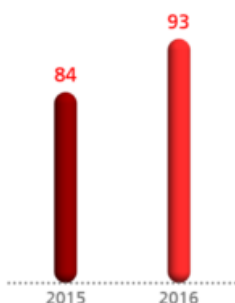
● Inadimplência

%



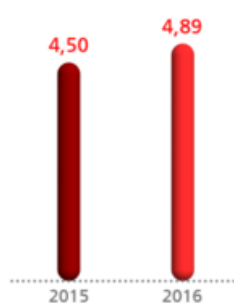
● Cobertura

%



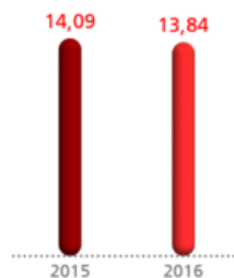
● Custo de crédito

%



● RoTE

%



- Em aquisição, aumento de 30% no faturamento com evolução muito acima do mercado. Além disso, oferecemos aos clientes pessoa física a possibilidade de uma conta corrente com a opção de um TPV a baixo custo.
- Em PMEs, o *Santander Negócios @ Empresas* oferece soluções inovadoras no mercado brasileiro, apoiando os clientes no seu desenvolvimento, internacionalização e formação de pessoas.
- Criação de uma *joint-venture* entre Santander Financiamentos e Hyundai.
- Reforço do negócio *Agro* e indicação ao prêmio *Lide Agronegócios 2016*.

Por outro lado, foram simplificados processos internos, obtendo-se maior eficiência e produtividade através do modelo *CERTO* e da plataforma digital *Clique Único*.

Em GCB, reconhecimento como líderes em Assessoria Financeira em *Project Finance* no Brasil. Além disso, continuamos sendo o primeiro banco no mercado de câmbio de acordo com o Banco Central e no ranking das maiores operações de M&A em 2016, segundo *Thomson Reuters*.

Todas essas estratégias foram cruciais para uma dinâmica positiva dos negócios e o aumento de 16% em clientes vinculados e de 45% em clientes digitais, que já chegam a 6,4 milhões. Destaca-se também o número de clientes registrados com biometria (6,3 milhões) e o aumento em transações por canais digitais, que representam 73% do total.

Atividade

O crédito apresenta bom desempenho diante o cenário econômico, mantendo-se estável no ano (+0,4%), após absorver um impacto negativo dos saldos em dólares (sem este impacto +3%). A sua

evolução reflete uma melhora na tendência nos últimos meses (no quarto trimestre aumentou 5%), que esperamos que continue em 2017.

Por segmentos, empresas e GCB diminuíram 7% no ano e o crédito a PMEs começou a crescer (+1,4%), após três trimestres consecutivos de queda. O crédito a pessoas físicas aumentou 7%, impulsionado por cartões (+8%) e hipotecas (+5%).

Os recursos aumentaram 3% com crescimento equilibrado entre depósitos à vista, poupança e depósitos a prazo.

Resultados

Lucro atribuível de 1.786 milhões de euros, com crescimento de 15% em comparação com o ano anterior e aumento em todos os trimestres do ano.

Na sua evolução anual destaca-se:

- As receitas aumentaram 7%, com boa evolução das comissões (17%), destacando-se as procedentes de conta corrente, fundos e cartões. A margem de juros cresce 2%, alavancada por maiores margens de recursos e de crédito.
- Os custos mantêm a boa evolução do ano anterior, com aumento de 6% (3 p.p. menor que a inflação média), reflexo do contínuo esforço e disciplina na gestão.
- As provisões aumentaram 8% dentro de um ambiente macroeconômico ainda frágil.
- Bom desempenho dos indicadores de qualidade dos ativos: o custo de crédito encontra-se em 4,89%, abaixo do objetivo de 5% anunciado no início do ano, e o índice de inadimplência, em 5,90% (-8 p.b. no ano). Em critério local, melhor evolução do custo e da qualidade do crédito que os principais concorrentes.

○ ESTRATÉGIA EM 2017

- Continuar aumentando os clientes ativos, vinculados e digitais, melhorando o conhecimento das suas necessidades.
- Seguir com a transformação digital, inovando na oferta de produtos e serviços, além de ampliar a venda em canais digitais.
- Continuar ganhando fatia de mercado, principalmente em produtos como aquisição, consumo e PMEs.
- Melhorar a rentabilidade com foco no crescimento de receitas via margem ajustada ao risco e comissões.

México

Milhões de euros

Resultados	2016	2015	Varição absoluta	%	% sem TC
Margem de juros	2.385	2.451	(66)	(2,7)	14,3
Comissões líquidas	711	800	(89)	(11,1)	4,4
Resultados líquidos de operações financeiras	149	138	11	8,0	26,9
Outras receitas*	(43)	(72)	30	(41,2)	(30,9)
Margem bruta	3.203	3.317	(114)	(3,4)	13,4
Despesas totais	(1.274)	(1.370)	95	(6,9)	9,3
Despesas administrativas	(1.168)	(1.257)	88	(7,0)	9,2
Despesas de pessoal	(606)	(662)	56	(8,4)	7,6
Outras despesas administrativas	(562)	(595)	33	(5,5)	11,0
Amortização de ativos tangíveis e intangíveis	(106)	(113)	7	(5,9)	10,5
Margem líquida	1.928	1.947	(19)	(1,0)	16,3
Provisões para perdas com créditos	(832)	(877)	45	(5,2)	11,4
Outros resultados e provisões	(30)	(4)	(26)	716,5	859,2
Resultado antes dos impostos sobre o lucro	1.067	1.067	0	0,0	17,5
Imposto de renda	(247)	(236)	(11)	4,8	23,1
Lucro líquido das operações continuadas	820	831	(11)	(1,4)	15,9
Resultado de operações descontinuadas (líquida)	—	—	—	—	—
Lucro líquido do período	820	831	(11)	(1,4)	15,9
Resultado atribuído aos acionistas não controladores	191	202	(12)	(5,7)	10,7
Lucro líquido atribuível à Controladora	629	629	0	0,1	17,5

Balço

Crédito a clientes**	27.315	30.158	(2.843)	(9,4)	4,3
Ativos financeiros mantidos para negociar (sem créditos)	14.222	16.949	(2.726)	(16,1)	(3,4)
Ativos financeiros disponíveis para venda	7.096	5.972	1.124	18,8	36,8
Bancos centrais e entidades de crédito **	8.562	4.717	3.845	81,5	108,9
Ativos tangíveis e intangíveis	392	396	(4)	(1,0)	14,0
Outros ativos	7.524	6.535	990	15,1	32,5
Total ativo/passivo e patrimônio líquido	65.112	64.728	385	0,6	15,8
Depósitos de clientes**	28.910	28.274	636	2,2	17,7
Obrigação por emissão de títulos **	5.393	5.783	(390)	(6,7)	7,3
Passivos amparados por contratos de seguro ou reaseguro	—	—	—	—	—
Bancos centrais e entidades de crédito **	11.269	12.884	(1.615)	(12,5)	0,7
Outros passivos	15.963	12.829	3.134	24,4	43,2
Recursos próprios ***	3.577	4.957	(1.380)	(27,8)	(16,9)
Outros recursos de clientes sob gestão e comercializados	10.242	11.477	(1.235)	(10,8)	2,7
Fundos de investimento e de pensão	10.242	11.477	(1.235)	(10,8)	2,7
Patrimônios administrados	—	—	—	—	—
Recursos de clientes sob gestão e comercializados	44.545	45.535	(990)	(2,2)	12,6

Indicadores (%) e outras informações

RoTE	15,45	13,19	2,27	
Eficiência (com amortizações)	39,8	41,3	(1,5)	
Índice de inadimplência	2,76	3,38	(0,62)	
Índice de cobertura	103,8	90,6	13,2	
Número de funcionários	17.608	17.847	(239)	(1,3)
Número de agências	1.389	1.377	12	0,9

(*)- Inclui rendimentos sobre instrumentos de capital, resultados de equivalência patrimonial e outras receitas/despesas operacionais

(**)- Inclui a totalidade de saldos em balanço neste conceito

(***)- Capital + reservas + lucro + outro resultado global acumulado

MÉXICO*

629 M€
Lucro líquido atribuível

* Variações em moeda local

DESTAQUES EM 2016

- Estratégia centrada em ser o banco principal dos clientes, aumentando a atração e a vinculação de transações a longo prazo.
- Foco na inovação multicanal, transformação operacional e lançamento de iniciativas comerciais (*Santander Plus e Santander-Aeroméxico*).
- Aumento do lucro com relação ao ano anterior (+18%) com excelente desempenho da margem de juros, que aumentou 14%.
- No ano, estratégia de retenção de clientes e captação de depósitos (+16%).

Ambiente econômico

A economia mexicana registrou uma certa desaceleração em 2016 (2,3% estimado contra 2,6% em 2015) devido a um ambiente externo desafiador, que levou a um ajuste da política fiscal e endurecimento da política monetária. Assim, a depreciação da taxa de câmbio, ante o risco que representa para os preços e a estabilidade financeira, fez com que o Banco Central elevasse a taxa de juros oficial ao longo de 2016 de 3,25% para 5,75%. A inflação subiu de 2,1% para 3,3% e o desemprego ficou em 3,8% na média do ano.

No decorrer de 2016, o peso mexicano sofreu depreciação de 13% chegando a 21,8 pesos por euro, afetado pela evolução do preço do petróleo bruto nos primeiros meses do ano e pela incerteza ante uma eventual mudança na política comercial e de migração dos E.U.A. na parte final do exercício.

Estratégia

No âmbito da estratégia de transformação, inovação e esforço para aumentar a vinculação de clientes, o banco desenvolveu diversas ações ao longo do exercício, sendo algumas das mais importantes referidas a seguir.

Estímulo à multicanalidade e à digitalização:

- Instalamos 836 novos caixas eletrônicos no ano e fortalecemos as alianças estratégicas com correspondentes, oferecendo nossos serviços através de uma rede de cerca de 20.000 lojas.

- Foram implementadas melhorias no banco eletrônico através do *Portal Público, SuperNet e SuperMóvil*.

- Além disso, em dezembro foi anunciado um plano de investimento de 15.000 milhões de pesos durante os próximos três anos para continuar melhorando a franquia e nossos sistemas.

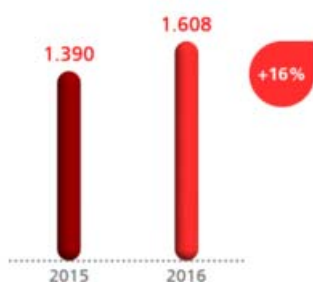
Fortalecimento do negócio com novas ações comerciais e lançamentos de produtos:

- A estratégia comercial centrou-se, por um lado, no programa *Santander Plus*, que oferece múltiplos benefícios aos participantes. Foram registrados mais de 1.100.000 clientes, dos quais a metade são novos.
- E, por outro lado, o lançamento do cartão de crédito *Santander-Aeroméxico*, após celebrar uma aliança com esta companhia aérea líder do país, cuja oferta será exclusiva pelos próximos 10 anos. Foram colocados mais de 430.000 cartões desde o seu lançamento, dos quais 30% correspondem a novos clientes.
- Além disso, foram iniciadas outras ofertas competitivas como a *Hipoteca Personal Santander*, que oferece uma taxa personalizada em função do perfil e das necessidades de cada cliente.

Melhora da estrutura do passivo e estímulo do negócio com empresas:

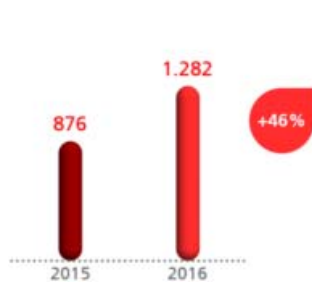
Clientes vinculados

Milhares



Clientes digitais

Milhares



Atividade

% var. 2016 / 2015 (sem TC)



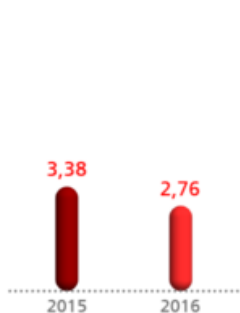
Lucro líquido atribuível

Milhões de euros constantes



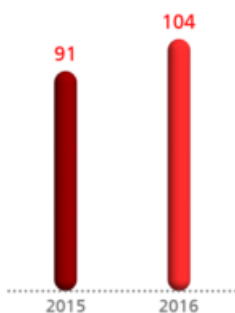
● Inadimplência

%



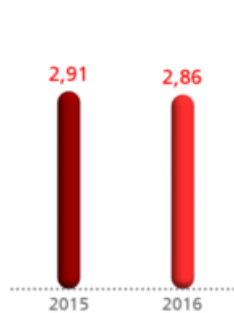
● Cobertura

%



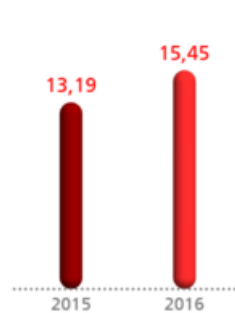
● Custo de crédito

%



● RoTE

%



- Aumentamos os depósitos à vista (+16%) e continuamos promovendo a diversificação para fundos de valor, em linha com o perfil dos clientes.
- Simplificamos a estrutura e o número de séries em fundos monetários e lançamos ofertas para promover a atração de recursos a prazo.
- Com relação aos créditos, foram realizadas campanhas de refinanciamento de linhas de crédito para PMEs, dirigidas a clientes que mantêm um bom perfil de crédito, simplificando os produtos.
- Em Empresas e Instituições, foco na vinculação de transações e na atração de novos clientes por meio do produto *confirming*, bem como esforços comerciais em diversos setores produtivos e incentivo ao setor de Agronegócios.

Todas essas medidas permitiram melhorar a taxa de retenção de clientes, aumentar os clientes vinculados em 16% e chegar a 1,3 milhões de clientes digitais, com um aumento de 46% em comparação ao ano anterior.

Atividade

Os créditos cresceram 8% em comparação ao ano anterior e os depósitos sem operações compromissadas 16%. Esse crescimento foi favorecido pelas iniciativas comerciais lançadas no início do ano e comentadas na página anterior.

No segmento de pessoas físicas, os créditos aumentaram 8%, com o seguinte detalhe: hipotecas aumentaram 7%, consumo 11% e cartões

de crédito 8%. Continuamos consolidando a liderança em hipotecas de indivíduos de receitas médias-altas.

Em depósitos, os saldos à vista de pessoas físicas aumentaram 20% e seguiram melhorando a sua composição, dentro de uma política de redução do custo dos depósitos. Nesse sentido, o crescimento foi dirigido tanto aos depósitos à vista como aos a prazo, ambos com aumento de 16%. Os fundos de investimento, por sua vez, subiram 3%.

Resultados

O lucro atribuível ficou em 629 milhões de euros, com um aumento de 18%. O aumento do lucro foi alavancado fundamentalmente pelo crescimento das receitas e a melhora do custo de crédito.

- As receitas aumentaram 13% em comparação ao ano anterior, destacando-se um aumento de 14% na margem de juros, apoiada no crescimento do crédito e na contínua expansão dos depósitos, junto com taxas de juros mais altas desde dezembro de 2015.
- As despesas aumentaram 9%, reflexo da execução das iniciativas estratégicas para posicionar-nos como o banco principal de nossos clientes. Com esse esforço de investimento, a eficiência melhorou 150 pontos-base até ficar abaixo de 40%.
- Todos os índices de qualidade do crédito melhoraram: o índice de inadimplência diminuiu 62 pontos-base, chegando a 2,76%; a cobertura melhorou 13 pontos percentuais, atingindo 104%; y o custo de crédito ficou em 2,86% (-5 pontos-base no ano).

○ ESTRATÉGIA EM 2017

- Melhorar ferramentas comerciais, CRM e plataformas digitais por meio de um plano de tecnologia.
- Potencializar a oferta do *Santander Plus* para a captação de novos clientes de alto potencial e aumentar a vinculação.
- Aumentar as folhas de pagamento e clientes digitais e seguir melhorando a qualidade do serviço ao cliente.
- Consolidar o nosso posicionamento no negócio hipotecário e recuperar a liderança em PMEs.

Chile

Milhões de euros

Resultados	2016	2015	Varição absoluta	%	% sem TC
Margem de juros	1.864	1.791	73	4,1	7,4
Comissões líquidas	353	360	(7)	(1,9)	1,2
Resultados líquidos de operações financeiras	206	173	33	18,8	22,6
Outras receitas*	(1)	12	(12)	—	—
Margem bruta	2.422	2.336	86	3,7	7,0
Despesas totais	(986)	(1.004)	17	(1,7)	1,5
Despesas administrativas	(895)	(926)	31	(3,4)	(0,2)
Despesas de pessoal	(558)	(568)	10	(1,8)	1,4
Outras despesas administrativas	(337)	(358)	21	(5,8)	(2,8)
Amortização de ativos tangíveis e intangíveis	(91)	(77)	(14)	18,2	22,1
Margem líquida	1.435	1.332	103	7,7	11,2
Provisões para perdas com créditos	(514)	(567)	53	(9,4)	(6,5)
Outros resultados e provisões	(27)	3	(30)	—	—
Resultado antes dos impostos sobre o lucro	894	768	126	16,4	20,2
Imposto de renda	(159)	(114)	(45)	40,0	44,5
Lucro líquido das operações continuadas	735	655	81	12,3	15,9
Resultado de operações descontinuadas (líquida)	—	—	—	—	—
Lucro líquido do período	735	655	81	12,3	15,9
Resultado atribuído aos acionistas não controladores	222	199	23	11,3	14,9
Lucro líquido atribuível à Controladora	513	455	58	12,7	16,4

Balanco

Crédito a clientes**	37.662	32.338	5.324	16,5	6,5
Ativos financeiros mantidos para negociar (sem créditos)	3.002	3.144	(142)	(4,5)	(12,7)
Ativos financeiros disponíveis para venda	4.820	2.668	2.152	80,7	65,2
Bancos centrais e entidades de crédito **	2.998	3.294	(296)	(9,0)	(16,8)
Ativos tangíveis e intangíveis	424	355	68	19,2	9,0
Outros ativos	4.599	4.161	438	10,5	1,1
Total ativo/passivo e patrimônio líquido	53.505	45.960	7.545	16,4	6,5
Depósitos de clientes**	27.317	24.347	2.970	12,2	2,6
Obrigação por emissão de títulos **	10.174	7.467	2.707	36,3	24,6
Passivos amparados por contratos de seguro ou reaseguro	—	—	—	—	—
Bancos centrais e entidades de crédito **	7.172	5.886	1.285	21,8	11,4
Outros passivos	5.476	5.280	196	3,7	(5,1)
Recursos próprios ***	3.366	2.980	386	13,0	3,3
Outros recursos de clientes sob gestão e comercializados	9.903	7.370	2.533	34,4	22,9
Fundos de investimento e de pensão	7.321	5.422	1.899	35,0	23,5
Patrimônios administrados	2.582	1.948	634	32,5	21,2
Recursos de clientes sob gestão e comercializados	47.394	39.184	8.210	21,0	10,6

Indicadores (%) e outras informações

RoTE	17,17	15,51	1,65	
Eficiência (com amortizações)	40,7	43,0	(2,2)	
Índice de inadimplência	5,05	5,62	(0,57)	
Índice de cobertura	59,1	53,9	5,2	
Número de funcionários	11.999	12.454	(455)	(3,7)
Número de agências	435	472	(37)	(7,8)

(*)- Inclui rendimentos sobre instrumentos de capital, resultados de equivalência patrimonial e outras receitas/despesas operacionais

(**)- Inclui a totalidade de saldos em balanço neste conceito

(***)- Capital + reservas + lucro + outro resultado global acumulado

CHILE*

513 M€
Lucro líquido atribuível

* Variações em moeda local

DESTAQUES EM 2016

- Significativo avanço da transformação da rede comercial em um novo modelo de agências.
- Melhora da satisfação dos clientes, fechando a lacuna com nossos concorrentes.
- Maior atividade nos segmentos objetivo de créditos e recursos, ganhando cota de mercado.
- O lucro acumulado do ano foi de 513 milhões de euros, 16% superior ao registrado em 2015.

Ambiente econômico

A economia chilena registrou uma desaceleração do PIB em 2016 (1,6% estimado contra 2,3% em 2015), apesar da resistência do consumo de bens duráveis, o crédito e, em menor escala, o emprego (a taxa de desemprego subiu de 6,2% para 6,5%). O contexto internacional e a adaptação da mineração a um ambiente de preços moderados explicam a desaceleração do crescimento.

A inflação caiu para 3% estimado (4% em 2015) coincidindo com o centro da banda objetivo, em um contexto de fragilidade da atividade.

O peso encerrou o ano em 708 pesos por euro, com uma valorização de 9% no ano.

O banco central encerrou 2016 com uma taxa de juros oficial no mesmo nível do final de 2015, 3,5%.

Estratégia

O Grupo manteve a sua estratégia de melhorar a rentabilidade a longo prazo em um cenário de redução de margens e maior regulação. O banco aspira a tornar-se o melhor avaliado do país, aprimorando a qualidade do atendimento ao cliente e a transformação do segmento de Banco Comercial (36 agências já com o novo modelo de rede), especialmente no negócio de pessoas físicas de renda média-alta e PMEs.

Para cumprir essa meta foram tomadas uma série de medidas durante o ano:

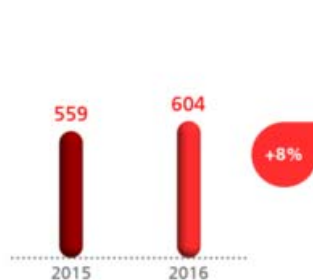
- Uma estratégia mais centrada no cliente e a simplificação de processos internos, adequando-os a um ambiente digital e multicanal, permitiu-nos melhorar os indicadores de satisfação, fechando a lacuna em termos de qualidade do serviço com relação aos concorrentes.
- Para continuar melhorando a atração de nossos clientes foram lançados projetos como *WorkCafé*, um novo conceito de agências multi-segmento orientadas à colaboração e alinhadas com a cultura de SPJ (Simple, Pessoal e Justo).
- Aumento da digitalização: lançamento do *123 Click*, novo empréstimo de consumo 100% digital.

Essas medidas estão se refletindo em um aumento do número de clientes vinculados, principalmente de PMEs (+14%) e alta renda (+12%), bem como em um aumento das comissões relacionadas à transacionalidade. Os clientes digitais, por sua vez, aumentaram 4%.

Tudo isso foi reconhecido com o prêmio ao *Melhor Banco do Chile* pelas revistas *Euromoney* e *Latin Finance*.

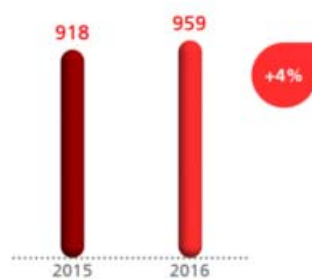
Clientes vinculados

Milhares



Clientes digitais

Milhares



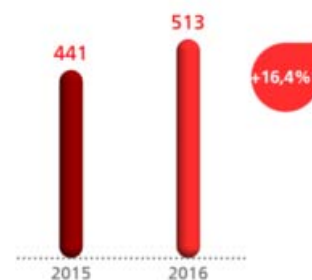
Atividade

% var. 2016 / 2015 (sem TC)



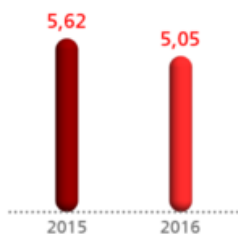
Lucro líquido atribuível

Milhões de euros constantes



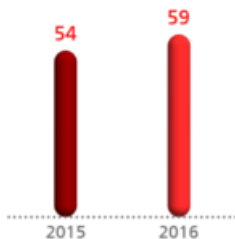
● Inadimplência

%



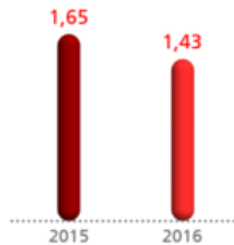
● Cobertura

%



● Custo de crédito

%



● RoTE

%



Atividade

As atuações realizadas no exercício estão se refletindo no aumento de saldos, tanto no ativo como no passivo.

O crédito cresceu 7% em comparação ao ano anterior, em moeda local, com avanços nos segmentos objetivo. Nesse sentido, destacam-se os crescimentos de 16% em altas rendas e de 9% em PMEs.

Os depósitos, por sua vez, aumentaram 3% no ano, com os depósitos à vista aumentando 2% e os depósitos a prazo subindo 3%.

Essa evolução se reflete no aumento de cota de mercado no ano em diferentes produtos. Em créditos o aumento foi de 22 pontos-base e em depósitos 47 pontos-base.

Resultados

O lucro atribuível foi de 513 milhões de euros em 2016, com um aumento de 16%. Esse aumento foi afetado pela maior taxa fiscal. Assim, o lucro antes de impostos, que chega a 894 milhões de euros, aumentou 20%.

Detalhamento por linhas:

- As receitas subiram 7%, com aumento generalizado por linhas:

A margem de juros cresceu 7% apoiada no aumento de volumes e na gestão do custo do passivo. Os resultados de operações financeiras subiram 23% e as comissões cresceram levemente pelo bom desempenho das associadas a meios de pagamento e transacionalidade.

- As despesas aumentaram apenas 1%, mesmo com o maior investimento em desenvolvimentos tecnológicos e a indexação à inflação anual de contratos, alugueis e salários.
- As provisões, por sua vez, caíram 6%, com uma melhora sustentada na carteira de pessoas físicas. Todos os indicadores de qualidade do crédito melhoraram no ano, com o custo de crédito em 1,43%, o índice de inadimplência em 5,05% e a cobertura em 59%.

○ ESTRATÉGIA EM 2017

- Consolidar a transformação do negócio de banco comercial por meio do novo modelo de rede de agências.
- Continuar melhorando a qualidade do atendimento e a experiência de nossos clientes.
- Potencializar o negócio com grandes e médias empresas.
- Foco em comissões e na rentabilidade a longo prazo em um cenário de redução de margens e maior regulação.

ARGENTINA*

359 M€
Lucro líquido atribuível

* Variações em moeda local

DESTAQUES EM 2016

- Estratégia focada em aumentar a penetração no mercado pela expansão de agências e a transformação em banco digital, com foco no *Santander Select* e *PMEs Advance*.
- Acordo para a aquisição do banco de varejo do Citibank Argentina e acordo com a *American Airlines* com relação ao programa de passageiro frequente *AAdvantage®*
- O lucro atribuível aumentou 52% no ano, chegando a 359 milhões de euros, impulsionado por receitas maiores e a melhora do custo de crédito.

Ambiente econômico

Em 2016, a Argentina enfrentou com determinação os desequilíbrios macroeconômicos e as distorções microeconômicas, reforçando, por sua vez, o cenário institucional. As medidas de ajuste levaram a uma contração do PIB de 2%, mas ao mesmo tempo começou-se a estabelecer as bases para o controle da inflação e finanças públicas, e para a recuperação do crescimento.

A taxa de juros de referência baixou de 33% para 24,5%, enquanto a taxa de câmbio sofreu forte depreciação perante o euro.

Estratégia

A estratégia continuou centrada no crescimento do negócio com clientes, com foco especial na vinculação e rentabilidade:

- O acordo com a *American Airlines* com relação ao seu programa *AAdvantage®* para acumulação de milhas através de compras realizadas com cartões do programa.
- Lançamento dos créditos hipotecários *UVA* indexados à inflação.
- Potencialização dos produtos *Select* no segmento de alta renda e abertura de novos espaços e corners especializados para *PMEs*.
- Continuação do plano de expansão e transformação de agências com a abertura de 17 agências (246 já transformadas).
- Implantação do sistema de Gestão Comercial *+CHE* na rede de agências.

No ano, aumento de 6% do número de clientes vinculados e 20% dos digitais.

Além disso, em outubro foi firmado um acordo com o Citibank Argentina para adquirir o seu negócio de varejo, o que nos consolida como o primeiro banco privado do país ao incorporar 500.000 clientes e uma rede de 70 agências ao Santander Río. A operação está pendente da autorização do banco central.

Tudo isso foi reconhecido com prêmios como *Melhor Banco Digital da Argentina* e *Melhor Mobile Banking da Argentina* pela revista *Global Finance*. Obtivemos também a primeira colocação no ranking *Great Place to Work* e a *Euromoney* nos premiou como *Melhor Banco 2016*.

Atividade

Os créditos aumentaram 37% em 2016, destacando-se os de consumo. Os depósitos aumentaram 47% (à vista: +111%; depósitos em dólares: +241%; depósitos a prazo: -23%).

Tudo isso nos permitiu ganhar cota de mercado, até alcançarmos 10,3% em créditos e 10,9% em depósitos.

Resultados

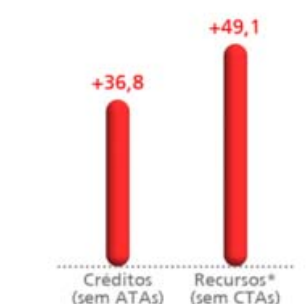
Em 2016 o lucro atribuível foi de 359 milhões de euros, um aumento de 52% com relação a 2015. A estratégia comercial refletiu-se em um aumento de 42% nas receitas, com destaque para o avanço de 28% na margem de juros e de 36% nas comissões.

As despesas subiram 37% por efeito da inflação, a revisão do dissídio salarial, a ampliação da rede de agências e os investimentos em transformação e tecnologia.

As provisões aumentaram menos que os créditos, o que fez o custo de crédito melhorar em 43 p.b. A qualidade do crédito continua elevada, com um índice de inadimplência de 1,49% e uma cobertura de 142%.

Atividade

% var. 2016 / 2015 (sem TC)



(*) Depósitos clientes + f. investimento

Lucro líquido atribuível

Milhões de euros constantes



(*) Em euros: -5,0%

ESTRATÉGIA EM 2017

- Dar continuidade ao plano de transformação em banco digital, com melhora da eficiência, vinculação e satisfação.
- Concluir a integração do banco de varejo do Citibank.
- Aumentar os créditos a empresas e famílias pouco endividadas, fundamentalmente em consumo, hipotecas e linhas de financiamento para investimentos e comércio exterior.
- Crescer significativamente em recursos de clientes, especialmente em fundos de investimento.

URUGUAI*

84 M€
Lucro líquido atribuível

* Variações em moeda local

DESTAQUES EM 2016

- Consolidação da qualidade do serviço e satisfação de clientes, ocupando o segundo lugar.
- Líderes em cartões de crédito pelo terceiro ano consecutivo.
- Aumento da carteira de crédito nos segmentos e produtos objetivo.
- O lucro antes de impostos aumentou 48% em comparação ao ano anterior. Excluindo o efeito perímetro, cresceu 35% devido a maiores receitas comerciais.

Ambiente econômico

Estima-se para 2016 um crescimento do PIB de 0,5% (1,0% em 2015) e uma inflação de 9,2% (9,4% em 2015), acima do objetivo oficial (3%-7%). O peso uruguaio encerrou o ano com uma taxa de câmbio de 30,6 pesos por euro e uma valorização de 6%.

Estratégia

O Grupo continua sendo o primeiro banco privado do país, com uma estratégia dirigida a crescer em banco de varejo e a melhorar a eficiência e a qualidade do serviço. Para tanto, em 2016 continuamos oferecendo valor agregado aos nossos clientes através das seguintes medidas:

- Conseguimos posicionar-nos no Top 2 na Pesquisa de Satisfação de clientes.
- Alcançamos um aumento de 4% dos clientes vinculados por meio de medidas como o implementação do novo CRM *Celestium* e o lançamento da unidade de retenção de clientes.
- Dentro do processo de digitalização e modernização de canais, foram desenvolvidos avanços importantes na *app* Santander, tendo sido lançado um novo *app* de pagamentos que permite aumentar a transacionalidade dos clientes. Todas essas medidas tiveram como resultado um aumento dos clientes digitais de 50% no ano.
- Consolidamos a liderança em financiamento ao consumo no negócio das financeiras, com um aumento da cota de mercado do crédito ao consumo de 70 pontos-base.

Atividade

A carteira de crédito cresceu nos segmentos e produtos foco (PMEs e consumo), bem como créditos ao consumo, que aumentaram 15%. O total de créditos subiu 1%.

Os depósitos, por sua vez, caíram 7%, o que é explicado pela saída de depósitos não residentes e a estratégia de rentabilização do passivo.

Resultados

O lucro atribuível do ano é de 84 milhões de euros, com um aumento de 32%. Os resultados foram favorecidos pela incorporação de Créditos de la Casa em agosto de 2015. Sem esse efeito, o aumento do lucro atribuível seria de 19% afetado negativamente por uma maior pressão fiscal.

O lucro acumulado antes de impostos apresentou um crescimento de 48% (35% sem efeito perímetro) apoiado especialmente no crescimento da margem de juros e das comissões e nas medidas do plano de eficiência.

O índice de eficiência seguiu sua tendência de melhora, chegando a 51,4%, 5,5 pontos percentuais abaixo do indicador do ano anterior.

As provisões para perdas com créditos aumentaram 13%, mesmo que sobre uma base reduzida, com um custo de crédito baixo (1,79%), um índice de inadimplência de 1,63% e uma cobertura de 168%.

Atividade

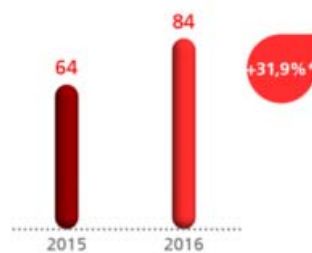
% var. 2016 / 2015 (sem TC)



(*) Depósitos clientes + f. investimento

Lucro líquido atribuível

Milhões de euros constantes



(*) Em euros: +19,8%

ESTRATÉGIA EM 2017

- Crescer no negócio de varejo, mantendo excelentes níveis de qualidade de serviço.
- Aumentar a cota de mercado nos segmentos de pessoas físicas e PMEs e em produtos como consumo, meios de pagamento e folhas de pagamento.
- Aumentar as receitas, principalmente por meio do impulso das comissões devido à maior vinculação dos nossos clientes.
- Continuar melhorando o índice de eficiência por meio da transformação digital.

PERU*

37 M€
Lucro líquido atribuível

DESTAQUES EM 2016

- Estratégia orientada ao banco comercial com clientes globais, corporativos e o segmento de grandes empresas.
- O lucro atribuível aumentou 21%, apoiado no crescimento da margem de juros e em menores provisões.

* Variações em moeda local

Ambiente econômico

A economia diminuiu seu ritmo em 2016, crescendo 3,9% estimado, com uma demanda interna que sofreu forte desaceleração. A inflação encontra-se em torno de 3,4% e a moeda local valorizou 6% frente ao euro.

A dívida pública encontra-se em 23% do PIB, uma das mais baixas na região e o país conta com reservas de divisas de 61.000 milhões de dólares, mais de 30% do PIB. Os créditos e depósitos do sistema financeiro, por sua vez, cresceram a ritmos de 4% e 2% respectivamente.

Estratégia

Nesse ambiente, a atividade do Grupo se volta ao banco corporativo e às grandes empresas do país, bem como à prestação de serviço aos clientes globais do Grupo.

Buscamos uma relação próxima com os clientes e a qualidade do serviço, aproveitando ao mesmo tempo as sinergias operacionais e de negócio com outras unidades do Grupo.

Ao longo do ano uma instituição financeira especializada em crédito para veículos continuou a consolidar sua atividade no Peru. Essa

empresa conta com um modelo de negócio especializado, focado no serviço e com prestações que permitem aos clientes acesso à aquisição de veículo novo da maior parte de marcas e concessionárias presentes no país.

Atividade

O crédito aumentou 8% no ano, enquanto os depósitos caíram 6%, explicado pela redução nos depósitos a prazo (-10%), devido à estratégia de financiamento.

Resultados

O lucro atribuível foi de 37 milhões de euros (+21%).

- As receitas cresceram 3% com bom desempenho da margem de juros e comissões, tendo, contudo, sido afetadas pela queda nos resultados de operações financeiras.
- As despesas aumentaram 1% enquanto as provisões para perdas com créditos diminuíram 84%.

A eficiência melhorou 33 p.b., atingindo 30,5%, a taxa de inadimplência permanece muito baixa (0,37%) e a sua cobertura se manteve em níveis muito elevados.

Atividade

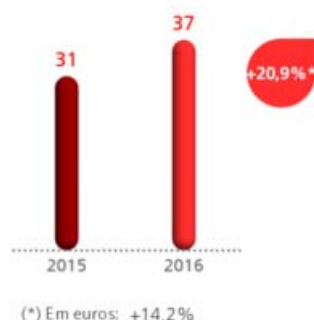
% var. 2016 / 2015 (sem TC)



(*) Depósitos clientes + f. investimento

Lucro líquido atribuível

Milhões de euros constantes



ESTRATÉGIA EM 2017

- Continuar aumentando o crédito ao segmento corporativo, aos clientes globais e às grandes empresas do país.
- Impulsionar a assessoria em banco de investimento e em infraestruturas públicas através de associações público-privadas.

COLÔMBIA

• A operação na Colômbia está focada em crescer no negócio com empresas latino-americanas, empresas multinacionais, *international desk* e grandes e médias empresas locais, disponibilizando soluções em tesouraria, cobertura de riscos, comércio exterior e *confirming*, bem como o desenvolvimento de produtos de banco de investimento e mercados de capitais.

• O *Premier Credit*, por sua vez, concentrou-se em aumentar o seu volume de operações através da assinatura de acordos comerciais com redes de concessionárias. Foi também lançado o projeto que dotará o Banco Santander de Negócios Colômbia de capacidade para financiar os empréstimos originados pelo *Premier Credit*.

• Os resultados de gestão apresentaram uma margem líquida acumulada positiva de 8 milhões de euros.

Estados Unidos

Milhões de euros

Resultados	2016	2015	Varição absoluta	%	% sem TC
Margem de juros	5.917	6.116	(199)	(3,3)	(3,5)
Comissões líquidas	1.102	1.086	16	1,5	1,2
Resultados líquidos de operações financeiras	22	231	(208)	(90,4)	(90,4)
Outras receitas*	491	367	124	33,9	33,6
Margem bruta	7.532	7.799	(267)	(3,4)	(3,6)
Despesas totais	(3.198)	(3.025)	(173)	5,7	5,5
Despesas administrativas	(2.882)	(2.761)	(121)	4,4	4,1
Despesas de pessoal	(1.636)	(1.543)	(93)	6,0	5,8
Outras despesas administrativas	(1.247)	(1.219)	(28)	2,3	2,1
Amortização de ativos tangíveis e intangíveis	(316)	(264)	(52)	19,8	19,5
Margem líquida	4.334	4.774	(440)	(9,2)	(9,4)
Provisões para perdas com créditos	(3.208)	(3.103)	(105)	3,4	3,1
Outros resultados e provisões	(90)	(148)	58	(39,1)	(39,3)
Resultado antes dos impostos sobre o lucro	1.036	1.523	(487)	(32,0)	(32,1)
Imposto de renda	(355)	(516)	161	(31,3)	(31,4)
Lucro líquido das operações continuadas	681	1.007	(326)	(32,4)	(32,5)
Resultado de operações descontinuadas (líquida)	—	—	—	—	—
Lucro líquido do período	681	1.007	(326)	(32,4)	(32,5)
Resultado atribuído aos acionistas não controladores	286	329	(43)	(13,0)	(13,2)
Lucro líquido atribuível à Controladora	395	678	(283)	(41,8)	(41,9)

Balanco

Crédito a clientes**	85.389	84.190	1.199	1,4	(1,8)
Ativos financeiros mantidos para negociar (sem créditos)	2.885	2.299	586	25,5	21,5
Ativos financeiros disponíveis para venda	16.089	19.145	(3.056)	(16,0)	(18,6)
Bancos centrais e entidades de crédito **	1.090	1.046	44	4,2	0,9
Ativos tangíveis e intangíveis	10.648	9.156	1.491	16,3	12,6
Outros ativos	21.289	14.747	6.542	44,4	39,8
Total ativo/passivo e patrimônio líquido	137.390	130.584	6.805	5,2	1,9
Depósitos de clientes**	64.460	60.115	4.345	7,2	3,8
Obrigação por emissão de títulos **	26.340	23.905	2.434	10,2	6,7
Passivos amparados por contratos de seguro ou reaseguro	—	—	—	—	—
Bancos centrais e entidades de crédito **	22.233	26.169	(3.936)	(15,0)	(17,7)
Outros passivos	9.897	9.073	823	9,1	5,6
Recursos próprios ***	14.461	11.321	3.139	27,7	23,7
Outros recursos de clientes sob gestão e comercializados	18.827	19.478	(651)	(3,3)	(6,4)
Fundos de investimento e de pensão	9.947	7.123	2.824	39,6	35,2
Patrimônios administrados	8.880	12.355	(3.475)	(28,1)	(30,4)
Recursos de clientes sob gestão e comercializados	89.200	84.238	4.961	5,9	2,5

Indicadores (%) e outras informações

RoTE	3,11	6,54	(3,42)	
Eficiência (com amortizações)	42,5	38,8	3,7	
Índice de inadimplência	2,28	2,13	0,15	
Índice de cobertura	214,4	225,0	(10,6)	
Número de funcionários	17.509	18.123	(614)	(3,4)
Número de agências	768	783	(15)	(1,9)

(*)- Inclui rendimentos sobre instrumentos de capital, resultados de equivalência patrimonial e outras receitas/despesas operacionais

(**)- Inclui a totalidade de saldos em balanço neste conceito

(***)- Capital + reservas + lucro + outro resultado global acumulado

(****)- Excluindo obrigação por emissão de títulos de Santander Consumer USA

ESTADOS UNIDOS*

395 M€
Lucro líquido atribuível

* Variações em dólares

DESTAQUES EM 2016

- As três prioridades do ano foram avançar no cumprimento dos requerimentos regulatórios, melhorar na franquia do Santander Bank e otimizar o mix de ativos do SC USA.
- No Santander Bank, a revitalização do banco se reflete em um aumento de 4% nos depósitos core clientes e 26% em clientes digitais.
- No Santander Consumer USA, prosseguimos ajustando o *mix* de negócio para um perfil de risco mais baixo, compatível com níveis de RoTE superiores a 15%.
- Lucro de 395 milhões de euros, 42% menos que em 2015.

Ambiente econômico

O crescimento do PIB nos E.U.A. em 2016 foi de 1,6%, em parte devido aos baixos registros do início do ano. Isso não impediu que a taxa de desemprego baixasse alguns décimos, chegando a 4,7%, um ritmo praticamente de pleno emprego, e que a inflação subjacente ficasse em 1,8%.

O resultado das eleições presidenciais ajudou a fortalecer o dólar, que ficou em 1€=1,05 US\$ (1,09 US\$ no fim do ano anterior) e impulsionou os mercados.

Nesse contexto, em que a economia já vinha apresentando certa revitalização, em dezembro a Federal Reserve elevou a taxa de juros dos fundos federais de 0,50% para 0,75%, indicando aumentos graduais em 2017.

Estratégia

O Santander nos Estados Unidos inclui Santander Holdings (a entidade Intermediate Holding Company - IHC) e suas subsidiárias Santander Bank, Banco Santander Puerto Rico, Santander Consumer USA, Banco Santander International e Santander Investment Securities, bem como a agência do Santander em Nova York.

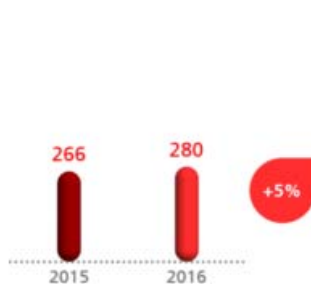
O Santander Bank é um dos maiores bancos no nordeste dos E.U.A., e oferece uma linha completa de produtos, tais como empréstimos de consumo, hipotecários e créditos a pessoas físicas, pequenas e médias empresas e grandes multinacionais. O Santander Consumer USA é uma das maiores empresas de financiamento de veículos nos E.U.A., que oferece financiamento a um amplo espectro de clientes no país.

O Santander US está centrado em uma série de prioridades estratégicas voltadas a transformá-lo em uma instituição financeira diversificada e líder nos E.U.A., tais como:

- Melhorar a rentabilidade do Santander Bank.
- Otimizar o negócio de financiamento de veículos.
- Crescer no negócio de GCB com clientes estabelecidos nos E.U.A., aproveitando a interconectividade decorrente de pertencer a um Grupo global.

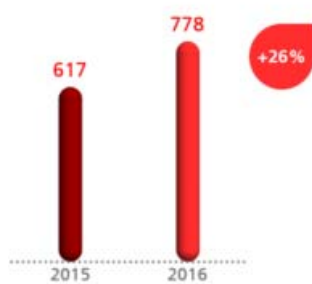
Em 2016 o Santander US continuou avançando no cumprimento de suas obrigações em matéria de regulação. Foi concluída a criação da *holding* (IHC) que reúne as principais unidades do país sob uma mesma gestão e estrutura de governança, visando a uma gestão do risco mais eficaz nos E.U.A.

● Clientes vinculados*
Milhares



(*).- Santander Bank

● Clientes digitais*
Milhares



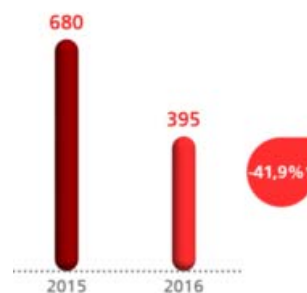
(*).- Santander Bank

● Atividade
% var. 2016 / 2015 (sem TC)



(*) Depósitos clientes + f. investimento

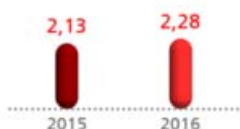
● Lucro líquido atribuível
Milhões de euros constantes



(*) Em euros: -41,8%

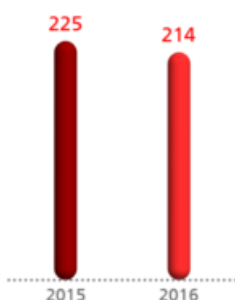
● Inadimplência

%



● Cobertura

%



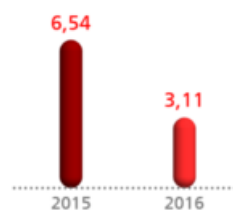
● Custo de crédito

%



● RoTE

%



Foi dada continuidade também à transformação comercial para melhorar as capacidades tecnológicas e financeiras e, assim, construir um negócio de êxito no país, ao mesmo tempo em que se cumprem todas as exigências regulatórias.

O Santander Bank continua trabalhando para melhorar a franquia e construir mais relações e mais profundas com nossos clientes, mediante uma oferta de produtos simplificada e completa que melhore a satisfação dos mesmos. Alguns resultados já podem ser vistos, como o aumento de clientes digitais (+26%) e dos nossos depósitos core (+4%).

A estratégia do Santander Consumer USA continua sendo a de aproveitar a sua eficiência, uma infraestrutura escalável para subscrever, originar e prestar serviço a ativos rentáveis. Essa estratégia é desenvolvida focando no cumprimento regulatório e na proteção do cliente, bem como a otimização dos ativos retidos em comparação com os vendidos e os de terceiros, obtendo o valor total da *Chrysler Capital*.

Porto Rico lançou um novo programa para a captação de clientes que simplifica e personaliza o serviço ao cliente. As plataformas de *e-banking* e *apps* também foram melhoradas, disponibilizando ao cliente as ferramentas necessárias para administrar todas as suas necessidades bancárias de qualquer lugar e a qualquer momento.

Atividade

O crédito no Santander Bank sofreu redução de 2%, embora se destaque o crescimento de 16% no *Corporate and Commercial Banking*, compensado parcialmente pelas vendas de carteiras. Os depósitos de clientes aumentaram 2% no ano, enquanto os depósitos institucionais diminuíram.

No Santander Consumer USA a queda do crédito foi impactada por menos originações decorrentes de um ambiente competitivo e a estratégia para melhorar a rentabilidade ajustada ao risco das carteiras *non prime*. Incide também a venda de algumas carteiras, como *Lending Club*.

Resultados

O lucro atribuível do ano atingiu 437 milhões de dólares, e a sua evolução reflete a estratégia adotada pelo Grupo no exercício.

Em primeiro lugar, foram feitos importantes investimentos em tecnologia para melhorar a experiência do cliente, a gestão do risco e o planejamento de capital para cumprir os objetivos regulatórios, o que fez com que as despesas do ano continuassem elevadas. O Santander Bank procedeu também à recompra de passivos caros, o que teve um impacto negativo nos resultados por operações financeiras.

O Santander Consumer USA alterou o seu *mix* de negócio para um perfil de menor risco, o que está tendo um impacto nas receitas, que é compatível com a obtenção de um RoTE de 18% em 2016.

Esses fatores, juntamente com o impacto de algumas despesas não recorrentes e o aumento das provisões, em parte devido àquelas realizadas no primeiro trimestre para o negócio vinculado a petróleo e gás, provocou uma queda de 42% de lucro atribuível. O lucro antes de impostos baixou 32%.

○ ESTRATÉGIA EM 2017

- Melhorar a experiência e a vinculação de clientes através de uma equipe de vendas eficiente, produtos simples e desenvolvimento dos canais digitais no Santander Bank.
- Manter a liderança em financiamento de veículos com foto em aumentar as originações "prime" através da Chrysler.
- Continuar melhorando a gestão do capital, dos riscos e da liquidez para cumprir os requisitos regulatórios e fortalecer a franquia.

Centro Corporativo

Milhões de euros

Resultados	2016	2015	Variação absoluta	%
Margem de juros	(739)	(627)	(112)	17,8
Comissões líquidas	(31)	(13)	(18)	137,3
Resultados líquidos de operações financeiras	(243)	150	(393)	—
Outras receitas*	(52)	(5)	(47)	980,8
Margem bruta	(1.066)	(495)	(571)	115,3
Despesas totais	(450)	(547)	97	(17,7)
Margem líquida	(1.516)	(1.042)	(474)	45,5
Provisões para perdas com créditos	2	27	(25)	(94,2)
Outros resultados e provisões	(75)	(507)	433	(85,3)
Resultado ordinário antes dos impostos sobre o lucro	(1.589)	(1.523)	(66)	4,3
Imposto de renda	141	59	82	138,5
Lucro líquido ordinário das operações continuadas	(1.448)	(1.464)	16	(1,1)
Resultado de operações descontinuadas (líquida)	0	—	0	—
Lucro líquido ordinário do período	(1.448)	(1.464)	16	(1,1)
Resultado atribuído aos acionistas não controladores	(9)	30	(38)	—
Lucro líquido ordinário atribuível à Controladora	(1.439)	(1.493)	54	(3,6)
Líquido de ganhos e saneamentos	(417)	(600)	183	(30,5)
Lucro líquido atribuível à Controladora	(1.856)	(2.093)	237	(11,3)

Balanco

Ativos financeiros mantidos para negociar (sem créditos)	1.203	2.656	(1.453)	(54,7)
Ativos financeiros disponíveis para venda	2.774	3.773	(1.000)	(26,5)
Ágio	26.724	26.960	(236)	(0,9)
Dotação capital ao resto do Grupo	79.704	77.163	2.541	3,3
Outros ativos	21.750	37.583	(15.833)	(42,1)
Total ativo/passivo e patrimônio líquido	132.154	148.136	(15.981)	(10,8)
Depósitos de clientes**	858	5.205	(4.347)	(83,5)
Obrigação por emissão de títulos**	30.922	37.364	(6.442)	(17,2)
Outros passivos	16.014	21.052	(5.038)	(23,9)
Recursos próprios ***	84.361	84.515	(154)	(0,2)
Outros recursos de clientes sob gestão e comercializados	10	—	10	—
Fundos de investimento e de pensão	10	—	10	—
Patrimônios administrados	—	—	—	—
Recursos de clientes sob gestão e comercializados	31.790	42.569	(10.779)	(25,3)

Meios operativos

Número de funcionários	1.724	2.006	(282)	(14,1)
------------------------	-------	-------	-------	--------

(*)- Inclui rendimentos sobre instrumentos de capital, resultados de equivalência patrimonial e outras receitas/despesas operacionais

(**)- Inclui a totalidade de saldos em balanço neste conceito

(***)- Capital + reservas + lucro + outro resultado global acumulado

CENTRO CORPORATIVO

-1.856 M€
Lucro líquido atribuível*

* Antes de não recorrentes: -1.439 M€

DESTAQUES EM 2016

- Temos um Centro Corporativo cujo objetivo é melhorar a eficiência e aportar valor agregado às unidades operacionais. Além disso, desenvolve também funções próprias de uma *holding* relacionadas com a gestão financeira e do capital.
- Na comparação anual, menores receitas obtidas na gestão centralizada dos diversos riscos (principalmente risco de taxa de juros), compensados por menores despesas e provisionamentos.
- Absorve o efeito negativo dos 417 milhões de euros do valor líquido de resultados não recorrentes detalhados na página 101 deste relatório.

Estratégia e funções

O modelo de subsidiárias do Banco Santander é complementado por um Centro Corporativo que conta com unidades de suporte e controle, as quais exercem para o Grupo funções nas áreas de riscos, auditoria, tecnologia, recursos humanos, área jurídica, comunicação e marketing, entre outras.

Com tudo isso, o Centro Corporativo aporta valor ao Grupo de diversas maneiras:

- Tornando a governança do Grupo mais sólida, por meio de marcos de controle e supervisão globais, e da tomada de decisões estratégicas.
- Tornando mais eficientes as unidades do Grupo, fomentando o intercâmbio de melhores práticas em gestão de despesas e economias de escala. Isso nos permite ter uma eficiência dentre as melhores do setor.
- Compartilhando as melhores práticas comerciais, implementando iniciativas comerciais globais e impulsionando a digitalização, o Centro Corporativo contribui para o crescimento das receitas do Grupo.

Além disso, exerce também as funções relacionadas com a gestão financeira e do capital, como segue:

• Funções exercidas por Gestão Financeira:

- Gestão estrutural do risco de liquidez associado ao financiamento da atividade recorrente do Grupo, às participações de caráter financeiro e à gestão da liquidez líquida relacionada com as necessidades de algumas unidades de negócio.

Essa atividade é desenvolvida mediante a diversificação de diferentes fontes de financiamento (emissões e outras), mantendo um perfil adequado (volumes, prazos e despesas). O preço ao qual essas operações são realizadas com outras unidades do grupo é a taxa de mercado (euribor ou *swap*) mais o prêmio que, a título de liquidez, é arcado pelo Grupo devido à imobilização de fundos durante o prazo da operação.

- Administra-se, também, de forma ativa o risco da taxa de juros para amortizar o impacto das variações nas taxas de juros sobre a margem de juros, o que é realizado através de derivados de alta qualidade de crédito, alta liquidez e baixo consumo de capital.

- Gestão estratégica da exposição a taxas de câmbio no patrimônio e dinâmica na contrapartida dos resultados em euros para os próximos doze meses das unidades. Atualmente, investimentos líquidos em patrimônio cobertos por 21.680 milhões de euros (principalmente Brasil, Reino Unido, Chile, México e Polônia) com diversos instrumentos (*spot*, *forex swaps* e *forex forwards*).

• Gestão do total do capital e reservas:

- Alocação de capital a cada uma das unidades e sua gestão consolidada. Finalmente, e de forma marginal, no Centro Corporativo são refletidas as participações de caráter financeiro que o Grupo realiza dentro da sua política de otimização de investimentos.

Resultados

Em 2015 o papel do Centro Corporativo no Grupo foi reformulado, visando a melhorar a transparência e visibilidade dos resultados tanto do próprio Centro Corporativo como do Grupo, bem como a responsabilidade das unidades operacionais. No ano de 2016, o Centro Corporativo corresponde a 22% do lucro do Grupo, contra 23% no ano anterior.

Na comparação anual:

- Menores receitas devido a menores resultados obtidos na gestão centralizada dos diversos riscos (principalmente risco de câmbio e de taxa de juros).
- As despesas diminuíram 18%, redução relacionada com a reestruturação implementada no segundo trimestre do ano e a continuidade do processo de simplificação da empresa iniciado em 2015.
- O conjunto de outros resultados e provisionamentos contabiliza uma cifra negativa de 75 milhões de euros, contra 507 milhões, também negativos, em 2015. Nessas rubricas são registradas provisões de natureza muito diversa, bem como ganhos, perdas e deterioração de ativos financeiros. A cifra foi normalizada este ano, já que em 2015 foi superior à média.
- Com tudo isso, o prejuízo ordinário em 2016 foi de 1.439 milhões de euros, contra 1.493 milhões também negativos em 2015. Considerados os 417 milhões negativos do valor líquido de resultados positivos e negativos não recorrentes registrados no ano (600 milhões negativos em 2015), o prejuízo total no exercício foi de 1.856 milhões de euros contra o prejuízo de 2.093 milhões em 2015.

BANCO COMERCIAL

6.297 M€
Lucro líquido atribuível

DESTAQUES EM 2016

- Continua a transformação do nosso modelo comercial em um modelo cada vez mais Simples, Pessoal e Justo.
- Foco em três linhas de ação: vinculação e satisfação de clientes, transformação digital e excelência operacional.
- No encerramento do ano, o Grupo tinha 15,2 milhões de clientes vinculados e 20,9 milhões de clientes digitais.
- O Santander foi eleito o *Melhor Banco do Mundo para PMEs* pela *Euromoney*.
- Lucro antes de impostos de 10.201 milhões de euros e lucro atribuível de 6.297 milhões de euros.

Atividade comercial

O programa de transformação do Banco Comercial está estruturado em 3 eixos principais:

- 1.- A vinculação e satisfação dos clientes.
- 2.- A transformação digital dos nossos canais, produtos e serviços.
- 3.- A excelência operacional dos nossos processos.

A seguir são apresentadas as atuações realizadas em cada um dos eixos, como um resumo daquelas comentadas ao longo deste relatório financeiro.

- 1.- Para melhorar continuamente a **vinculação e satisfação dos nossos clientes** durante 2016 podemos destacar, entre outras iniciativas:



Banco Comercial

Milhões de euros

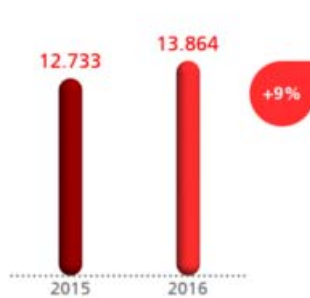
Resultados	2016	2015	Variação absoluta	%	% sem TC
Margem de juros	29.090	29.857	(767)	(2,6)	2,9
Comissões líquidas	8.745	8.562	183	2,1	8,9
Resultados líquidos de operações financeiras	664	1.360	(697)	(51,2)	(49,3)
Outras receitas*	557	375	182	48,5	45,5
Margem bruta	39.055	40.154	(1.099)	(2,7)	2,8
Despesas totais	(18.476)	(18.675)	199	(1,1)	5,0
Margem líquida	20.580	21.479	(900)	(4,2)	0,9
Provisões para perdas com créditos	(8.693)	(9.247)	554	(6,0)	(2,2)
Outros resultados e provisões	(1.686)	(1.751)	65	(3,7)	1,2
Resultado antes dos impostos sobre o lucro	10.201	10.482	(281)	(2,7)	3,6
Imposto de renda	(2.798)	(2.626)	(172)	6,6	12,4
Lucro líquido das operações continuadas	7.402	7.855	(453)	(5,8)	0,6
Resultado de operações descontinuadas (líquida)	—	—	—	—	—
Lucro líquido do período	7.402	7.855	(453)	(5,8)	0,6
Resultado atribuído aos acionistas não controladores	1.105	1.114	(9)	(0,8)	3,6
Lucro líquido atribuível à Controladora	6.297	6.741	(444)	(6,6)	0,1

(*)- Inclui rendimentos sobre instrumentos de capital, resultados de equivalência patrimonial e outras receitas/despesas operacionais

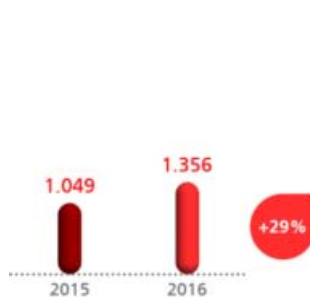
● Clientes vinculados
Milhares



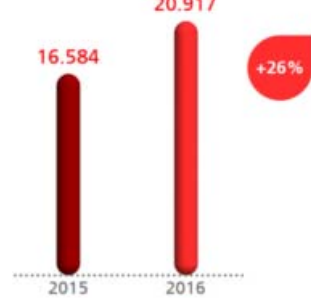
● Vinculados de varejo
Milhares



● PMEs e empresas vinculadas
Milhares



● Clientes digitais
Milhares



- A estratégia 1/2/3 na Espanha, em Portugal e no Reino Unido que segue com bom ritmo de abertura de contas.
- A consolidação de propostas de valor a clientes pessoas físicas no México, como *Santander Plus*, e a parceria com a Aeroméxico, que já resultou em mais de 430.000 cartões; ou o *Programa Superpontos*, no Chile, que oferecem importantes vantagens aos clientes.



- A plataforma *Suite Digital* lançada no México, pioneira no mercado, que abrange uma oferta de serviços bancários e educação financeira totalmente digitais; o aplicativo financeiro *sina* que a Alemanha oferece aos seus clientes para administrar suas economias; ou o *Centro de Investimento* lançado pelo Santander UK que permite que os clientes administrem seus investimentos *online*.
- O lançamento da oferta *Select Global Value*, que complementa a oferta local com serviços não financeiros e disponibiliza aos clientes um serviço homogêneo e exclusivo em todos os países do Grupo.

- Continua evolução dos planos para PMEs em todas as geografias (*Breakthrow* no Reino Unido, *Firmowe Ewolucje* na Polônia, *Avançar* no Brasil e *Advance* no Chile, Espanha, Argentina e Portugal, entre outros). Além disso, constantes melhorias, como o *factoring web* para PMEs e empresas no Chile. Destaca-se também a proposta global *Santander Trade Network*, pela qual o Santander foi reconhecido como o Melhor Provedor Internacional de Soluções nos prêmios *Business Money Facts* no Reino Unido, e como *Best Trade Finance Provider* pela *Global Finance* no México, Argentina e Chile.

2.- Para chegar a tornar-se um banco mais simples para os nossos clientes, continuamos impulsionando a **transformação digital e multicanal**.

- O Santander México já soma 1,3 milhões de clientes digitais com o *SuperMóvil*, que permite acessar todos os serviços de qualquer dispositivo móvel e com a mesma senha.
- No Brasil, mais de 6 milhões de clientes já acessam os nossos canais por biometria. Destaca-se também o lançamento do novo modelo comercial *+Negócios* para o segmento de financiamento ao consumo.
- Na Espanha foi implementado o *Santander Personal* como canal de atendimento especializado e personalizado, e na Polônia foi lançado o novo Banco por Internet com a seção *Atendimento ao Cliente* que permite o atendimento pessoal.
- No Grupo foram lançadas diversas soluções de pagamento, como, na Espanha, o aplicativo *Wallet* proprietário que permite pagar com o celular em qualquer estabelecimento, a pulseira para pagamentos sem contato, o serviço *Apple Pay* ou *Bizum* que permite o pagamento direto P2P; ou no Brasil, o App *Santander Way*, que proporciona rapidez, controle e segurança aos usuários de cartões.

- O Santander Río foi mais uma vez eleito o melhor Banco digital da Argentina pela revista internacional *Global Finance*. Foi reconhecido também como o melhor banco por SMS e o melhor desenho de *website* da América Latina.
- Foram registrados também avanços na transformação das agências sob o Programa *Smart Red*. Na Espanha, Brasil, México, Reino Unido e Argentina já foram inaugurados novos modelos de agências, Portugal já conta com espaços especializados para empresas e no Chile foi inaugurado o primeiro *WorkCafé*, um novo formato de agência onde o cliente pode aproveitar sua visita para utilizar a zona de *co-working*. Também continua com bom ritmo a instalação de novos caixas eletrônicos multi-serviço que facilitam a nossos clientes as operações básicas de maneira simples e ágil.



- Os CRMs NEO consolidam-se como ferramenta CRM de referência no mercado, com novas melhorias como o CRM de transações *+Che* do Santander Río, o novo CRM multicanal no *Contact Center* da Polônia, o NEO Jupiter que já está disponível em todas as agências do México, ou o NEO CRM recentemente lançado no Reino Unido, desenvolvido em tempo recorde, com um equipamento multidisciplinar dedicado, trabalhando com metodologia *Agile*.

3.- A satisfação e experiência dos nossos clientes continuam sendo a nossa prioridade, motivo pelo qual continuamos trabalhando na **excelência operacional**, com novos processos mais simples,

eficientes e omnichannel, desenvolvidos com metodologia *Agile*, bem como em melhorar a qualidade do serviço. Reflexo desses esforços é a melhora nos rankings de satisfação de clientes, em que oito dos nove principais países do Grupo já se encontram no top 3 de cada mercado.

Esses constantes avanços renderam ao Santander inúmeros reconhecimentos, como, *Banco do Ano* no continente americano, Portugal e Argentina, pela *The Banker*; *Melhor Banco do mundo para PMEs*, e *Melhor banco comercial* da Argentina, Portugal, Polônia, Porto Rico e Chile, pela *Euromoney*. O *Santander Private Banking* também foi eleito por essa publicação o *Melhor Banco em Gestão de Patrimônios na América Latina*.

Resultados

O lucro antes de impostos chegou a 10.201 milhões de euros, com uma leve redução devido ao impacto da taxa de câmbio. Excluído esse impacto, aumento de 4%. Significativo aumento da taxa fiscal que afeta o lucro atribuível, que se encontra em 6.297 milhões de euros, estável com relação a 2015 sem efeito taxa de câmbio.

A conta de resultados se caracteriza pelo impulso da margem de juros, o bom desempenho das comissões em praticamente todas as unidades, a disciplina de despesas e a redução de provisões.

Atividade

% var. 2016 / 2015 (sem TC)

Lucro líquido atribuível

Milhões de euros constantes



ESTRATÉGIA EM 2017

- Melhorar continuamente as nossas soluções financeiras para incrementar a satisfação dos clientes com o banco.
- Seguir impulsionando a integração de canais para oferecer aos nossos clientes uma experiência homogênea e pessoal.
- Continuar apostando na transformação digital para disponibilizar aos clientes produtos, serviços e soluções simples, que nos diferenciem pela excelência operacional.
- Avançar na oferta de valor diferenciado proporcionado pela presença global.
- Consolidar a nossa cultura de serviço: simples, pessoal e justa.

GLOBAL CORPORATE BANKING

2.089 M€
Lucro líquido atribuível

DESTAQUES EM 2016

- Posições de referência em *Export Finance*, Empréstimos Corporativos, *Project Finance* e Emissões, entre outras, na Europa e América Latina.
- Lucro atribuível de 2.089 milhões de euros, com um aumento de 30% em euros constantes.
- Evolução positiva de receitas, mantendo a eficiência em despesas que alavancam a solidez do nosso modelo.

Estratégia

As principais linhas de ação ao longo do ano foram:

- Avanços para transformar o nosso modelo em um negócio mais leve em capital, com a implantação de uma área dedicada exclusivamente à rotação de ativos e otimização de capital (ARCO) para potencializar a capacidade de distribuição da divisão.
- Criação de uma área de inovação para fomentar novas soluções e fazer frente a novos atores não bancários. A área participa de diferentes projetos na tecnologia *blockchain* para posicionar-nos ante as transformações no setor financeiro que esta tecnologia pode introduzir (*Digital Assets Holding*, *Utility Settlement Coin*, *Ripple payments...*). O *big-data* já é utilizado em recebíveis de GTB para realizar o *scoring* de risco de empresas com base em fontes de informação disponíveis no mercado.
- Fortalecimento da nossa posição de liderança na América Latina, onde somos o número 1 em *Export Finance*, *Debt Capital Markets* (DCM), *Equity Capital Markets* (ECM), M&A e *Project Finance*. Participamos da maior retomada de bens da história na Argentina e da emissão do bônus do Banco Central deste país.
- Em nível global somos número 1 na região em operações de *Project Finance Advisory* e número 2 em *Project Bonds*.
- Avanços no processo para facilitar a conectividade internacional aos clientes de Banco Comercial. Para isso, foi implantada no México a plataforma *Flame* para produtos FX, desenvolvida no Reino Unido. Em 2017 será implantada também nos E.U.A. e Chile. Disponibilizamos também que os corretores comerciais capturem fluxos de crédito para exportação e criamos uma ferramenta global (ORBE) para fornecer à rede comercial informações sobre os países e bancos com os quais o Grupo pode operar.

Global Corporate Banking

Milhões de euros

Resultados	2016	2015	Varição absoluta	%	% sem TC
Margem de juros	2.781	3.001	(220)	(7,3)	(0,5)
Comissões líquidas	1.465	1.483	(18)	(1,2)	4,6
Resultados líquidos de operações financeiras	1.293	724	569	78,6	96,8
Outras receitas*	286	268	18	6,8	5,0
Margem bruta	5.825	5.476	349	6,4	13,7
Despesas totais	(1.951)	(2.114)	163	(7,7)	(2,2)
Margem líquida	3.874	3.362	512	15,2	23,8
Provisões para perdas com créditos	(660)	(681)	21	(3,1)	1,1
Outros resultados e provisões	(77)	(93)	16	(16,8)	(15,9)
Resultado antes dos impostos sobre o lucro	3.137	2.589	549	21,2	31,5
Imposto de renda	(876)	(732)	(144)	19,6	31,1
Lucro líquido das operações continuadas	2.261	1.857	405	21,8	31,7
Resultado de operações descontinuadas (líquida)	—	—	—	—	—
Lucro líquido do período	2.261	1.857	405	21,8	31,7
Resultado atribuído aos acionistas não controladores	172	119	53	44,9	55,9
Lucro líquido atribuível à Controladora	2.089	1.738	352	20,2	30,0

(*)- Inclui rendimentos sobre instrumentos de capital, resultados de equivalência patrimonial e outras receitas/despesas operacionais

Atividade

O SGCB aproveitou a solidez do seu modelo para obter bons resultados, mantendo os níveis de eficiência em despesas líderes no setor, graças ao seu modelo centrado no cliente que concilia capacidades globais e locais com uma gestão ativa do risco, capital e liquidez.

No ano destacam-se as seguintes ações, entre outras:

- Em **Trade Finance**, destacam-se as ações em *Export Finance* que posicionam o Grupo Santander como um dos atores mais relevantes no negócio, mantendo a 5ª colocação nas classificações internacionais.
- Em **Trade @ Working Capital Solutions**, destaca-se o aumento na demanda de serviços de *Working Capital Solutions*. A América Latina foi a principal propulsora de crescimento, tanto em *Receivable Finance* como em *Confirming*, destacando-se o Brasil com crescimentos de dois dígitos.
- **Instituições Financeiras Internacionais** incrementaram as capacidades do Grupo para operar com outros bancos internacionais de maneira mais ágil, mais eficiente do ponto-de-vista de riscos e adaptando-se aos novos requerimentos regulatórios. Assim, o Grupo ampliou a sua capacidade para acompanhar os clientes exportadores nos países e bancos em que têm atividades.
- **Cash Management** apresentou um crescimento de dois dígitos nas receitas de transacionalidade e de recursos. Foi mantido o esforço investidor para melhorar as plataformas globais e locais e foram elaborados planos comerciais específicos para consolidar a liderança do Banco Santander nos nossos 10 principais mercados.
- Em **empréstimos corporativos sindicalizados**, continuamos mantendo uma posição de referência na Europa e América Latina,

com participações em transações significativas, tais como: o empréstimo concedido à AT&T na compra de *Time Warner* e à *Henkel* para a compra de *Sun Products* nos Estados Unidos, o refinanciamento pela Acciona, o empréstimo consorciado à Danone para a aquisição da *WhiteWave Foods* e o apoio à *Shire* no empréstimo-ponte para o processo de fusão com a *Baxalta*.

- Em **Corporate Finance** destaca-se, em *Equity Capital Market*, a participação na entrada na Bolsa da *Innogy*, subsidiária de energias renováveis do Grupo RWE, que foi o maior IPO realizado na Europa nos últimos 5 anos. Uma operação no valor de 4.600 milhões de euros.
- Em **financiamentos estruturados**, continuamos contando com uma clara posição de liderança, tanto na América Latina como na Espanha. Destacam-se operações como o financiamento na aquisição de 20% da Gás Natural pela *Global Infrastructure Partners* e a assessoria e financiamento ao consórcio entre Vinci, ADP e Astaldi para a construção do novo terminal internacional do Chile.
- No **mercado de capitais de dívida**, o Santander posiciona-se como líder no ranking latino-americano, uma vez que esteve presente nas principais operações da região. Além disso, destacam-se as operações em dólares dos E.U.A. de emissores brasileiros, argentinos e chilenos. Destaca-se, ainda, a participação do Santander nas emissões da *AB Invev*. Na Europa, o Santander manteve-se ativo no mercado, apoiando tanto emissores financeiros (Commerzbank, Unicredit, CFF) como corporativos (BP, Cellnex, EDP, Ferrovial, Iberdrola).
- Quanto à atividade de **Mercados**, bons resultados com evolução positiva das receitas do negócio de vendas, especialmente no segmento corporativo com importantes crescimentos no Reino Unido, Brasil e Espanha. Maior aporte na gestão de livros, destacando-se a Espanha, Reino Unido, Brasil, Argentina e México.

Composição da margem bruta

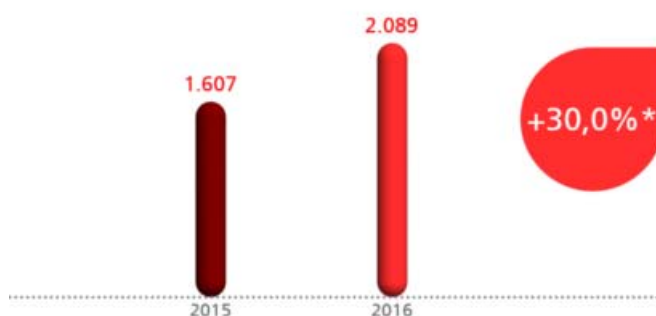
Milhões de euros constantes



(*) Em euros: receita total: +6%; clientes: +6%

Lucro líquido atribuível

Milhões de euros constantes



(*) Em euros: +20,2%

Resultados (em euros constantes)

Os resultados do GCB apóiam-se na solidez e diversificação das receitas de clientes. No ano, o lucro atribuível chegou a 2.089 milhões de euros, o que significa um aumento anual de 30%.

- No acumulado do ano, a área representa 13% das receitas e 25% do lucro atribuível das áreas operacionais do Grupo.
- As receitas cresceram 14% no ano. Por tipo de atividade, foi registrado crescimento em todos os produtos; o *Global Transaction*

Banking aumentou 13%, em um ambiente de contenção de *spreads* e baixas taxas de juros. Em *Financing Solutions @ Advisory*, +1%, refletindo a solidez dos diversos negócios e +21% em *Global Markets* com bom desempenho na Europa e especialmente na América.

- As despesas diminuiram 2% após a implementação dos planos de eficiência, especialmente na Espanha e nos Estados Unidos, e as provisões aumentaram apenas 1%.

Ranking em 2016

Revista	Área	Prêmio / Ranking
Global Finance	GTB	Cash Management Best Bank in the Americas
EFMA	GTB	Cash Management Global Distribution & Marketing Innovation awards for Financial Services
TFR	GTB	Best Trade Bank in Spain
TFAalytics	GTB	Best Trade Bank in LATAM
TFR	GTB	TFR Deals of the Year 2016 -ECA highly commended : Enel Green Power US\$111
IFR	FS&A	Latin America Bond of the Year: Argentina's US\$16.5bn four-tranche bond
Global Finance Magazine	Global Markets	World's Best FX Providers 2016 in Portugal
LatinFinance	Global Markets	Sovereign Issuer and Sovereign Bond of the Year. The Republic of Argentina bond
LatinFinance	Global Markets	Corporate Liability Management of the Year : Petrobras liability management
LatinFinance	Global Markets	Bank of the Year Chile
PFI	FS&A	Americas Oil & Gas Deal of the Year: FERMACA
PFI	FS&A	Latin American Power Deal of the Year: Transmisora Eléctrica del Norte
PFI	FS&A	Power Deal of the Year in Europe: MGT Power deal
Global Capital	FS&A	2016 Corporate Bond Deals of the Year: Corporate Deal of the Year by a European Issuer - Anheuser-Busch InBev
IJ GLOBAL	FS&A	Latin America Transport Deal of the Year: Santiago Airport PPP Expansion
IJ GLOBAL	FS&A	Latin America Transmission Deal of the Year: TEN Transmission Project
PEI	FS&A	Infrastructure Investor annual awards : Latin America Bank of the year
Global Finance	FS&A	Best Debt Bank Latam
Latin Finance	Corporate Finance	Deals of the Year: Equity Follow-On of the Year: Telefonica Brasil BRL16.1 bn May 2015
Global Capital	Corporate Finance	Deals of the Year: Equity Follow-On of the Year: Telefonica Brasil BRL16.1 bn May 2015
LatinFinance	Corporate Finance	Cross-Border M&A Deal of the Year: State Power Investment Corp/Pacific Hydro

(GTB) *Global Transaction Banking*: Inclui as operações de *cash management*, *trade finance*, financiamento básico e custódia.

(FS&A) *Financing Solutions @ Advisory*: inclui as unidades de originação e distribuição de empréstimos corporativos ou financiamentos estruturados, as equipes de originação de títulos e securitização, as unidades de *corporate finance* (fusões e aquisições -M&A-; mercados primários de renda variável -ECM-; soluções de investimento para clientes corporativos via derivativos -CED-; além de *asset @ capital structuring*.

(GM) *Global Markets* : Inclui a venda e distribuição de derivativos de renda fixa e variável, taxa de juros e inflação; negociação e cobertura de taxa de câmbio e mercados financeiros a curto prazo para clientes de atacado e varejo do Grupo; gestão contábil associada à distribuição; e intermediação de renda variável e derivativos para soluções de investimento e coberturas.

ESTRATÉGIA EM 2017

- Foco na eficiência em capital, melhorando as capacidades de originação e distribuição, desenvolvendo ofertas de produtos de alto valor agregado e baixo consumo de capital.
- Prosseguir com a integração com a rede do banco comercial e a oferta de produtos aos clientes, concentrando-nos nas regiões geográficas menos maduras.
- Lançamento em *supply chain finance* de um novo modelo com base em pedidos de compra, além do programa global de compra de recebíveis que permitirá ampliar a oferta de produto e os clientes cobertos.



5

Risk management report

- 160 **Executive summary**
- 164 **A. Pillars of the risk function**
- 165 **B. Risk control and management model - *Advanced Risk Management***
 - 166 B1. Risk map
 - 166 B2. Risk governance
 - 169 B3. Management processes and tools
 - 175 B4. Risk culture - *Risk Pro*
- 177 **C. Background and upcoming challenges**
- 183 **D. Risk profile**
 - 183 D1. Credit risk
 - 215 D2. Trading market risk and structural risks
 - 235 D3. Liquidity risk and funding
 - 243 D4. Operational risk
 - 254 D5. Compliance and conduct risk
 - 263 D6. Model risk
 - 265 D7. Strategic risk
 - 266 D8. Capital risk
- 275 **Appendix: EDTF transparency**

**A versão em português
deste relatório
estará disponível
nos próximos dias**

Executive summary

Pillars of the risk function

pages 164 to 164

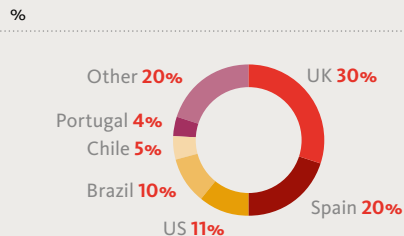
Through its forward-looking risk management, Grupo Santander ensures it maintains robust control whilst continuing to build its future.

- A risk culture integrated throughout the organisation, comprising attitudes, values, skills and guidelines for action to cope with all risks.
- Business strategy determined by a comprehensive review of risk appetite.
- Forward-looking vision of all risk types.
- Independence of risk function from business functions.
- Best in class for processes and infrastructure.
- Risks managed by units which generate them, using advanced models and tools.

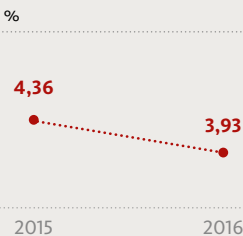
Continuing improvement in credit risk profile

pages 183 to 214

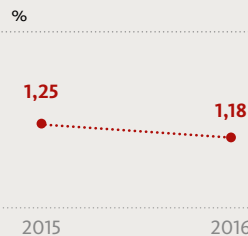
Customer credit risk by country



NPL ratio



Cost of credit¹



- Over 80% of risk relates to retail banking. Significant geographic and sector diversification.
- Continuing improvement in main credit quality indicators, which at December 2016 stood at:
 - Group NPL ratio falls further to 3.93%, down 43 bp on the previous year, with noteworthy reductions in Spain, Poland, SCF and Brazil.
 - The coverage ratio remains at around 74%.
 - Annual provisions are down to EUR 9,518 million, with the biggest reduction in Spain.
 - Cost of credit drops to 1.18% (-7 bp), in line with the improvement in credit profile.

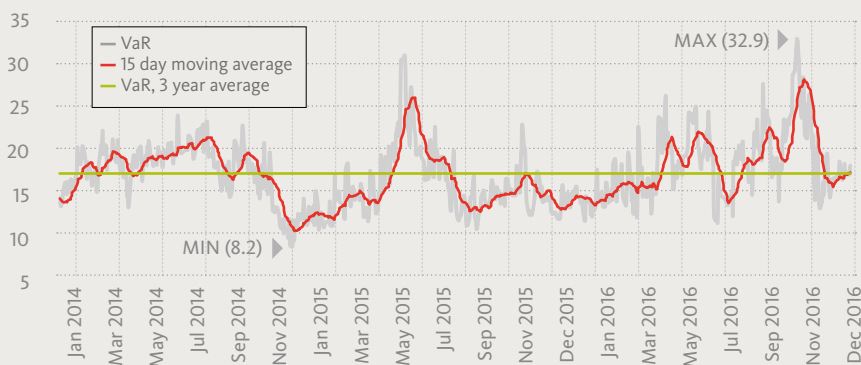
Trading market risk and structural risks

pages 215 to 234

- Due to customer service operations and geographical diversification, average VaR in the SGCB trading business remains at low levels.
- An appropriate balance sheet structure ensures that the impact of changes in interest rates on net interest income and equity value are contained.
- Coverage levels for the core capital ratio stand at around 100% for changes in exchange rates.

VaR 2014-2016: change over time

Million euros. VaR at a 99% confidence interval over a one day horizon.

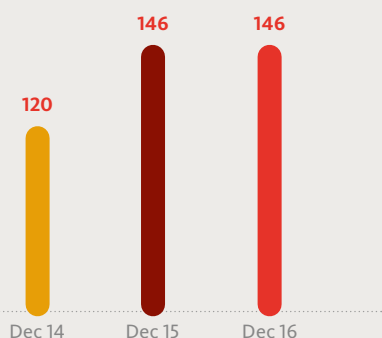


1. Cost of credit = loan-loss provisions twelve months / average lending.

Liquidity risk and funding

Short-term liquidity coverage ratio (LCR)

%



- Santander has a strong liquidity position, based on its structure of autonomous subsidiaries and retail business model with strong customer deposits.
- As of December 2016, the Group's LCR ratio stood at 146%, comfortably exceeding the regulatory requirement. The liquidity reserve amounted to EUR 265,913 million.
- The loan-to-deposit ratio remains at very comfortable levels (114%).
- Market environment similar to 2015 in terms of costs, although because of the ECB's and BoE's monetary policies, there has been less use of medium and long-term wholesale funding: 23 issuing units in 16 countries and 13 currencies.

Non-financial risks

Operational risk

- Transformation project for the advanced measurement approach to risk.
- Investing in measures against cyber-risk, data security and fraud.
- Roll-out of new risk self-assessment process and controls throughout the organisation.

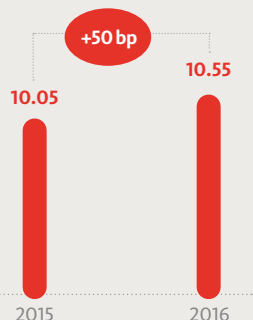
Compliance and conduct risk

- Increased consumer protection not only driven by regulatory requirements but also reinforced with our internal policies aligned to SPF culture.
- Development of reputational risk model and elements used to mitigate it.
- New challenges associated with digitalisation.

Regulatory capital

Evolution CET1 (%FL)

%



- CET1 is at a level of 10.55%, in line with the outlook for organic growth. The Group has a higher ratio than the minimum prudential capital requirement set by the ECB for 2017.
- In the EBA stress test:
 - Santander demonstrated great resilience, due to its retail and commercial banking model and geographic diversification.
 - In the adverse scenario, Santander is the bank which destroys the least capital among its peers.

This management report provides extensive information on the risks faced by the Group, the manner in which it manages and controls these and the way that they affect the Group's activity and results.

the Group's activity and results. The report also provides details of the actions taken by the entity to minimise the occurrence of such risks and mitigate their severity.

Following best practice in the market, the following navigation map is a guide to the main issues addressed in this risk management

report through the various documents the Group publishes: the annual report, the audit report, the annual financial statements and the Prudential Relevance Report (PRR or Pillar III). To further foster transparency, the PRR also includes a glossary of the basic risk terminology used in this section and the PRR itself.

The appendix to the risk management report includes a table indicating the location of the recommendations of the EDTF (Enhanced Disclosure Task Force, fostered by the Financial Stability Board) in the information published by Grupo Santander.

Map of Grupo Santander documents with information on risk management and control

Block	Points	Annual report	Audit report and annual accounts	PRR (Pilar III)
Pillars of the risk function	Pillars of the risk function	Pag. 164	Note 54.a and other notes and related information	Section 3*
Risk control and management model	Risk map	Pag. 166	Note 54.b and other notes and related information	Section 3*
	Risk governance	Pag. 166		
	Lines of defence	Pag. 166		
	Risk committees structure	Pag. 167		
	Structural organisation of the risk function	Pag. 167		
	The Group's relationship with subsidiaries in risk management	Pag. 168		
	Management processes and tools	Pag. 169		
	Risk appetite and structure of limits	Pag. 169		
	Risk Identification Assessment (RIA)	Pag. 172		
	Analysis of scenarios	Pag. 172		
	Recovery and resolution plans and the Special situations management framework	Pag. 173		
Risk Data Aggregation and Risk Reporting Framework (RDA & RRF)	Pag. 175			
Risk culture	Pag. 175			
Background and upcoming challenges	Background and upcoming challenges	Pag. 177		Section 1
Credit risk	Introduction to credit risk treatment	Pag. 183	Note 54.c and other notes and related information	Section 3*
	Key figures and change over time	Pag. 184		
	Details of main geographies: United Kingdom, Spain, United States, Brazil	Pag. 192		
	Other credit risk optics (credit risk from activities in financial markets, concentration risk, country risk, sovereign risk and environmental risk)	Pag. 202		
	Credit risk cycle (pre-sale, sale and post-sale)	Pag. 209		
	Study of risk and credit rating process; planning and establishment of limits	Pag. 210		
	Decisions on operations (credit risk mitigation techniques)	Pag. 211		
	Monitoring, measurement and control	Pag. 213		
Recovery management	Pag. 214			
Trading market risk and structural risks	Activities subject to market risk and types of market risk	Pag. 215	Note 54.d and other notes and related information	Section 5
	Trading market risk	Pag. 217		
	Key figures and change over time	Pag. 217		
	Methodologies	Pag. 226		
	Systems for controlling limits	Pag. 228		
	Structural balance sheet risks	Pag. 229		
	Key figures and change over time	Pag. 229		
	Methodologies	Pag. 232		
Systems for controlling limits	Pag. 233			
Pension and actuarial risk	Pag. 233			
Liquidity risk and funding	Liquidity management in Grupo Santander	Pag. 235	Note 54.e and other notes and related information	Section 7.1*
	Funding strategy and evolution of liquidity in 2016	Pag. 236		
	Funding outlook for 2017	Pag. 242		
Operational risk	Definition and objectives	Pag. 243	Note 54.f and other notes and related information	Section 6*
	Operational risk management and control model (management cycle, identification model, risk measurement and assessment, model roll-out, reporting system)	Pag. 243		
	Evolution of the main metrics. Mitigation measures. Business continuity plan	Pag. 248		
	Other aspects of operational risk control and monitoring	Pag. 252		
Compliance and conduct risk	Scope, aim, definitions and objective	Pag. 254	Note 54.g and other notes and related information	Section 7.2*
	Compliance and conduct risk control and oversight	Pag. 255		
	Governance and the organisational model	Pag. 255		
	Regulatory compliance	Pag. 257		
	Product governance and consumer protection	Pag. 259		
	Anti-money laundering and terrorist financing	Pag. 260		
	Reputational risk	Pag. 261		
Risk assessment model of compliance and risk appetite	Pag. 261			
Transversal corporate projects	Pag. 261			
Model risk	Model risk	Pag. 263	Note 54.h	Section 3.7.1
Strategic risk	Strategic risk	Pag. 265	Note 54.i	Section 3*
Capital risk	Regulatory framework	Pag. 268	Note 54.j and other notes and related information	Section 2
	Regulatory capital	Pag. 268		
	Economic capital	Pag. 271		
	Capital planning and stress tests	Pag. 273		
Appendix: EDTF Transparency	EDTF recommendations table	Pag. 275		Section 3

* Sections with cross-references to this chapter of the annual risk report

EXECUTIVE SUMMARY

A. PILLARS OF THE RISK FUNCTION

B. RISK CONTROL AND MANAGEMENT MODEL - *Advanced Risk Management*

C. BACKGROUND AND UPCOMING CHALLENGES

D. RISK PROFILE

APPENDIX: EDTF TRANSPARENCY

A. Pillars of the risk function

Seeking to achieve excellence in risk management has been a priority for Grupo Santander throughout its 160 year history. In 2016, it continued to evolve to stay one step ahead of economic, social and regulatory changes affecting its activities.

Through its forward-looking risk management, Grupo Santander ensures it maintains robust control whilst continuing to build its future. Risk management is one of the key functions in ensuring that the Group remains a robust, safe and sustainable bank, trusted by its employees, customers, shareholders and society as a whole.

The risk function is based on the following pillars, which are aligned with Grupo Santander's strategy and business model, and incorporate the recommendations of supervisory bodies, regulators and best practices in the market:

1. Business strategy is defined by risk appetite. The board of Banco Santander determines the quantity and type of risk it considers reasonable to assume in the execution of its business strategy and sets targets that are objective, comparable and consistent with its risk appetite for each key activity.

2. All risks have to be managed by the units which generate them, using advanced approaches and tools that are integrated into the businesses. Grupo Santander fosters advanced risk management using models and innovative metrics, and also a control, reporting and escalation framework in order to pinpoint and manage risks from different standpoints.

3. The forward-looking approach for all risk types must be part of the risk identification, assessment and management processes.

4. The independence of the risk function encompasses all risks and provides an appropriate separation between the risk generating units and units responsible for controlling these risks. This means that the risk function has sufficient authority and direct access to the management and governance bodies responsible for establishing and overseeing risk strategy and policies.

5. Risk management has to have the best processes and infrastructures. Grupo Santander aims to set a benchmark model in developing risk management support infrastructure and processes.

6. A risk culture integrated throughout the organisation, composed of a series of attitudes, values, skills and guidelines for action to cope with all risks. Grupo Santander believes that advanced risk management cannot be achieved without a strong and steadfast risk culture, which is found in each and every one of its activities.

EXECUTIVE SUMMARY

A. PILLARS OF THE RISK FUNCTION

B. RISK CONTROL AND MANAGEMENT MODEL - *Advanced Risk Management*

1. Risk map

2. Risk governance

3. Management processes and tools

4. Risk culture - *Risk Pro*

C. BACKGROUND AND UPCOMING CHALLENGES

D. RISK PROFILE

APPENDIX: EDTF TRANSPARENCY

B. Risk control and management model – *Advanced Risk Management*

The Group's risk management model establishes a **control environment** which ensures the risk profile is maintained within the levels set in the risk appetite and other limits.

The **main elements** that ensure effective control are:

1. Robust governance, with a clear committee structure that separates decision making, on one side, from risk control, on the other, all encompassed and developed within a solid risk culture.
2. A set of key, inter-related processes in the planning of the Group's strategy (budget processes, risk appetite, regular assessment of liquidity and capital adequacy, and recovery and resolution plans).
3. Aggregated supervision and consolidation of all risks.
4. Regulatory and supervisory requirements are incorporated into day-to-day risk management.
5. Independent assessment by internal audit.
6. Decision making based on appropriate management of information and technological infrastructure.

To ensure progress towards advanced risk management, the Group launched an Advanced Risk Management (ARM) programme in 2014. This provides the basis for the best model for comprehensive risk management in the industry. This programme was completed in 2016. The advanced risk management model is now a reality in Grupo Santander.

The advanced risk management model will enable Grupo Santander to do more business, and do it better, within a robust control framework, enhancing management capacity, developing talent and providing greater autonomy for Group units.

Continuing this work, in 2016 we continued to evolve towards a more consistent and granular version of the risk appetite.

The independence of the risks function and the control environment have been enhanced through the risks governance model, ensuring separation of control and risk decisions at all levels.

Progress has also been made in all management models to offset all of the risks faced by the bank in its day-to-day operations:

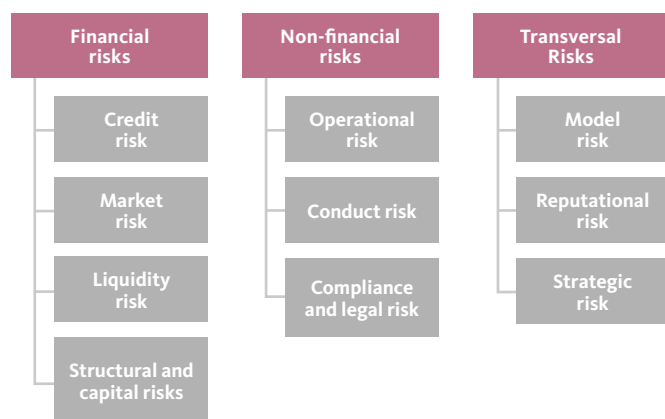
- Significant boost to operational risk management. The foundations of the operational risk framework have been implemented in all countries.
- Progress in management of model risk. The unit set up to control model risk has been beefed up. This unit is independent of the model-development function and users of the model, ensuring a robust and efficient double layer of control.
- Improved credit risk management. Strategic commercial plans (SCPs) have been drawn up for the main lending portfolios, providing an important tool for day-to-day management of credit risk. Progress has also been made with the management of the end-to-end credit risk lifecycle, in line with business models.
- Optimisation of the Group's capacity to anticipate and identify risks, by improving scenario analysis and stress testing in all countries.

The definition of a new special situations management framework is also being developed jointly with the Finance Division, to enhance the measures at the Bank's disposal to respond to serious and unexpected situations of whatever type.

B.1. Risk map

Identifying and evaluating all risks is a corner stone for controlling and managing risks. The risks map covers the main risk categories in which Grupo Santander has its most significant current and/or potential exposures, facilitating their identification.

The first level includes the following risks:



Financial risks

- **Credit risk:** risk of losses from non-compliance with contractual obligations agreed in financial transactions.
- **Market risk:** resulting from the possibility of changes in market factors affecting the value of trading book positions.
- **Liquidity risk:** risk of non-compliance with payment obligations in time or at an excessive cost.
- **Structural and capital risks:** risk occasioned in the management of the various balance sheet items, including those concerning sufficient equity levels and those resulting from insurance and pension activities.

B.2. Risk governance

The governance of the risk function should safeguard adequate and efficient decision making and effective risk control, and ensure that they are managed in accordance with the risk appetite defined by the Group's senior management and its units, as applicable.

For this purpose, the following principles are established:

- Segregation between risk decisions and control.
- Stepping up the responsibility of risk generating functions in the decision making process.
- Ensuring that all risks decisions have a formal approval process.
- Ensuring an aggregate overview of all risk types measured against the Group's aggregate risk appetite.

Non-financial risks

- **Operational risk:** risk of losses resulting from inadequate or failed processes, people and internal systems, or from external events.
- **Conduct risk:** risk caused by inadequate practices in the Bank's relationships with its customers, the treatment and products offered and their adequacy for each specific customer.
- **Compliance and legal risk:** risk owing to the breach of the legal framework, norms or regulators' and supervisors' requirements.

Transversal risks

- **Model risk:** consists of losses arising from decisions mainly based on results of models, due to errors in the design, application or usage of such models.
- **Reputational risk:** risk of damages to the way the bank is perceived by public opinion, its customers, investors or any other interested party.
- **Strategic risk:** risk associated with strategic decisions and with changes in the entity's general conditions, which have an important impact on its business model in both the medium and long term.

All risks should be referenced to the basic risk categories established in the Risk Map, in order to organise their management, control and related information.

- Bolstering risk control committees.
- Maintaining a simple committee structure.

» B.2.1. Lines of defence

Banco Santander's management and control model is based on three lines of defence.

The business functions or activities that create or generate exposure to a risk are the first line of defence. The acceptance or generation of risk in the first line of defence should fit with the risk appetite and limits defined. In order to tend to this function, the first line of defence must have the resources to identify, measure, manage and report the risks assumed.

The second line of defence consists of the risk control and oversight function and the compliance function. This line vouches for effective control of risks and ensures they are managed in accordance with the defined risk appetite.

Internal audit is the third line of defence. As the last layer of control in the Group, it regularly assesses policies, methods and procedures to ensure they are adequate and are being implemented effectively.

The risk control function, the compliance function and the internal audit function are sufficiently separated and independent from each other and from the other functions that they control or supervise for the performance of their duties, and they have access to the board of directors and/or its committees through the heads thereof.

» B.2.2. Risk committees structure

Ultimately, the board of directors is responsible for risk control and management, and, in particular, for setting the risk appetite for the Group, and it can delegate its powers to committees. The board uses the Risk Supervision, Regulation and Compliance Committee (Board Risk Committee, BRC), as an independent risk control and oversight committee. The Executive Committee of the Group also pays special attention to managing the Group's risks.

The following bodies form the highest level of risk governance:

Bodies for independent control

Board Risk Committee (BRC):

The purpose of this committee is to assist the board in the sphere of risk supervision and control, define the Group's risk policies, relations with the supervisory authorities and matters of regulation and compliance, sustainability and corporate governance.

It is made up of external non-executive directors (a majority of whom are independent) and is chaired by an independent director.

The functions of the Board Risk Committee are:

- Support and advise the board in defining and assessing the risk policies that affect the Group and in determining the risk appetite and risk strategy.
- Provide assistance to the board for overseeing implementation of the risk strategy and its alignment with strategic commercial plans.
- Systematically review the exposures with the main customers, economic sectors, geographic areas and types of risk.
- Understand and assess management tools, ideas for improvement, progress with projects and any other relevant activity relating to risk control over the course of time, including the internal risk model policy and its internal validation.
- Support and advise the board as regards supervisors and regulators in the various countries where the Group operates.
- Oversee compliance with the General Code of Conduct, manuals and procedures for money laundering and combating terrorism

financing, and, in general, the rules of governance and the Company's compliance programme, and make proposals as necessary for improvements. In particular, it is the committee's responsibility to receive information and, where necessary, issue reports on disciplinary measures for senior management.

- Supervise the Group's policy and rules of governance and compliance and, in particular, adopt the actions and measures resulting from the reports or the inspection measures of administrative supervision and control authorities.
- Monitor and assess proposed regulations and regulatory developments that result from their implementation and the possible consequences for the Group.

Risk Control Committee (RCC):

This collegiate body is responsible for the effective control of risks, ensuring they are managed in accordance with the level of risk appetite approved by the board, permanently adopting an all-inclusive overview of all the risks included in the general risk framework. This duty implies identifying and tracking both current and strategic risks, and gauging their impact on the Group's risk profile.

This committee is chaired by the Group Chief Risk Officer (GCRO) and is made up of members of senior management. The risk function, which chairs the committee, and the compliance, financial accounting and management control and financial management functions are all represented. The CROs of local entities take part in committee meetings on a regular basis to report on the risk profile of the entities and other tasks.

The Risk Control Committee reports to the Board Risk Committee and assists it in its function of supporting the board.

Decision making bodies

Executive Risk Committee (ERC):

This collegiate body is responsible for risk management, due to the powers assigned to it by the board of directors, and, within its field of action and decision making, it addresses all matters relating to risks.

It takes part in risk decisions at the highest level, ensuring that risk decisions are within the limits set out in the Group's risk appetite. It reports on its activity to the board or its committees whenever it is required to do so.

This committee is chaired by an executive vice chairman of the board, and includes the chief executive officer, executive directors, and other directors of the entity. The risk function, financial function and compliance function, inter alia, are represented. The GCRO has a right to veto the decisions taken by this committee.

» B.2.3. Structural organisation of the risk function

The **Group Chief Risk Officer (GCRO)** is responsible for the risk function and reports to the Bank's executive vice chairman, who is a member of the board of directors and chairman of the executive risk committee.

The GCRO advises and challenges the executive line and also reports independently in the Risk, Regulatory and Compliance Committee and to the board.

In 2016, the GCRO took a leading role in driving forward the consolidation of advanced risk management, based on a holistic and forward-looking approach to risks, intensive use of models, and a robust control environment and risk culture in the Group, whilst ensuring compliance with the requirements of regulators and supervisors.

The **risk management and control model is structured** on the following pillars:

- Coordination of the relationship between the local units and the Corporation, assessing the effective deployment of the risk management and control model in each unit, and ensuring these are aligned to achieve strategic risk targets.
- Enterprise Risk Management (ERM) provides consolidated oversight of all risks to senior management and the Group's governance bodies, and the development of the risk appetite and the risk identification and assessment exercise.
- Control of financial, non-financial and transversal risks (see risk map in section B.1 Risk map), verifying that risk management and exposure are as set by senior management, by risk type. The control environment for non-financial risks has been enhanced, with measures implemented to beef up control of operational risk, including strengthening of the cyber-risk function, which is taking on increasing importance against the backdrop of digital transformation.
- Transversal development of internal regulations, methodologies, scenario analyses, stress tests and data infrastructure, and robust risk governance.

» B.2.4. The Group's relationship with subsidiaries in risk management

Regarding the alignment of units with the corporation

The management and control model shares, in all the Group's units, basic principles via corporate frameworks. These frameworks are established by the Group's board of directors, and the local units adhere to them through their respective boards of directors, shaping the relations between the subsidiaries and the Group, including the role played by the latter in taking important decisions by validating them.

Over and above these principles and basics, each unit adapts its risk management to its local reality, in accordance with corporate frameworks and reference documents provided by the Corporation, so creating a recognisable management model for common risks in Grupo Santander.

One of the strengths of this model is the adoption of the best practices developed in each of the units and markets in which the Group operates. The Risk division act as centralisers and conveyors of these practices.

Furthermore, the Group-Subsidiary Governance Model and good governance practices provide for regular interaction and functional reporting by each local CRO to the GCRO. They also stipulate that the Group must take part in the process of appointing, setting targets for, and assessment and remuneration of local CROs, in order to ensure risks are adequately managed in the Group.

Regarding the structure of committees






The Group-Subsidiaries Governance Model and good governance practices for subsidiaries recommends that each subsidiary should have bylaw-mandated risk committees and other executive risk committees, in line with best corporate governance practices, consistently with those already in place in the Group.

The governance bodies of subsidiary entities are structured in accordance with local regulatory and legal requirements and the dimension and complexity of each subsidiary, being consistent with those of the parent company, as established in the internal governance framework, thereby facilitating communication, reporting and effective control.

The administration bodies of the subsidiaries, in accordance with the internal governance framework established in the Group, define their own models for risk powers (quantitative and qualitative). These local models for assigning powers must follow the principles contained in the reference models and frameworks developed at the corporate level.

Given its capacity for comprehensive (enterprise wide) and aggregated oversight of all risks, the Corporation exercises a validation and questioning role with regard to the operations and management policies of the subsidiaries, insofar as they affect the Group's risk profile.

B.3. Management processes and tools

 Risk appetite	 Risk identification and Assessment (RIA)	 Scenario analysis	 Recovery and resolution plans	 Risk Data Aggregation & Risk Reporting Framework (RDA/RRF)
<ul style="list-style-type: none"> • Improvement of metrics with greater granularity and inclusion of additional metrics. • New corporate appetite framework reinforcing integration into management. 	<ul style="list-style-type: none"> • More robust and systematic risk profile assessment. • Approach based on: <ul style="list-style-type: none"> - Risk performance. - Assessment of the control environment. - Identification of top risks. 	<ul style="list-style-type: none"> • Make strategic planning more robust by challenging the model. • Draw up improvement plans for processes and procedures backed by self-assessment exercises. 	<ul style="list-style-type: none"> • Adaptation to new international guidelines. • New Special situations management framework. 	<ul style="list-style-type: none"> • Compliance with the principles set down in BCBS* guidelines. • Structural and operational improvements to enhance reporting of all risks at all level.
<small>* Basel Committee on Banking Supervision.</small>				

» B.3.1. Risk appetite and structure of limits

Santander defines risk appetite as the amount and type of risks considered reasonable to assume for implementing its business strategy, so that the Group can maintain its ordinary activity in the event of unexpected circumstances. Severe scenarios are taken into account that could have a negative impact on the levels of capital, liquidity, profitability and/or the share price.

The board is responsible for annually setting and updating the risk appetite, monitoring the Bank's risk profile and ensuring consistency between both of them.

The risk appetite is set for the whole of the Group as well as for each of the main business units in accordance with a corporate methodology adapted to the circumstances of each unit/market. At the local level, the boards of the subsidiaries are responsible for approving the respective risk appetite proposals once they have been validated by the Group.

The whole organisation shares the same corporate risk appetite framework. This sets out common requirements for processes, metrics, governance bodies, controls and corporate standards for integration into management, cascading down in an effective and traceable way to all management policies and limits.

Work continued in 2016 to extend the scope of the metrics, adding new metrics for strategic risk, operational risk, compliance, product governance, consumer protection and the prevention of money laundering. Metrics were also incorporated to enhance alignment between the declared risk appetite and crisis management plans.

Management systems were also bolstered in 2016 with a specific development of control risk appetite limits, enabling early identification of potential excesses and ensuring robust escalation of these.

Banking business model and fundamentals of the risk appetite

The definition and establishment of the risk appetite in Grupo Santander is consistent with its risk culture and banking business model from the risk perspective. The main elements that define this business model and which are behind the risk appetite are:

- A general medium-low and predictable risk profile based on a diversified business model, focused on retail and commercial banking and with an internationally diversified presence and with important market shares, and a wholesale banking business model that gives priority to relations with customers in the Group's main markets.
- A stable and recurrent earnings and shareholder remuneration policy, underpinned by a sound base of capital and liquidity and an effective diversification strategy in terms of sources of funding and maturities.
- An organisational structure based on subsidiaries that are autonomous and self-sufficient in capital and liquidity, minimising the use of non-operational or shell companies, and ensuring that no subsidiary has a risk profile that jeopardises the Group's solvency.

- An independent risk function with very active involvement of senior management that guarantees a strong risk culture focused on protection and ensuring an adequate return on capital.
- A management model that ensures a global and inter-related view of all risks, through an environment of control and robust monitoring of risks with responsibilities with a global scope: all risks, all businesses, all countries.
- The Group's business model is focused on products where the Group has expertise and where it can exercise active management through its systems, processes and resources.
- Development of activity on the basis of a conduct model that protects the interests of customers and shareholders.
- Adequate and sufficient availability of staff, systems and tools that guarantee a risk profile compatible with the established risk appetite is maintained, both at the global and local levels.
- A remuneration policy that has the necessary incentives to ensure that the individual interests of employees and executives are aligned with the corporate risk appetite framework, and that these are consistent with the evolution of the Bank's long-term performance.

Corporate risk appetite principles

The following principles govern Grupo Santander's risk appetite in all its units:

- **Responsibility of the board and of senior management.** The board is the most senior body responsible for setting the risk appetite and supporting regulations, as well as supervising compliance.
- **Enterprise Wide Risk, backtesting and challenging of the risk profile.** The risk appetite must consider all significant risks to which the Bank is exposed, facilitating an aggregate vision of the risk profile through the use of quantitative metrics and qualitative indicators. This enables the board and senior management to question and assimilate the current risk profile and that envisaged in business and strategic plans, and its consistency with maximum risk limits.
- **Forward-looking view.** The risk appetite must consider the desirable risk profile for the current moment as well as in the medium term, taking into account both the most probable circumstances as well as stress scenarios.
- **Link with strategic and business plans and integration in management** (three-year plan, annual budget, ICAAP, ILAAP, and crisis and recovery plans). The risk appetite is a benchmark in strategic and business planning and is integrated into management through a bottom-up and top-down focus:
 - top-down vision: the board must lead the setting of the risk appetite, vouching for the disaggregation, distribution and transfer of the aggregated limits to the management limits set at the portfolio level, unit or business line.

- bottom-up vision: the risk appetite must emanate from the board's effective interaction with senior management, the risk function and those responsible for the business lines and units. The risk profile contrasted with the risk appetite limits will be determined by aggregation of the measurements at the portfolio, unit and business line level.

- **Coherence in the risk appetite of the various units and common risk language throughout the organisation.** The risk appetite of each unit of the Group must be coherent with that defined in the remaining units and that defined for the Group as a whole.

- **Regular review, continuous backtesting and adapting to the best practices and regulatory requirements.** Assessing the risk profile and backtesting it against the limits set for the risk appetite must be an iterative process. Adequate monitoring and control mechanisms must be established to ensure the risk profile is maintained within the levels set, as well as taking the necessary corrective and mitigating measures in the event of non-compliance.

Limits structure, monitoring and control

The risk appetite is formulated every year and includes a series of metrics and limits on these metrics (statements) which express in quantitative and qualitative terms the maximum risk exposure that each unit of the Group or the Group as a whole is prepared to assume.

Fulfilling the risk appetite limits is continuously monitored. The specialised control functions report at least every quarter to the board and its risk committee on the adequacy of the risk profile with the risk appetite authorised.

Excesses and non-compliance with the risk appetite are reported by the risk control function to the relevant governance bodies. The presentation is accompanied by an analysis of the causes that provoke it, an estimation of the time they will remain this way as well as the proposed actions to correct the excess when the corresponding governance body deems it opportune.

Linkage of the risk appetite limits with the limits used to manage the business units and portfolios is a key element for making the risk appetite an effective risk management tool.

The management policies and structure of the limits used to manage the different types and categories of risk, which are described in greater detail in sections D.1.5.2. Planning (Strategic Commercial Plan), D.2.2.3. and D.2.3.3. Systems of controlling limits in this report, have a direct and traceable relation with the principles and limits defined in the risk appetite.

In this way, changes in the risk appetite reflect in the limits and controls used in Santander's risk management and each of the business and risk areas is responsible for verifying that the limits and controls used in their daily management are set in such a way that the risk appetite limits cannot be breached. The risk control and supervision function then validates this assessment, ensuring the adequacy of the management limits for the risk appetite.

Pillars of the risk appetite

The risk appetite is expressed via limits on quantitative metrics and qualitative indicators that measure the exposure or risk profile by type of risk, portfolio, segment and business line, in both current and stressed conditions. These metrics and risk appetite limits are articulated in five broad areas that define the positioning that Santander's senior management wants to adopt or maintain in the development of its business model:

- The **volatility in the income statement** that the Group is willing to accept.
- The **solvency** position that the Group wants to maintain.
- The minimum **liquidity** position that the Group wants to have.
- The maximum levels of **concentration** that the Group considers reasonable to admit.
- Non-financial and transversal risks.

Risk appetite pillars and main metrics

Volatility of results	Solvency	Liquidity	Concentration	Complementary aspects
<ul style="list-style-type: none"> • Maximum loss the Group is prepared to accept under a scenario of acute stress 	<ul style="list-style-type: none"> • Minimum capital position the Group is prepared to accept under a scenario of acute stress • Maximum leverage the Group is prepared to accept under a scenario of acute stress 	<ul style="list-style-type: none"> • Minimum structural liquidity position • Minimum liquidity horizon position that the Group is prepared to accept under a scenario of acute stress • Minimum liquidity coverage position 	<ul style="list-style-type: none"> • Concentration by individual customer • Concentration in non-investment grade counterparties • Concentration in large exposures 	<ul style="list-style-type: none"> • Qualitative non-financial risk indicators: <ul style="list-style-type: none"> • Fraud • Technology • Security and cyber-risk • Litigation • Other... • Maximum operational risk losses • Maximum risk profile

Volatility of results

The objective is to limit the potential negative volatility of the results projected in the strategic and business plan in the event of stress conditions.

This axis contains metrics which measure the behaviour and evolution of real or potential losses in the business.

Stress tests included at this level measure the maximum level of the decrease in profits under adverse conditions, for the main types of risk to which the Bank is exposed, with a feasible probability of occurring, by risk type (so that they can be aggregated).

Solvency

The object of this axis is to ensure that risk appetite adequately considers the maintenance and upkeep of the entity's equity, keeping capital higher than the levels marked by regulatory requirements and market demand.

Its purpose is to determine the minimum level of capital which the entity considers it needs to maintain to cope with potential losses under both normal and stressed conditions and arising from its activity and from its business and strategic plans.

This capital focus included in the risk appetite framework is supplementary and consistent with the capital objective approved within the Group's capital planning process, which extends to a

period of three years. (More detail is available in chapter D.8. Capital risk and the Prudential Relevance Report (PRR), Pillar III).

Liquidity position

Grupo Santander has developed a funding model based on autonomous subsidiaries that are responsible for covering their own liquidity needs.

On this basis, liquidity management is conducted by each subsidiary within a corporate framework of management that develops its basic principles (decentralisation, equilibrium in the medium and long term of sources-applications, high weight of customer deposits, diversification of wholesale sources, reduced recourse to short-term funds, sufficient reserve of liquidity) and revolves around three main pillars (governance model, balance sheet analysis and measurement of liquidity risk, with management adapted to business needs). Further information on the corporate management framework and its principles and pillars is set out in section D.3. Liquidity risk and funding.

Santander's liquidity risk appetite establishes demanding objectives in terms of positions and time frames for systemic and idiosyncratic stress scenarios (local and global). In addition, a limit is set for the structural funding ratio that relates customer deposits, equity and medium and long-term issuances to structural funding needs, together with a limit on the minimum liquidity coverage position.

Concentration

Santander wants to maintain a widely diversified risk profile from the standpoint of its exposure to large risks, certain markets and specific products. In the first instance, this is achieved by virtue of Santander's retail and commercial banking focus with a high degree of international diversification.

This level includes individual maximum exposure limits with customers, aggregated maximum exposure with major counterparties, and maximum exposure by activity sectors, in Commercial Real Estate and in portfolios with a high risk profile. Customers with an internal rating lower than investment grade or equivalent, or which have excessive exposure of a certain degree, are also monitored.

Non-financial and transversal risks

The objective is to limit exposure to the non-financial and transversal risks in the corporate risk map.

This involves qualitative and quantitative metrics that help pinpoint exposure to non-financial risks. These include specific indicators for fraud, technology risk, security and cyber risk, prevention of money laundering, regulatory compliance, product governance and customer protection.

» B.3.2. Risk identification and assessment (RIA)

Grupo Santander is continuously evolving its identification and assessment of different types of risks. It involves different lines of defence in the execution of these to foster advanced and proactive risk management. It also sets itself management standards that not only meet regulatory requirements but also reflect best practice in the market. The RIA is a mechanism for disseminating the risk culture and involving the business lines of the units in its management.

In addition to **identifying and assessing the Group's risk profile** by risk factor and unit, RIA analyses the evolution of risks and identifies areas for improvement in each of the blocks of which it is composed.

- **Risk performance**, enabling understanding of residual risk by risk factor through a set of metrics calibrated using international standards.
- **Assessment of the control environment**, measuring the implementation of a target management model, pursuant to advanced standards.
- **Forward-looking analysis of the unit**, based on stress metrics and/or identification and/or assessment of the main threats to the strategic plan (**Top Risks**), putting in place and monitoring specific action plans to mitigate potential impacts.

The RIA initiative is being increasingly integrated into risk management, developing each of the methodological blocks independently, and increasing their application to the Group's risks, pursuant to the risk map.

Significant progress has been made in the uses of this exercise: the risk profile is being used as a strategic metric in the local and Group risk appetite; it has been included in the generation of strategic plans and analysis of potential threats; analysis of the internal vision of the risk profile and contrast with the perception of external agents; risks identified in the RIA are being used as inputs in the generation of idiosyncratic scenarios in capital, liquidity, and recovery and resolution plans; it includes the diversification effect of the Group's business model, and internal audit planning now considers exploitation of the risk control environment.

The RIA has become a major risk management tool. Through the implementation of a demanding control environment and monitoring of the weaknesses detected, it enables Grupo Santander to undertake more and better business in the markets in which it operates, without putting at risk its income statement or its strategic objectives, whilst reducing the volatility of its earnings.

The RIA methodology is being consolidated, improved and simplified as part of the Group's continuous improvement and review process. It has been extended to all of the Group's risks and units, and is being more closely integrated into day-to-day risk management. One of its priorities is to order and manage the various risk assessments in the Group in general, and the Risk division in particular, establishing a benchmark assessment model that ensures the robustness and consistency of the assessments carried out, whilst governing the various exercises carried out in different management areas.

» B.3.3. Analysis of scenarios

Banco Santander conducts advanced management of risks by analysing the impact that different scenarios could provoke on the environment in which the Bank operates. These scenarios are expressed both in terms of macroeconomic variables as well as other variables that affect management.

Scenario analysis is a very useful tool for management at all levels. It enables the Bank's resistance to stressed environments or scenarios to be assessed, and puts into effect measures to reduce the Bank's risk profile in these scenarios. The objectives is to maximise the stability of the income statement and capital and liquidity levels.

The robustness and consistency of scenario analysis exercises are based on the following pillars:

- Developing and integrating mathematical models that estimate the future evolution of metrics (for example, credit losses), based on both historic information (internal to the Bank and external from the market), as well as simulation models.
- Including the expert judgement and know-how of portfolios, questioning and back testing the result of the models.
- The backtesting of the results of the models against the observed data, ensuring that the results are adequate.

- The governance of the whole process, covering the models, scenarios, assumptions and rationale for the results, and their impact on management.

The application of these pillars of the EBA (European Banking Authority) stress test executed and reported in 2016 has enabled Santander to satisfactorily meet the requirements set down - both quantitative and qualitative - and to contribute to the excellent results obtained by the Bank, particularly with regard to its peers (see table 1 section C. Background and upcoming challenges).

Uses of analysis of scenarios

- **Regulatory uses:** scenario stress tests are performed using the guidelines set by the European regulator or each one of the national supervisors who oversee the Bank's activity.
- **Internal exercises** of self-assessment of capital (ICAAP) or liquidity (ILAAP) in which, while the regulator can impose certain requirements, the Bank develops its own methodology to assess its capital and liquidity levels in the face of different stress scenarios. These tools enable capital and liquidity management to be planned.
- **Risk appetite.** Contains stressed metrics on which maximum levels of losses (or minimum of liquidity) are established that the Bank does not want to exceed. These exercises are related to those for capital and liquidity, although they have different frequencies and present different granularity levels. The Bank continues to work to improve the use of analysis of scenarios in risk appetite and ensure an adequate relation of these metrics with those used in daily risk management. For more detail see sections B.3.1. Risk appetite and structure of limits and D.3. Liquidity risk and funding.
- **Daily risk management.** Scenario analysis is used in budgeting processes and strategic planning, in the creation of commercial policies for risk admission, in the global analysis of risks by senior management and in specific analysis of the profile of activities or portfolios. Further details are provided in the sections on credit risk (section D.1.5.2. Planning (Strategic Commercial Plan), market risk (D.2.2.1.6. and D.2.2.2.3. Analysis of scenarios) and liquidity risk (D.3.1. Liquidity management in Grupo Santander).

In order to improve management through metrics and advanced approaches, the scenario analysis project is structured around five axes:

- **Tool for analysing scenarios:** installation of an advanced tool for estimating losses with greater soundness and computerisation of information handling, with the capacity to aggregate various types of risk and with an environment of multi user execution.

- **Governance:** review of the governance framework for scenario analysis exercises in order to adjust to their growing importance, greater regulatory pressure and best market practices.
- **Models:** preparing plans to develop statistical stress models that have sufficient precision and granularity to meet requirements, not only of current regulation and supervision, but also to improve predictive risk capacity in accordance with advanced management approaches.
- **Processes and procedures:** continuous self-assessment exercises and improvement plans to evolve processes in the context of advanced scenario analysis management.
- **Integration into management:** fostering and improving the use of scenario analysis in the various scopes of risk management.

» B.3.4. Recovery and resolution plans and the Special situations management framework

In 2016, the Bank prepared the seventh version of its corporate recovery plan, the most important part of which envisages the measures available to emerge on its own from a very severe crisis. This plan has been prepared in accordance with applicable European Union¹ regulations. The plan also considers the non-binding recommendations made in this area by international bodies such as the Financial Stability Board (FSB²).

As with the previous versions from 2010 to 2015, the Group presented the plan to the relevant authorities (for the second time, to the European Central Bank (ECB) in September, unlike previous years when it was only submitted to the Bank of Spain) for it to be assessed in the fourth quarter of 2016.

The plan encompasses the corporate plan (covering Banco Santander) and the individual plans for the main local units (UK, Brazil, Mexico, US, Germany, Argentina, Chile, Poland and Portugal), thereby meeting the commitment made by the Bank with the authorities in 2010. It is important to note the cases of the countries referred to above belonging to the European Union, where, apart from the fact they mandatorily form part of the corporate plan, they also need to be completely developed in accordance with regulatory requirements arising from the transposition of Directive 2014/59/EU (European Union Crisis Management Directive) into local legislation.

Two of the most important objectives in the plan are to verify: firstly, the feasibility, effectiveness and credibility of the recovery measures identified in the plan; and, secondly, the adequacy of the specific

1. Directive 2014/59/EU ("Directive establishing a framework for the recovery and resolution of credit institutions and investment firms"); prevailing European Banking Authority regulations dealing with recovery plans (EBA/RTS/2014/11; EBA/GL/2014/06; EBA/GL/2015/02); recommendations from the European Banking Authority to the Commission in relation to key business lines and critical functions (EBA/op/2015/05); European Banking Authority regulations pending approval (EBA/CP/2015/01 on the ITS for procedures, forms and templates for resolution plans); European Banking Authority regulations not directly related to recovery but with significant implications in this field (EBA/GL/2015/03 on triggers for early intervention measures); and local Spanish regulations: Act 11/2015, on credit entities and investment service firms recovery and resolution, and Royal Decree 1012/2015 implementing this Act.

2. FSB: Key attributes of effective resolution regimes for financial institutions (15 October 2014, updating the initial publication of October 2011), "Guidance on Identification of Critical Functions and Critical Shared Services" (15 July 2013) and "Guidance on recovery triggers and stress scenarios" (15 July 2013).

indicators and limits defined for triggering the governance process established in the plan for stress situations.

To this end, the corporate plan has defined different macroeconomic and financial crisis scenarios that would represent idiosyncratic or systemically important events for the entity, as established in article 5.6 of Directive 2014/59/EU. These scenarios refer to crisis situations that could impact the Group's viability, as set out in applicable regulations. The plan has been designed under the premise that there would be no extraordinary public support in the event of it being activated, as established in article 5.3 of Directive 2014/59/EU.

It is also important to state that the plan should not be interpreted as being independent from other structural mechanisms in place to measure, manage and oversee the risk undertaken by the Group.

The Group's recovery plan is integrated, among others, with the risk appetite framework, risk appetite statement, risk identification and evaluation process, business continuity management system and internal capital and liquidity adequacy assessments.

Works continued in 2016 to adapt the structure and content of the plan to new international guidance. This involved including a number of improvements: (i) in the governance section (mainly, a more detailed description of the Special Situations Management Framework - explained in greater detail below – and on the structure of recovery indicators); (ii) in the scenarios chapter which now includes a crisis situation that leads to the breach of the liquidity indicators and a multi-local systemic crisis affecting two of the units most relevant to the Group; and (iii) finally, greater granularity and detail in the sections on strategic analysis and measures.

The Group's senior management is fully involved in preparing and regularly monitoring the content of the plans, through specific committees of a technical nature, as well as monitoring at the institutional level, guaranteeing that the content and structure of the documents are adapted to local and international regulations in crisis management, which have been in continuous development for the last years.

The board of directors of Banco Santander S.A. is responsible for approving the corporate plan, once the plan's content and data have been previously submitted and discussed in the bank's main management and control committees (Board Risk Committee, Global ALCO Committee and Capital Committee). The individual plans are approved by the local bodies and always in coordination with the Group, as these plans must be part of the corporate plan.

The main conclusions that can be drawn from the 2016 corporate plan are:

- There are no material inter-dependencies among the Group's countries.
- The available measures provide ample recovery capacity in all of the scenarios considered in the plan. The Group's geographic diversification model is a plus from a recovery perspective.
- Every subsidiary has sufficient recovery capacity to emerge from a recovery situation using its own means. This enhances the resilience of the Group's model, based on autonomous subsidiaries, in terms of capital and liquidity.
- None of the Bank's subsidiaries, should they fail, are considered of sufficient relevance to breach the most severe levels established for the recovery indicators that could trigger the activation of the corporate recovery plan.

From this, we can conclude that the Group's model of geographic diversification - based on a model of autonomous subsidiaries, in terms of liquidity and capital - remains resilient from a recovery perspective. The Group plans to continue to evolve its plans in line with recommendations from supervisors and best practices in the industry in relation to recovery plans in 2017.

In relation to the governance of crisis situations set out in the Group's recovery plans, the Group formally approved and implemented its **Special Situations Management Framework** in 2016 - in both the corporation and the Group's main countries, which together with its implementing documents:

- i. sets out the main common principles for the identification, escalation and management of events that could pose a serious risk to Santander or any of its entities, or that could affect their robustness, reputation, activity, liquidity, solvency or present or future viability;
- ii. defines basic roles and responsibilities in this area and identifies the planning elements required and the key processes; and
- iii. sets down essential governance elements, seeking to ensure coordinated action among all Group entities and, where necessary, the participation of the Corporation, as the parent company of Grupo Santander.

This framework has a holistic nature and applies to crisis events and situations of any kind (e.g. financial and non-financial, systemic or idiosyncratic, and slowly evolving or rapidly emerging, etc.) that might give rise to exceptional situations other than what might be expected or that should arise in the normal course of business, and that might compromise the development of the activity of the entity or Group, or lead to a serious deterioration in its financial situation, as it involves a serious deviation from the defined risk appetite and limits.

Regarding resolution plans, the authorities which take part in the Crisis Management Group (CMG) have adopted a common approach on the strategy to follow for the Group's resolution plan that, given the legal and business structure through which Santander operates, corresponds to the so-called multiple point of entry (MPE); they have signed the cooperation agreement on resolution (COAG); and have developed the first resolution plans. In particular, the 2016 corporate

resolution plan was analysed in a meeting of the CMG held on 7 November 2016.

As an exception to the above, resolution plans for the USA are prepared by the entities themselves. The Group filed the third version of its local resolution plans in December 2015. However the FRB (Federal Reserve Board) and the FDIC (Federal Deposit Insurance Corporation) have stated that plans for 2016 should not be filed, as they are still in the process of commenting on earlier plans, and are preparing guidance for plans to be filed in December 2017.

The Group continues to cooperate with the competent authorities in the preparation of resolution plans, providing all the information that the authorities might require. Meanwhile, the Group has also continued to develop projects to improve its resolution capacity. These include measures to guarantee operational continuity in resolution situations. In this respect:

- i) In November 2016, Banco Santander S.A. became a signatory to the ISDA protocol for the settlement of derivatives in resolution situations;
- ii) the market infrastructures to which the Group is connected have been analysed to assess their criticality and the continuity of such services in the event of resolution;
- iii) operational continuity clauses have been strengthened in agreements with internal suppliers; and
- iv) further progress has been made in automating the information requested by the supervisory authority.

B.4. Risk culture - *Risk Pro*

Our internal culture includes a Santander way of managing risks, a Santander risk culture, which we call *risk pro*, which is one of our main competitive advantages in the market.

Grupo Santander's robust risk culture is one of the key reasons why it has been able to cope with changes in economic cycles, customers' new demands and increased competition, and why it is considered to be an entity that earns the trust of its employees, customers, shareholders and society.

Against a background of constant changes, with new types of risks and more demanding requirements from regulators, Grupo Santander wishes to maintain an excellent level of risk management in order to achieve sustainable growth.

» B.3.5. Risk Data Aggregation & Risk Reporting Framework (RDA/RRF)

In recent years, the Group has developed and implemented the necessary structural and operating improvements to reinforce and consolidate enterprise wide risk, based on complete, precise and regular data. This allows the Group's senior management to assess risk and act accordingly.

Against this background, Santander believes that regulatory requirements are aligned with the strategic risk transformation plan, and hence at the current date the Group complies with the standards set forth in the BCBS 239 regulation. Once the objectives of the Risk Data Aggregation (RDA) project had been achieved at the end of 2015, in 2016 work continued to consolidate the comprehensive data and information management model, and its transposition to the countries where the Group operates.

Risks reports contain an appropriate balance between data, analysis and qualitative comments, include forward-looking measures, risk appetite data, limits and emerging risks, and are distributed in due time and form to senior management.

The Group applies a common reporting taxonomy which covers all the significant risk areas within the organisation, and which is in keeping with the Group's size, risk profile and activity.

Excellence in risk management is thus one of the strategic priorities that have most shaped the Group's development. This involves promoting a robust risk culture throughout the organisation, which is understood and applied by all Grupo Santander employees.

This risk culture is defined through five principles which must necessarily form part of all the Group's employees' day-to-day activities:

Responsibility, because all units and employees (no matter what function they perform) should know about and understand the risks incurred in their daily activities, which they are responsible for identifying, assessing, managing and reporting.

Resilience, which is a combination of prudence and flexibility. All employees have to be prudent and steer clear of any risks they are not familiar with or which are in excess of the established risk appetite. They must also be flexible, because risk management has to quickly adapt to new environments and unexpected scenarios.

Challenge, because ongoing debate is encouraged throughout the Group. We always ask ourselves how we can manage risks in a proactive, positive and open way, giving us an overview that allows us to anticipate future challenges.

Simplicity, because universal risk management needs clear processes and decisions which are documented and easily understood by employees and customers.

Customer focus. Because all risks actions are focused on the customer, on his or her long term interests. Our aim at Grupo Santander is to be the best retail and commercial bank that earns the lasting loyalty of our people, customers, shareholders and communities. We can achieve this goal by making a proactive contribution to help our customers prosper with excellent risk management.



The risk pro risk culture is being reinforced in all Grupo Santander units through four drivers:

- **The employee lifecycle.** This involves generating awareness of the importance of risk management and personal responsibility for it in each new employee, starting from the selection and recruitment stage, and reinforcing this continually.

A risk component is therefore included in the training plans for all employees. In addition, the Risk Pro Banking School, together with the other local risk schools, helps to spread the risk culture, developing the best talent and training the Group's professionals. In 2016, 55,497 hours of training were given, benefiting 20,690 Group employees.

As a result, Grupo Santander's 2016 global commitment survey found that 95% of employees felt directly responsible for managing their risks, irrespective of their position in the Bank.

- **Communication.** The main channels of communication are used to foster the principles of the risk culture among all employees, providing all the information needed for advanced risk management in a clear and comprehensible format. These channels are also used to spread behaviours, actions and decisions that exemplify the risk culture.
- **Risk assessment and measurement.** Banco Santander carries out systematic and consistent assessment of the Group's risk culture to identify potential improvements and implement action plans. It has put in place specific indicators to measure the penetration and spread of the risk culture in the Group. It also carries out surveys to measure the perceptions of employees in relation to their knowledge of, and responsibilities for, risk management.
- **Advanced Risk Management (ARM) programme.** The final phase of the ARM programme was reached in 2016. This has developed an advanced risk management model in all units, based on a strong risk culture. For Grupo Santander, advanced risk management is a priority in its long-term objective of continuing to be a solid and sustainable bank.

All Group units and all employees carry out their activities under the umbrella of our risk culture - *risk pro* - with a common purpose: to build the future through the forward-looking management of all risks, and to protect the present through a robust control environment.

EXECUTIVE SUMMARY

A. PILLARS OF THE RISK FUNCTION

B. RISK CONTROL AND MANAGEMENT MODEL - *Advanced Risk Management*

C. BACKGROUND AND UPCOMING CHALLENGES

D. RISK PROFILE

APPENDIX: EDTF TRANSPARENCY

C. Background and upcoming challenges

Growth in the advanced economies was weak in 2016 and slower than in the previous year. This slowdown affected the USA, the European Union and Japan, and was concentrated in the first half of the year, with a degree of recovery in the second half. The USA is in an advanced stage of the cycle. Expectations for 2017 are positive, buoyed by expectations of fiscal expansion that is likely to lead to further increases in interest rates. The UK is facing uncertainty stemming from the impact of its decision to leave the European Union. The eurozone is growing slowly, but proving resistant to episodes of instability, with core inflation of less than 1%. Monetary policy remains very expansionary, with no outlook for higher interest rates.

Growth in emerging economies as a whole was similar to 2015, although the picture at the end of the year was more positive, as in the advanced economies. Progress continued in correcting imbalances, improving the outlook for 2017. However, performance differed markedly across different areas.

Banking activity continues to be affected by historically low interest rates, the stimulus measures implemented by central banks in most developed markets, uncertainty about the solvency of the financial sector, increased competition in some markets (mainly on the asset side), and an ever more demanding regulatory environment.

Against this backdrop, Banco Santander has maintained its medium-low risk profile. The Bank's robust risk culture is reflected in all of its lending-quality metrics. Its NPL ratio stands at 3.93% (-43 bp compared to December 2015), its cost of credit at 1.18% (-7 bp compared to December 2015) and its coverage ratio remains stable at 74%.

There was a lot of activity on the **regulatory front** in 2016. The year's highlights include:

- The Basel Committee has continued its review of the frameworks for calculating capital requirements for credit, market and operational risk. In April, it presented a final proposal for the review of regulatory treatment of the interest rate for the held-to-maturity portfolio.
- The European Banking Authority (EBA) has continued to issue standards— and guidance developing aspects of European capital regulations (CRR/CRD IV), helping to ensure harmonised implementation of minimum capital requirements across the European Union. In July, the EBA also published the results of its stress tests of the 51 leading banks in the European Union (see table 1. Stress tests).
- Various modifications and interpretations by domestic and international bodies of the definition and treatment of the non-performing loans and the forbearance portfolio.

Top Risks

As indicated in section B.3.2 Risk Identification and Assessment, as part of its traditional forward-looking risk management, the Group uses this regular exercise to identify, assess and monitor potential future risk events.

The main strategic risks identified by the Group at present are subject to regular monitoring by the Bank's senior management, through a governance process that enables appropriate management and mitigation, using the following four categories:

Macroeconomic and political risks:

The **European economy** is finally on the road to recovery, although it is expected to remain weak over the coming years. This backdrop of low growth is characterised by weak demand and influenced by the uncertain results of elections in various eurozone countries, and the complicated negotiations between the UK and the EU. All of these factors are conducive to a continuation of low interest rates for a prolonged period.

Confidence in the **Brazilian economy** is improving, as political uncertainty diminishes and a general perception that growth will be positive in 2017 takes hold, underpinned by a continuous improvement in the latest confidence indexes for companies and consumers.

But some structural threats to the economy persist, such as the structural deficit and the increase in international financial volatility following the results of the US elections: these have increased risk aversion (flight to quality) and could affect the outlook for growth in Brazil.

Following the referendum result in June to leave the EU, the **UK economy** could be affected by the prolonged and complex negotiations between the UK government and the EU. Whilst the result has no immediate effect on the current structure of the Bank or its operations, it has increased volatility in the markets, including a depreciation of the pound, and may continue causing uncertainty as the negotiations progress.

Finally, the **US election results** may imply a degree of uncertainty because of their potential impact on emerging economies, particularly in Latin America, and the US economy itself, although this needs to be considered in tandem with the robustness of the region.

Against the backdrop of these macroeconomic and political risks, the Banco Santander business model, based on geographic diversification - balanced between mature and emerging markets - and on retail banking, underpins the stability of its results, helping it to maintain its medium-low risk profile.

Competitive environment and customer relations

The Bank is facing the challenge of adapting the way it does business to meet the new needs of its customers, against the backdrop of the rapid rise of disruptive innovation and new technology that is revolutionising the financial industry.

The ever increasing digitalisation of the sector requires constant innovation to keep the Bank one step ahead of the changes taking place and to protect its market share against the entry of new digital competitors - financial start-ups, technology giants, etc. - and the publication of new regulations that foster financial disintermediation, such as the new payment services directive (PSD2), which comes into effect in January 2018.

The identification and assessment of the impact of this risk to its business has enabled Banco Santander to turn this threat into an opportunity. Innovation and digital transformation are one of the cornerstones of our business model.

Increasing supervisory and regulatory pressures are affecting aspects of behaviour, transparency, consumer protection and the sale of appropriate products, due in part to certain cases of poor practices in the sector over recent years.

Given this situation, the Bank has developed a robust governance structure, in which the compliance and conduct function reports directly to the board of directors, and which is subject to the product-approval process and the general system set out in its Code of Conduct. Section D.5, on conduct and compliance risks details the functions involved in managing this risk.

Moreover, **regulators are focusing increasing attention on the accumulation of assets in the financial sector that do not generate adequate returns** and which are difficult to transfer, potentially causing liquidity difficulties in the market. The Bank has set up a specific area dedicated to the management and sale of potentially problematic assets, so as to reduce its exposure.

Regulatory environment

Over recent years, there has been intense activity in the regulatory field to improve the capitalisation of banks, mainly in response to the financial crisis. This impacts in particular on banks considered to be systemic.

This new regulation focuses mainly on capital, liquidity and resolution requirements, consistent information management and the adequacy of the internal governance of entities.

Entities have had to make significant efforts to respond to this changing and more demanding backdrop, which has had a significant impact on their profitability.

For the financial industry, it is crucial to have a stable and enduring regulatory framework, allowing banks to apply valid mid-term strategies, and to constantly assess the global impact of that framework so as to ensure a healthy balance between financial stability and economic growth.

Threats to the systems (cyber risk)

Just like any other organisation, the Bank may be subject to cyber-attacks that impact on its banking services, including digital attacks that threaten its internal information and customer data, or that reveal security weaknesses. These attacks have increased.

The Bank works tirelessly to enhance protection based on international standards and preventive measures, so that it is ready to respond to incidents of this type. These measures are set out in section D.4.4 Operational risk mitigation measures.

» Table 1: Stress tests

In July, the European Banking Authority (EBA) published the results of its stress tests of the 51 leading banks in the European Union.

This time, no minimum capital requirements were set for passing the test. Instead, the final results were used as a variable by the ECB to determine the minimum capital requirements for each bank (under the Supervisory Review and Evaluation Process - SREP).

This exercise used two macroeconomic scenarios (base case and adverse), taking the bank's balance sheet at year-end 2015 as the starting point, with a three-year horizon, ending in 2018. These tests are not comparable to the 2014 exercise, as they are based on a more demanding scenario and different assumptions.

The adverse scenario - which has a very low likelihood of occurring - considers a major deterioration in macroeconomic conditions and financial markets in Europe and the other countries where Banco Santander is active. For example, it considers an accumulated fall of 3% in GDP for the eurozone as a whole, major falls in securities markets (-30%) and house prices (-11%), and wider credit spreads on public debt.

Santander once again received excellent results, as in the other stress tests carried out over recent years.

In the adverse scenario, Santander is the bank that least destroys capital among its peers, with the fully loaded CET1 capital ratio falling by 199 basis points (vs. -335 on average) from 10.2% in 2015 to 8.2% in 2018.

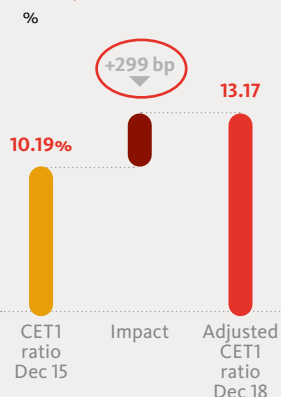
In the baseline scenario, Santander generates the second highest capital amongst its peers. Therefore, it not only destroys less capital, it also generates more.

We can conclude that Santander is more resilient than its competitors, due to its strong generation of recurrent revenue and results, based on its retail and commercial banking model and its unique geographic diversification.

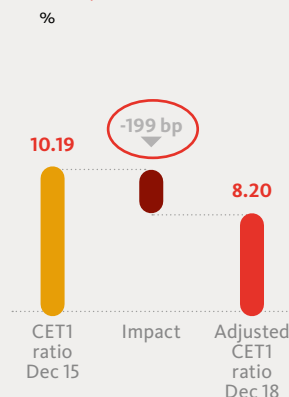
The result is that our stable and predictable business model requires less capital and entails a lower cost of capital.

EBA stress test results

Fully loaded CET1 ratio, base ST



Fully loaded CET1 ratio, adverse ST



We can conclude that Santander is more resilient than its competitors³, due to its strong generation of recurrent revenue and results, based on its retail and commercial banking model and its unique geographic diversification.

CET1 variation 2015 vs. base case scenario (bp)



CET1 variation 2015 vs. adverse scenario (bp)



3. Peers: BBVA, BNP, Soc Gen, C.Agricole, Deutsche Bank, Commerzbank, Unicredit, Intensa Sanpaolo, ING, Nordea, Lloyds, HSBC, Barclays y RBS

» Table 2: New model of classification and measurement of financial instruments (IFRS 9)

1. Introduction:

In July 2014, the International Accounting Standards Board (IASB) approved the International Financial Reporting Standard 9 - Financial Instruments (IFRS 9), to replace IAS39 – Financial instruments: recognition and assessment, in accordance with the guidelines which were prepared during the G-20 meeting in April 2009.

IFRS 9 sets out the requirements for recognition and measurement of both financial instruments and certain types of contracts for the sale of non-financial items. It will be applicable from 1 January 2018 on. It has been endorsed by the European Commission in November 2016.

2. Model proposed by IFRS 9

The main new developments of the standard are as follows:

2.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 amortized cost, at fair value with changes in other comprehensive income (equity), or at fair value with changes in profit/loss for the period. IFRS 9 also establishes the option of designating an instrument at fair value with changes in P/L under certain conditions.

The main activity of Santander Group 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 current analysis, since no significant changes are expected in the composition of until 2018, it is considered that there will be no significant changes with respect to the classification that was being carried out under the pre-existing regulation:

- Financial assets classified as loans and advances and held-to-maturity under IAS 39 will generally be classified into amortized cost.

- Available for sale debt instruments will generally continue to be classified into fair value with changes in other comprehensive income, unless cash flows features imply its classification into other portfolio.
- 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.

2.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: this solution will not be implemented and the Group will analyse the credit quality of all financial assets.

4. Official Journal of the European Commission, Commission Regulation (EU) 2016/2067 of 22 November 2016.

Impairment estimation methodology

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

- Stage 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.
- Stage 2: financial instruments are included in this stage 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.
- Stage 3: financial instruments are catalogued in this stage 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

In addition to considering both present and past 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 registration

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.

2.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.

According to the analysis performed until now, the Group expect to maintain the application of IAS 39 in hedge accounting.

2.d 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.

2.e 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 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 & Management Control and Technology and Operations. Both the Internal Audit division and the External Auditor are also involved in the project, having shared the implementation plan and keeping regular meetings about the status of the project.

2.f 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 ensure 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.

2.g Guidelines and complementary rules

In addition to the standards issued by IASB, a number of regulatory and supervisory bodies have issued further considerations both in regard to the impairment model for financial instruments in IFRS 9, and items directly relating to it. These include the following documents and initiatives:

- **European Banking Authority (EBA) – Draft guidelines on credit institutions' Credit risk management practices and accounting for Expected Credit Losses (July 2016, under consultation):** the aim of the document is to transpose the guidelines developed by the Basel Committee on Banking Supervision into European regulatory framework, providing appropriate practices for credit risk management in relation to the implementation of the calculation of expected credit losses.
- **European Banking Authority (EBA) – The EBA 2017 Annual Work Programme (September 2016):** it establishes a work plan that includes, among others, a quantitative and qualitative analysis of IFRS 9 as a result of the technical standards and guidelines that the EBA will develop to provide advice in the areas of accounting and auditing.
- **European Central Bank – Draft guidance to banks on non-performing loans (September 2016, under consultation):** this document presents supervisory guidelines in relation to Non-Performing Exposures establishing the best practices for risk management of European entities.
- **Basel Committee on Banking Supervision – Discussion paper on regulatory treatment of accounting provisions (October 2016, under consultation):** the objective of the document is to propose alternatives for the interaction between regulatory capital and provisions after the entry into force of the expected loss models for the calculation of provisions. The document proposes different approaches as well as a particular treatment of provisions during the transition period.
- **Financial Accounting Standards Board (FASB) – Accounting Standard Update Number 2016-13, Financial Instruments, credit losses (Jun 2016, Final report):** the final version of the American accounting regulation that include the calculation of the expected loss for entities that shall issue their financial reports under the requirements of FASB.

EXECUTIVE SUMMARY

A. PILLARS OF THE RISK FUNCTION

B. RISK CONTROL AND MANAGEMENT MODEL - *Advanced Risk Management*

C. BACKGROUND AND UPCOMING CHALLENGES

D. D. RISK PROFILE

1. Credit risk

2. Trading market risk and structural risks

3. Liquidity risk and funding

4. Operational risk

5. Compliance and conduct risk

6. Model risk

7. Strategic risk

8. Capital risk

APPENDIX: EDTF TRANSPARENCY

D. Risk profile

D.1. Credit risk

» Organisation of this section

After an **introduction** to the concept of credit risk and the segmentation that the Group uses for its treatment, the **key figures for 2016 and change over time** will be presented [pag. 184-191].

This is followed by a look at the **main geographies**, setting out their main features from the credit risk standpoint [pag. 192-201].

The qualitative and quantitative aspects of **other credit risk matters** are then presented, including information on financial markets, risk concentration, country risk, sovereign risk and environmental risk [pag. 202-209].

Lastly, there is a description of the **credit risk cycle** in Grupo Santander, with a detailed explanation of the various stages in the pre-sale, sale and post-sale phases, as well as the main credit risk metrics [pag. 209-214].

» D.1.1. Introduction to credit risk treatment

Credit risk arises from the possibility of losses stemming from the total or partial failure of customers or counterparties to comply with the financial obligations they have agreed with the Group.

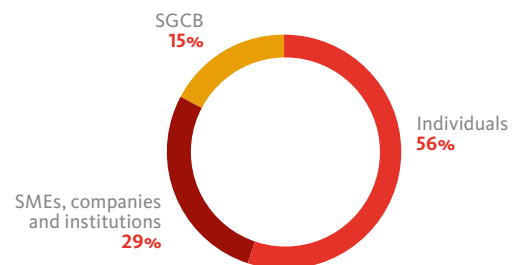
The credit risk function is organised on the basis of three types of customers:

- The **individuals** segment includes all physical persons, except those with a business activity. This segment is, in turn, divided into sub-segments by income levels, which enables risk management adjusted to the type of customer.

- The **SMEs, companies and institutions** segment includes companies and physical persons with business activity. It also includes public sector activities in general and non-profit making private sector entities.
- The **Santander Global Corporate Banking (SGCB)** segment consists of corporate customers, financial institutions and sovereigns, comprising a closed list that is revised annually. This list is determined on the basis of a full analysis of the company (business, countries of operation, product types, volume of revenues it represents for the bank, length of relation with the customer, etc).

The following chart shows the distribution of credit risk on the basis of the management model.

● Credit risk distribution



The Group's risk profile is mainly retail, accounting for 85% of total risk generated by the retail and commercial banking business.

» D.1.2. Key figures and change over time

D.1.2.1. Global map of credit risk, 2016

The table below sets out the global credit risk exposure map in nominal amounts (except for exposure for derivatives and repos, which are expressed in credit risk equivalent) at 31 December 2016.

■ Gross credit risk exposure classified by geographies

Million euros

	Customer loans		Loans to entities ²		Fixed income ³		Derivatives and Repos	Total
	Drawn ¹	Undrawn	Drawn	Undrawn	Sovereign	Private	REC ⁴	
Continental Europe	334,720	80,126	27,960	809	52,405	11,927	18,861	526,807
Spain	205,961	65,370	20,923	368	38,490	6,306	16,708	354,126
Germany	34,562	1,099	2,032	-	203	103	-	37,999
Portugal	31,827	4,756	1,425	378	6,119	4,076	1,868	50,448
Other	62,370	8,902	3,579	63	7,594	1,442	286	84,235
UK	239,446	46,574	20,921	-	12,208	8,539	17,968	345,656
Latin America	163,484	44,454	32,889	24	32,645	6,981	7,695	288,171
Brazil	78,941	26,636	20,011	23	20,344	5,090	4,583	155,628
Chile	40,401	10,310	2,889	0	3,517	1,608	1,322	60,046
Mexico	28,809	6,461	4,575	-	7,345	270	1,765	49,224
Other	15,334	1,048	5,414	-	1,439	14	25	23,273
US	83,912	26,966	10,513	230	9,255	8,226	30	139,132
Rest of the world	681	302	79	-	-	56	-	1,118
Group total	822,244	198,421	92,361	1,062	106,513	35,730	44,554	1,300,885
% Total	63.2%	15.3%	7.1%	0.1%	8.2%	2.7%	3.4%	100.0%
Var. vs. Dec-15	(2.1%)	1.8%	3.7%	67.6%	11.3%	(5.7%)	(14.5%)	(0.7%)

■ Gross credit risk exposure: change over time

Million euros

	2016	2015	2014	Change on 14	Change on 13
Continental Europe	526,807	529,030	480,551	(0.4%)	9.6%
Spain	354,126	365,071	333,227	(3.0%)	6.3%
Germany	37,999	35,069	32,929	8.4%	15.4%
Portugal	50,448	53,622	43,754	(5.9%)	15.3%
Other	84,235	75,267	70,641	11.9%	19.2%
UK	345,656	382,366	349,169	(9.6%)	(1.0%)
Latin America	288,171	248,292	264,459	16.1%	9.0%
Brazil	155,628	131,673	160,532	18.2%	(3.1%)
Chile	60,046	49,034	46,084	22.5%	30.3%
Mexico	49,224	46,681	43,639	5.4%	12.8%
Other	23,273	20,905	14,204	11.3%	63.8%
US	139,132	149,609	123,758	(7.0%)	12.4%
Rest of the world	1,118	896	450	24.8%	148.1%
Group total	1,300,885	1,310,193	1,218,387	(0.7%)	6.8%

1. Balances with customers include contingent risks (details in note 35 to the Annual Financial Statements and Audit Report) but exclude repos (EUR 14,244 million) and other customer lending financial assets (EUR 19,023 million).

2. Balances with credit entities and central banks include contingent risks but exclude Repos, the trading portfolio and other financial assets.

3. Total fixed income excludes the trading portfolio.

4. CRE (Credit Risk Equivalent: net value of replacement plus maximum potential value. Includes mitigants).

Gross exposure (lending to customers, entities, fixed income, derivative and repos) to credit risk in 2016 amounted to EUR 1,300,885 million. The highest proportion, accounting for 86% of the total, is credit to customers and credit entities.

Risk is diversified among the main regions where the Group operates: Continental Europe (40%), UK (27%), Latin America (22%) and the US (11%).

In 2016, credit risk exposure fell by 0.7%, due mainly to lower exposure in the UK (caused by exchange rate effects).

Changes in scope

In 2016, the inclusion of the agreement with PSA (50% joint venture between Banque PSA Finance and Santander Consumer Finance - SCF) in the consumer finance business was completed. The core purpose of this agreement is financing of vehicles manufactured by Peugeot, Citroën and DS and bought by end customers, and also of second-hand vehicles sold in these 3 French brand dealerships. This incorporation increased exposure by some EUR 8,176 billion, as of December 2016.

This alliance has enabled SCF to enhance its position in the market, improving its presence in countries to which it was already exposed, such as Germany and Italy, whilst entering new markets, such as Belgium, increasing its scope.

The portfolio incorporated had a non-performing loans ratio of around 1.9% at the end of December, continuing the trend seen in the previous year. The coverage of the new incorporation is around 100%, similar to levels for SCF. The incorporations carried out in 2016 completed the incorporation process for this business.

D.1.2.2. Main figures in 2016

The table below sets out the main items related to credit risk derived from our activity with customers:

Key figures of credit risk arising from activity with customers

	Credit risk with customers ² (million euros)			Non-performing loans (million euros)			Non-performing loans rate (%)		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Continental Europe	331,706	321,395	310,008	19,638	23,355	27,526	5.92	7.27	8.88
Spain	172,974	173,032	182,974	9,361	11,293	13,512	5.41	6.53	7.38
Santander Consumer Finance ¹	88,061	76,688	63,654	2,357	2,625	3,067	2.68	3.42	4.82
Portugal ⁵	30,540	31,922	25,588	2,691	2,380	2,275	8.81	7.46	8.89
Poland	21,902	20,951	18,920	1,187	1,319	1,405	5.42	6.30	7.42
UK	255,049	282,182	256,337	3,585	4,292	4,590	1.41	1.52	1.79
Latin America	173,150	151,302	161,974	8,333	7,512	7,767	4.81	4.96	4.79
Brazil	89,572	72,173	90,572	5,286	4,319	4,572	5.90	5.98	5.05
Mexico	29,682	32,463	27,893	819	1,096	1,071	2.76	3.38	3.84
Chile	40,864	35,213	33,514	2,064	1,980	1,999	5.05	5.62	5.97
Argentina	7,318	6,328	5,703	109	73	92	1.49	1.15	1.61
US	91,709	90,727	76,014	2,088	1,935	1,838	2.28	2.13	2.42
Puerto Rico	3,843	3,924	3,871	274	273	288	7.13	6.96	7.45
Santander Bank	54,040	54,089	45,817	717	627	647	1.33	1.16	1.41
SC USA	28,590	28,280	22,782	1,097	1,034	903	3.84	3.66	3.97
Group total	855,510	850,909	804,084	33,643	37,094	41,709	3.93	4.36	5.19

	Coverage ratio (%)			Net ASR provision ³ (million euros)			Cost of credit (% /risk) ⁴		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Continental Europe	60.0	64.2	57.2	1,342	1,975	2,880	0.44	0.68	1.01
Spain	48.3	48.1	45.5	585	992	1,745	0.37	0.62	1.06
Santander Consumer Finance ¹	109.1	109.1	100.1	387	537	544	0.47	0.77	0.90
Portugal ⁵	63.7	99.0	51.8	54	72	124	0.18	0.29	0.50
Poland	61.0	64.0	60.3	145	167	186	0.70	0.87	1.04
UK	32.9	38.2	41.9	58	107	332	0.02	0.03	0.14
Latin America	87.3	79.0	84.5	4,911	4,950	5,119	3.37	3.36	3.70
Brazil	93.1	83.7	95.4	3,377	3,297	3,682	4.89	4.50	4.91
Mexico	103.8	90.6	86.1	832	877	756	2.86	2.91	2.98
Chile	59.1	53.9	52.4	514	567	521	1.43	1.65	1.75
Argentina	142.3	194.2	143.3	107	148	121	1.72	2.15	2.54
US	214.4	225.0	193.6	3,208	3,103	2,233	3.68	3.66	3.31
Puerto Rico	54.4	48.5	55.6	96	85	55	2.58	2.12	1.43
Santander Bank	99.6	114.5	109.4	120	64	26	0.23	0.13	0.06
SC USA	328.0	337.1	296.2	2,992	2,954	2,152	10.72	10.97	10.76
Group total	73.8	73.1	67.2	9,518	10,108	10,562	1.18	1.25	1.43

1. SCF includes PSA in figures for 2015 and 2016.

2. Includes gross lending to customers, guarantees and documentary credits.

3. Recovered Written-Off Assets (EUR 1,582 million).

4. Cost of credit = loan-loss provisions twelve months / average lending

5. Portugal includes Banif in figures for 2015 and 2016

NOTE: The figures for 2014 have been recalculated because of the transfer of the Banco Santander International units and the New York branch to USA.

In 2016, credit risk with customers rose slightly by 0.6%, largely due to the increases in Brazil, SCF and Chile, which offset the fall in the United Kingdom, mainly due to the exchange rate effect. There is growth across the board in local currency, with the UK standing out.

These levels of lending, together with lower non-performing loans (NPLs) of EUR 33,643 million (-9% vs. 2015) reduced the Group's NPL ratio to 3.93% (-43 bp vs. 2015).

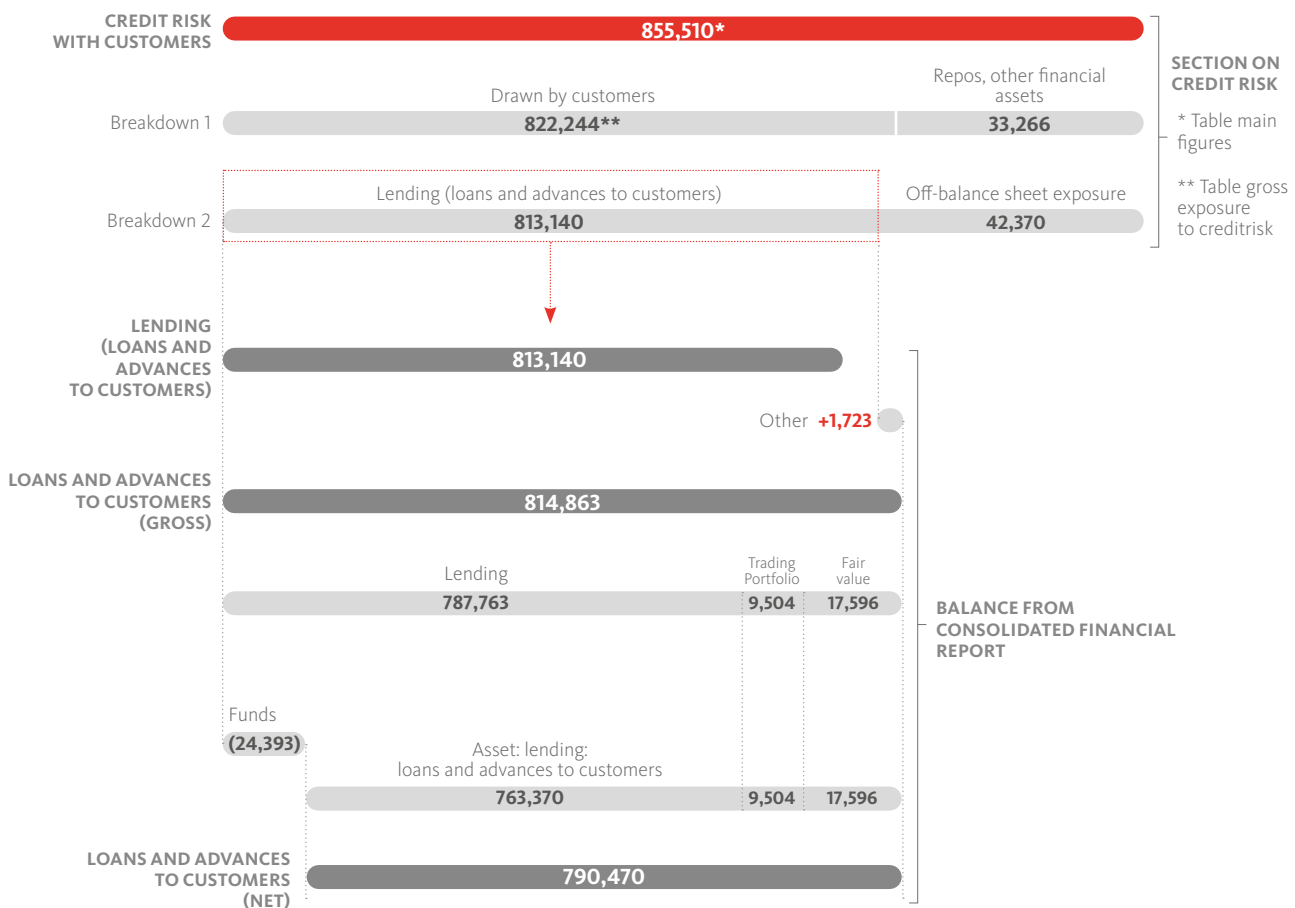
For coverage of these NPLs, the Group recorded net credit losses of EUR 9,518 million (-6% vs. 2015), after deducting write-off recoveries. This fall is reflected in a fall in the cost of credit to 1.18% (7 bp less than the previous year).

Total loan-loss provisions were EUR 24,835 million, bringing the Group's coverage ratio to 74%. It is important to bear in mind that this ratio is affected downwards by the weight of mortgage portfolios (particularly in the UK and Spain), which require fewer provisions as they have collateral.

Reconciliation of the main magnitudes

The consolidated financial report details the portfolio of customer loans, both gross and net of funds. Credit risk also includes off-balance sheet risk. The following chart shows the relation between the concepts that comprise these magnitudes.

Million euros

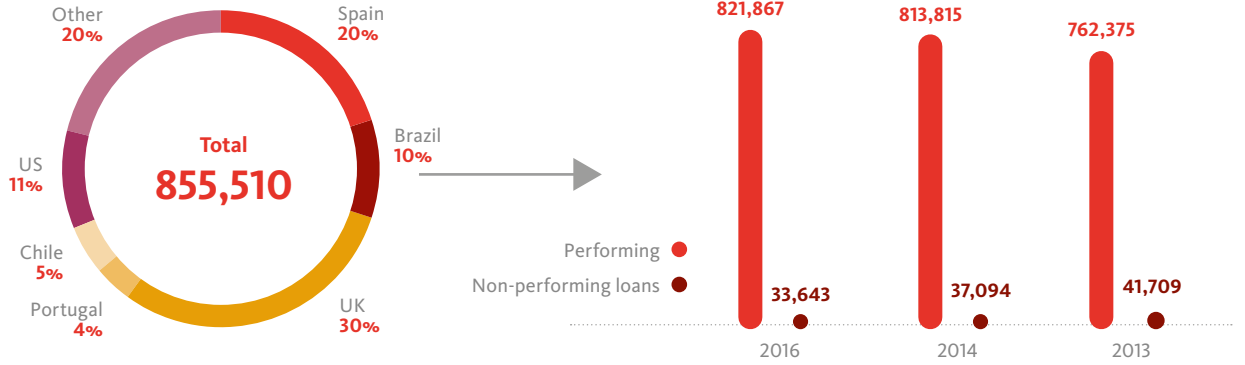


Geographic distribution and segmentation

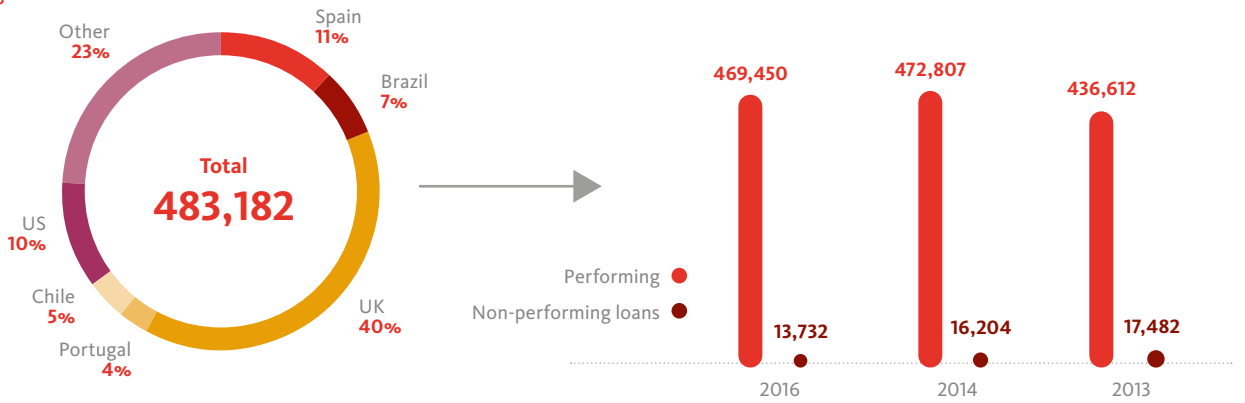
On the basis of the aforementioned segmentation, the geographic distribution and situation of the portfolio is shown in the following charts.

Million euros

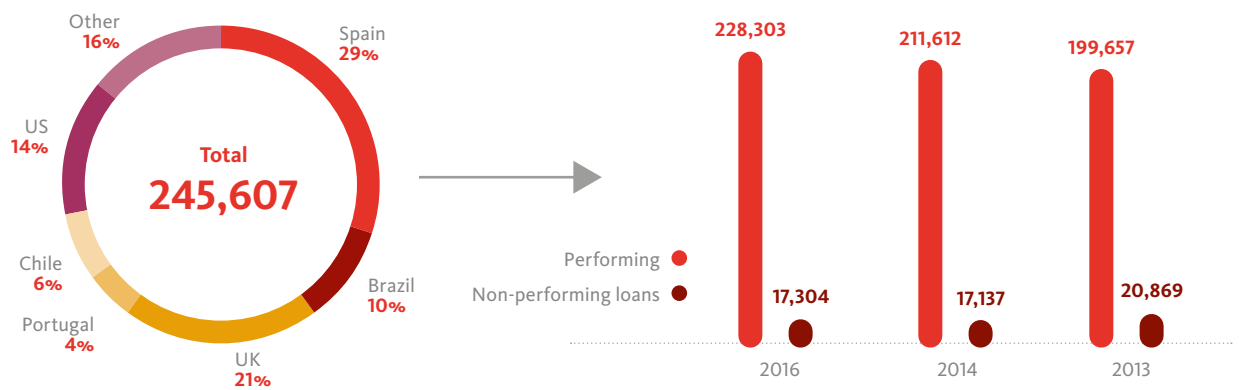
Total



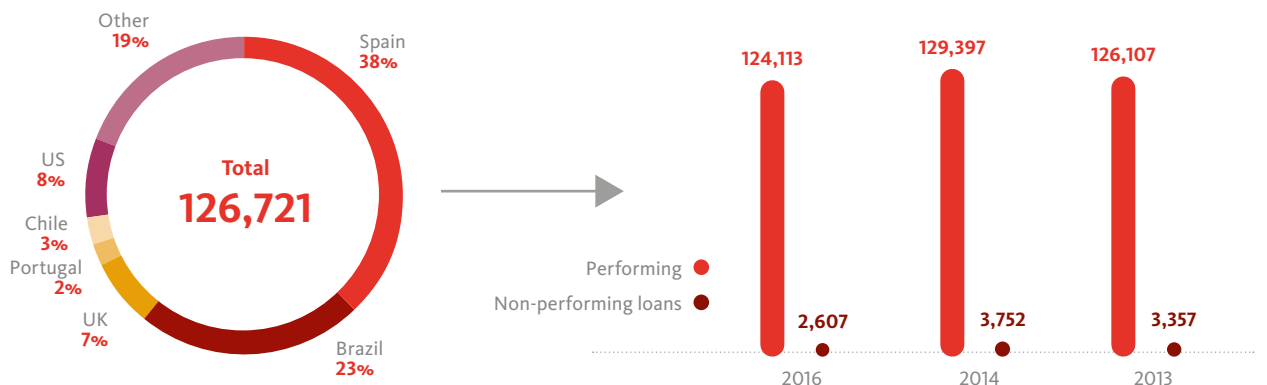
Individuals



SMEs, companies and institutions



SGCB



The structure of the main magnitudes by geographic area:

• Continental Europe

- In **Spain**⁵, the NPL ratio stood at 5.41 % (-112 bp compared to 2015), as a result of the favourable performance of non-performing loans due to fewer new entries in most portfolios and, to a lesser extent, portfolio sales and forbearance positions returning to normal. The coverage ratio remains at 48% (stable over the year).
- **Portugal**, downward trend in non-performing loans due to fewer new entries in main segments and from portfolio sales. After the adjustments due to the acquisition of Banif, non-performing loans stand at 8.81%, (+135 bp vs. 2015) with a coverage ratio of 64%.
- In **Poland** the down turn in the NPL ratio continue to 5.42% (-88 bp vs. 2015). The coverage ratio was 61%.
- In **Santander Consumer** the NPL ratio, following the increase in the perimeter, was 2.68% (-74 bp in the year), with a generally strong performance by portfolios in most countries. The coverage ratio remains at 109%.
- The **UK**⁶ reduced its NPL ratio to 1.41% (-11 bp in the year), due to strong performance across all segments, particularly SMEs and individual customers. The coverage ratio was 33%.
- **Brazil**⁷, against an adverse macroeconomic background, the NPL ratio was reduced to 5.90% (-8 bp in the year) using proactive risk management. The coverage ratio was 93%.
- **Chile** has reduced its NPL ratio to 5.05 % (-57 bp in the year), thanks to the strong performance in non-performing loans across most segments, particularly individual customers. The coverage ratio was 59%.
- Non-performing loans in **Mexico** fell to 2.76% (-62 bp in the year), due to a fall in the NPL ratio mainly in individuals and wholesale. The coverage ratio was 104%.
- The NPL ratio in the **United States**⁸ stood at 2.28% (+15 bp), with the coverage ratio remaining high, at 214%.
- The NPL ratio at Santander Bank stood at 1.33% (+16 bp), driven by the increase in the oil and gas sector in the first quarter, although the trend has been positive since then. The coverage ratio rose to 100%.
- In SC USA, the high rotation of the portfolio and the unit's forward-looking NPL management brought the NPL ratio to 3.84% and the coverage ratio increased to 328%.
- Puerto Rico's NPL ratio increased to 7.13%, whilst its coverage ratio rose to 54%.

Portfolio with normal status: amounts past due

Amounts past due by three months or less represented 0.32% of total credit risk with customers. The following table shows the structure at 31 December 2016, classified on the basis of the maturity of the first maturity:

• Amounts past due pending collection

Million euros

	Less than 1 month	1 to 2 months	2 to 3 months
Loans and advances to credit institutions	20	1	-
Loans and advances to customers	1,672	659	393
Public administrations	8	2	-
Other private sector	1,664	657	393
Debt instruments	-	-	-
Total	1,692	660	393

Non-performing loans and provisions: change over time and mix

Non-performing assets are classified as:

- **Assets classified as non-performing due to the delinquency of the counterparty:** debt instruments that are more than 90 days past due, irrespective of their holder or collateral. In the case of individually significant exposures, these assets are covered for the difference between the carrying value of the asset and the current value of expected future cash flows.
- **Assets classified as non-performing for reasons other than the delinquency of the counterparty:** debt instruments for which there are reasonable doubts about collection in the contractually agreed terms, even though there are no reasons to classify them as non-performing due to delinquency. In the case of individually significant exposures, these assets are covered for the difference between the carrying value of the asset and the current value of expected future cash flows.

5. Does not include real estate activity. Further details in section D.1.3.2. Spain.

6. Further details in section D.1.3.1. UK.

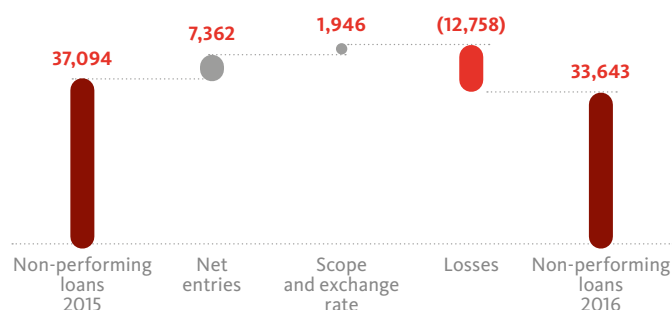
7. Further details in section D.1.3.4. Brazil.

8. Further details in section D.1.3.3. US

The table below shows the change over time in non-performing loans by constituent items:

Change over time in non-performing loans by constituent item

Million euros



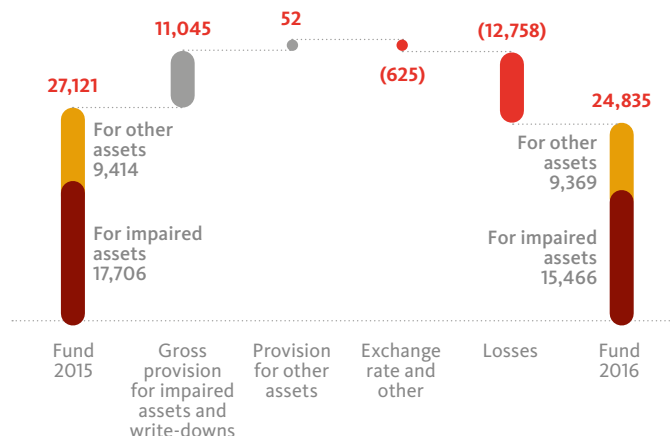
Performance 2014-2016

Million euros

	2014	2015	2016
NPL (start of period)	41,652	41,709	37,094
Net inflows	9,652	7,705	7,362
Scope	497	106	734
Exchange differences and other	1,734	(65)	1,211
Losses	(11,827)	(12,361)	(12,758)
NPL (end of period)	41,709	37,094	33,643

Change over time in loan loss provisions, according to constituent item

Million euros



Performance 2014-2016

Million euros

	2014	2015	2016
Fund (start of period)	25,681	28,046	27,121
For impaired assets	19,118	19,786	17,706
For other assets	6,563	8,260	9,414
Gross provision for impaired assets and write-downs	11,766	10,670	11,045
Provision	11,766	10,670	11,045
Write-downs	-	-	-
Provision for other assets	156	814	52
Exchange differences and other	2,271	(48)	(625)
Losses	(11,827)	(12,361)	(12,758)
Fund (end of period)	28,046	27,121	24,835

Forbearance portfolio

Forbearance is defined as the modification of the payment conditions of a transaction which allow a customer who is experiencing financial difficulties (current or foreseeable) to fulfil its payment obligations, on the basis that whether this modification was not to be made it would be reasonably certain that it would not be able to meet its financial obligations. The modification could be done in the same original transaction or through a new transaction which replaces the previous one. The aforementioned modifications are driven by concessions from the bank to the customer (concessions more favourable than those that are established in the market).

The Bank has a detailed corporate policy for forbearance which acts as a reference in the various local transpositions of all the financial institutions that form part of the Group. These share the general principles established in the new Bank of Spain circular 4/2016 and the technical criteria published in 2014 by the European Banking Authority, developing them in a more granular way on the basis of the level of customer impairment.

This policy sets down rigorous criteria for the evaluation, classification and monitoring of such transactions, ensuring the strictest possible care and diligence in their granting and follow up. These forbearance principles:

- must be focused on recovery of the amounts due; must adapt the payment obligations to the customer's actual situation; and must recognise a loss as soon as possible, if any amounts are deemed irrecoverable.
- Forbearances may never be used to delay immediate recognition of losses or to hinder appropriate recognition of risks of default.
- Further forbearance may also be granted if it is deemed appropriate in order to maximise recoveries, providing this does not in any way represent an incentive for non-payment by the customer.

- Restructuring must always envisage maintaining existing guarantees and, if possible, improving them.
- Forbearance decisions must be based on analysis of the transaction at a suitable level of the organisation other than that which granted the initial transaction, or must be reviewed by a higher decision-making level or body.

Instances have been established for considering transactions to be experiencing financial difficulties, and therefore to be eligible for consideration for forbearance. Although the consideration of financial difficulties remains the responsibility of the analyst or manager, based on a number of risk indicators (high indebtedness, falling turnover, narrowing margins, impaired access to markets, operations included in a debt sustainability accord, risks relating to holders declared bankrupt with no liquidation filing, etc.), an operation can be considered for forbearance if it has been past due for more than 30 days at least once in the three months prior to the modification.

Classification criteria have also been defined for forbore transactions, in order to ensure risks are recognised appropriately. Transactions not classified as non-performing loans at the time of the forbearance are in general considered normal but under special monitoring. Those operations that remain classified as non-performing loans for not meeting the requirements for their reclassification to another category at the time of forbearance must fulfil a 12-month schedule of prudent payments, to ensure with reasonable certainty that the customer has recovered their payment capacity and is no longer non-performing loans.

The operation is no longer considered non-performing loans once this period has been completed, but remains subject to a trial period of special monitoring. This monitoring continues: whilst it is considered that the customer might still be experiencing financial difficulties; for at least two years; until the holder has paid all principal and interest outstanding from the date of the restructuring or refinancing; and providing that the holder has no other operations with amounts more than 30 days past due at the end of the trial period.

The forbearance portfolio stood at EUR 48,460 million at the end of December, as follows⁹.

Forbearance volume

Million euros

	Performing	Non-performing loans	Total risk	
	Amount	Amount	Amount	% coverage/total
Total forbearance	29,770	18,690	48,460	23%

The Group's forbearances were down 14.5%, continuing the trend from recent years. In terms of credit quality, 39% of the forbearance portfolio is classified as non-performing loans, with average coverage for these amounts of 59% (23% of the total portfolio).

Management metrics¹⁰

Credit risk management uses other metrics to those already commented on, particularly change in managed non-performing loans variation plus net write-offs (known in Spanish as VMG) and expected loss. Both enable risk managers to form a complete idea of the portfolio's evolution and future prospects.

VMG is the result of subtracting the initial balance of non-performing loans from the final balance for the period under consideration, plus the write-offs in this period, less loan loss recoveries in the same period. It is often considered in relation to the average lending on which it is based, giving rise to what is known as the **risk premium**, the change in which over time can be seen below.

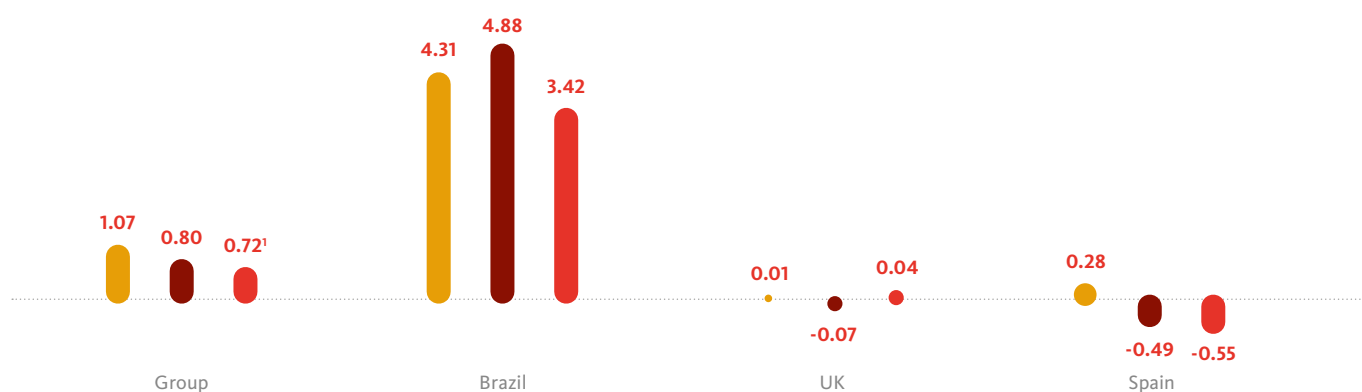
9. For more detail on the real estate portfolio consult note 54 of the auditor's report and the annual financial statements.

10. For further details of these metrics refer to section D.1.5.6. Measurement and control in this chapter.

Risk premium (VMG/average balances)

Figures at constant exchange rate.

● 2014 ● 2015 ● 2016



(1) Management adjustment due to change in scope.

The Group's risk premium continued its downward trend in 2016, falling across most geographies.

Expected loss is an estimate of future losses on the portfolio over the coming year, for a particular moment in time. It reflects the characteristics of the portfolio compared to exposure (EAD), probability of default (PD) and severity or recovery in the event of default (LGD).

The table below sets out the distribution by segments in terms of EAD, PD and LGD. For example, it can be seen that the consideration of LGD in the metrics makes portfolios with mortgage guarantees generally produce a lower expected loss, as a result of the recovery that occurs in the event of default via the mortgaged property.

The expected loss with portfolio customers classified as being in a normal situation is 1.12% (1.00% in 2015) and 0.88% for the whole of the Group's credit exposure (0.79% in 2015), maintaining a medium-low risk profile.

Credit risk exposure: segmentation

Segment	EAD ¹	% EAD total	PD Medium	LGD Medium	EL
Sovereign debt	184,387	16.5%	0.30%	6.26%	0.02%
Banks and other financial entities	62,037	5.5%	0.38%	38.05%	0.14%
Public sector	3,688	0.3%	1.83%	21.50%	0.39%
Corporate	151,836	13.6%	0.75%	31.16%	0.23%
SMEs	169,243	15.1%	3.26%	41.31%	1.35%
Mortgages, individuals	317,533	28.4%	2.44%	7.15%	0.17%
Consumer, individuals	168,387	15.0%	6.36%	48.98%	3.12%
Credit cards, individuals	46,911	4.2%	3.80%	65.62%	2.49%
Other assets	15,812	1.4%	2.46%	34.47%	0.85%
Pro memoria customers ²	857,596	76.6%	3.15%	35.66%	1.12%
Total	1,119,832	100.0%	2.51%	35.08%	0.88%

Figures to December 2016.

1. Excludes non-performing assets.

2. Excludes Sovereign debt, Banks and other financial entities and Other assets.

» D.1.3. Details of main geographies

The portfolios of the geographies where Grupo Santander has the highest risk concentrations are set out below, based on the data in section D.1.2.2. Main figures in 2016.

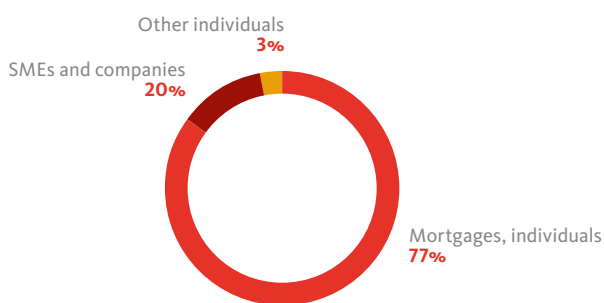
D. 1.3.1. UK

1.3.1.1. Overview of the portfolio

Credit risk with customers in the UK amounted to EUR 255,049 million at the close of December 2016, accounting for 30% of the Group total.

The Santander UK portfolio is divided into the following segments:

Segmentation of the portfolio



1.3.1.2. Mortgage portfolio

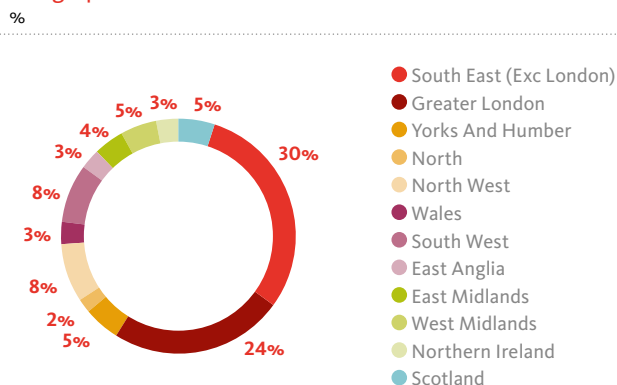
It is worth highlighting the mortgage portfolio because of its importance not only for Santander UK but for all of the Group's lending. This stood at EUR 180,476 million at the end of December 2016.

This portfolio consists of mortgages for acquisition or reforming homes, granted to new as well as existing customers and always constituting the first mortgage. There are no operations that entail second or successive charges on mortgaged properties.

The mortgaged property must always be located within UK territory, regardless of the destiny of the financing except in the case of some one-off operations in the Isle of Man. Mortgages can be granted for properties outside the UK, but the collateral for such mortgages must consist of a property in the UK.

Most of the credit exposure is in the south east of the UK, and particularly in the metropolitan area of London, where housing prices have risen over the last year.

Geographic concentration

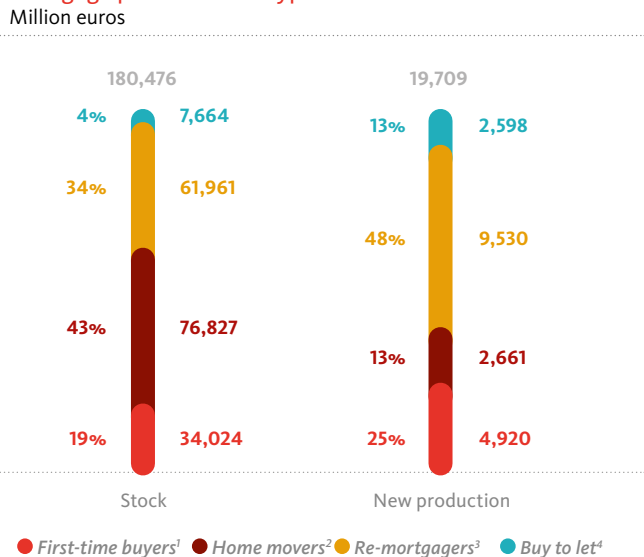


All the properties are valued independently before each new operation is approved, in accordance with the Group's risk management principles.

Mortgages that have already been granted are subject to a quarterly updating of the value of the property in guarantee, by an independent agency, using an automatic valuation system in accordance with the market's usual practices and in compliance with prevailing legislation.

The distribution of the portfolio by type of borrowers is shown in the chart below:

Mortgage portfolio loan types



1. *First-time buyers*: customers who purchase a home for the first time..
2. *Home movers*: customers who change houses, with or without changing the bank granting the loan.
3. *Re-mortgages*: customers who switch the mortgage from another financial entity.
4. *Buy to let*: houses bought for renting out.

There are many different types of products with different risk profiles, all of them subject to the limits inherent to the policies of a prime lender such as Santander UK. The features of some of these are described below (in brackets the percentage of the portfolio of the mortgage portfolio they represent):

- **Interest only loans** (36.5%)¹¹: the customer pays the interest every month and amortises the capital at maturity. An appropriate repayment vehicle such as a pension plan, mutual funds, etc. is needed. This is a regular product in the UK market for which Santander UK applies restrictive policies in order to mitigate the inherent risks. For example: a maximum LTV of 50%, higher cut-off in the admission score or the evaluation of the payment capacity, simulating the amortization of capital and interest payments instead of just interest.
- **Flexible loans** (11.3%): The contract for this type of loan enables the customer to modify their monthly payments or make additional provision of funds up to a pre-established limit, as well as having access to disbursements from previously paid amounts above that limit.
- **Buy to Let** (4.2%): Buy to let mortgages (purchase of a property to rent out) account for a small percentage of the total portfolio. Admission was halted between 2009 and 2013, when it was reactivated following the improvement in market conditions, with approval subject to strict risk policies. In December 2016, they represented around 13% of total admissions.

There was growth of 0.9% in local-currency terms in 2016, against a backdrop of uncertainty in the second half of the year, although prices increased in the real estate market.

The NPL rate fell from 1.44% in 2015 to 1.35% in December 2016.

The decrease was sustained by the evolution of non-performing loans, which improved thanks to a more favourable economic environment, as well as increased NPL exits due to the improved efficiency of recovery teams. The volume of non-performing loans thus dropped by 6%, continuing the trend seen in 2015.

It is also necessary to point out the more conservative focus adopted in Santander UK's definition of an NPL, in line with the criteria set by the Bank of Spain and Grupo Santander, with regard to the standard applied in the UK market. This focus includes classification of the following operations as non-performing loans:

- Customers with payment delays of between 30 and 90 days and who have been declared publicly insolvent (via a bankruptcy process) in the previous two years.
- Operations where, once the maturity date is reached, there is still loan capital pending payment with a maturity of more than 90

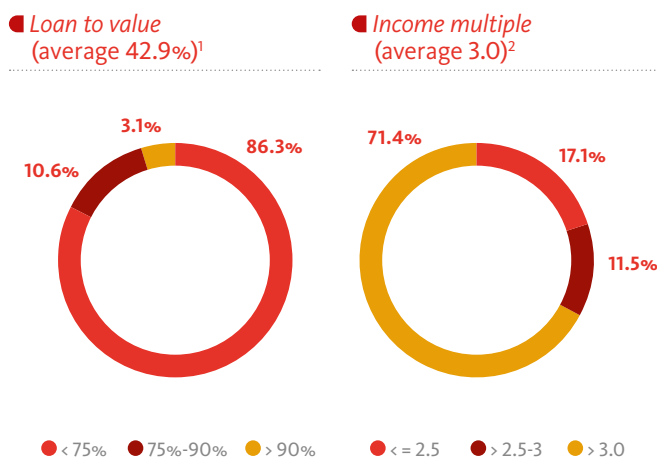
days, although the customer remains up to date with their monthly payments.

- Forbearance operations which, in accordance with the corporate policy, are considered as "payment agreements" and thus classified as non-performing loans.

Excluding these concepts, which are not included in calculating the NPL ratio in the UK market, and under which EUR 637 million was classified as NPLs at the end of December 2016, the ratio of the mortgage portfolio was 1.01%.

The strict credit policies mentioned limit the maximum loan-to-value (LTV) to 90% for those loans that amortize interest payments and capital, and to 50% for those that amortize interest regularly and the capital at maturity. These policies were applied, bringing the simple arithmetic average LTV of the portfolio to 42.9% and the average weighted LTV to 38.9%. The proportion of the portfolio with an LTV of more than 100% was down to 1.2%, from 1.7% in 2015.

The following charts show the LTV structure for the stock of residential mortgages and their distribution in terms of the income multiple for new loans as of December 2016:



1. *Loan to value*: relation between the amount of the loan and the appraised value of the property. Based on indices.
2. *Income multiple*: relation between the total original amount of the mortgage and the customer's annual gross income declared in the loan application.

The credit risk policies currently used explicitly forbid loans regarded as high risk (subprime mortgages) and establish demanding requirements for credit quality, both for operations and for

11. Percentage calculated for loans with total or some interest only component.

customers. For example, as of 2009 mortgages with a loan-to-value of more than 100% have not been allowed.

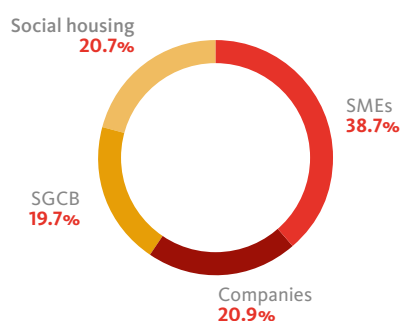
An additional indicator of the portfolio's strong performance is the reduced volume of foreclosed properties, which in December 2016 amounted to EUR 42 million, less than 0.03% of total mortgage exposure. Efficient management of these cases and the existence of a dynamic market for this type of housing enables sales to take place in a short period of time (around 18 weeks on average), contributing to the good results.

1.3.1.3 SMEs and business

As shown in the chart on the segmentation of the portfolio at the beginning of this section, lending to SMEs and companies (EUR 47,234 million) represented 20% of the total at Santander UK as of December 2016.

The following sub-segments are included in these portfolios:

■ SME and business portfolio: segments



SMEs: this segment includes small firms belonging to the business lines of small business banking and regional business centres. Total lending at December 2016 was EUR 18,295 million, with an NPL ratio of 3.4%.

Companies: This includes companies to which a risk analyst is assigned. It also includes portfolios considered as not strategic (legacy and non-core). Lending at December 2016 was EUR 9,867 million, with an NPL ratio of 2.3%.

GCB: includes companies under the Santander Global Corporate Banking risk management model. Lending at December amounts to EUR 9,314 mn with an NPL ratio of 0.01%.

Social housing: this includes lending to companies that build, sell and rent social housing. This segment is supported by local and central government and has no NPLs. Outstanding lending in December stood at EUR 9,758 million.

D. 1.3.2. Spain

1.3.2.1. Overview of the portfolio

Total credit risk (including guarantees and documentary credits) in Spain (excluding the real estate unit, which is discussed later) amounted to EUR 172,974 million (20% of the Group total), with an adequate level of diversification by both product and customer segment.

In 2016, total credit risk was in line with the previous year, after successive falls in recent years. The growing volume of new lending in the main individual and business segments portfolios offsets the lower funding to government bodies and the pace of repayments, still higher than growth of new lending in the individuals segment. Meanwhile, the companies segment returned to growth.

■ Credit risk by segment

Million euros

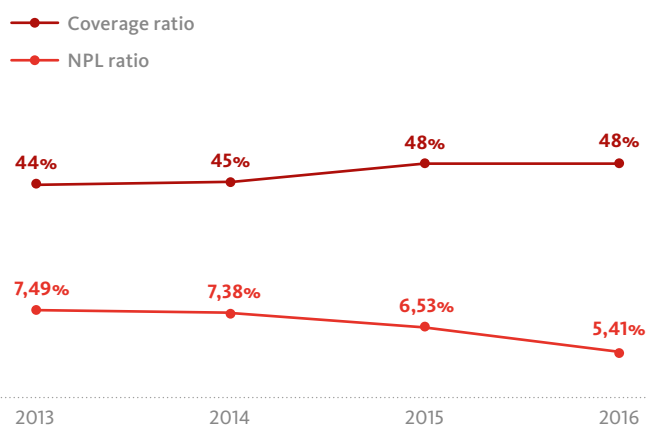
	2016	2015	2014	Var 16/15	Var 15/14
Total credit risk*	172,974	173,032	182,974	0%	(5%)
Household mortgages	46,219	47,924	49,894	(4%)	(4%)
Other credit for individuals	16,608	16,729	17,072	(1%)	(2%)
Companies	96,081	92,789	96,884	4%	(4%)
Public administrations	14,065	15,590	19,124	(10%)	(18%)

* Including guarantees and documentary credits

NPL ratio for the total portfolio was 5.41%, 112 bp lower than at year-end 2015, due to the trend of falling delinquency. This pattern is due to the lower gross NPL entries in the individual and business segments, which are 24% lower than 2015, and, to a lesser extent, the normalisation of several restructured positions and portfolio sales.

The coverage ratio remained at 48%, similar to year-end year end 2015.

NPL and coverage ratio



Below are the main portfolios.

1.3.2.2. Home mortgages

Lending to households to acquire a home in Spain amounted to EUR 46,864 million at the end of 2016 (27% of total credit risk). 99% of this has a mortgage guarantee.

Lending to households to acquire a home*

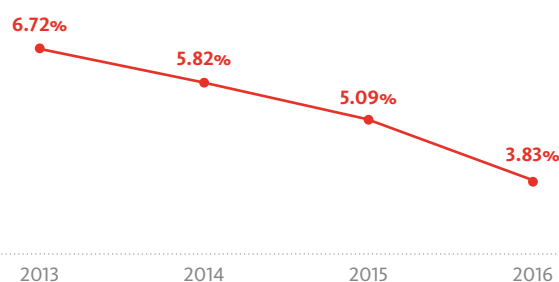
Million euros

	2016	2015	2014
Gross amount	46,864	48,404	50,388
Without mortgage guarantee	645	480	496
With mortgage guarantee	46,219	47,924	49,894
of which non-performing loans	1,796	2,477	2,964
Without mortgage guarantee	27	40	61
With mortgage guarantee	1,769	2,437	2,903

* Does not include the Santander Consumer España mortgage portfolio (EUR 2,192 million, with EUR 97 million of non-performing loans).

The NPL ratio of mortgages to households to acquire a home was 3.83%, 126 bp less than in 2015. The fall in lending (which increases the NPL ratio by 19 bp), which is due to repayments being higher than the new growth in loans, is offset with the fall in delinquency (NPL ratio down 145 bp), underpinned by further reduction in gross NPL entries while the pace of recoveries remains at 2015 levels.

NPL rate, household mortgages, Spain

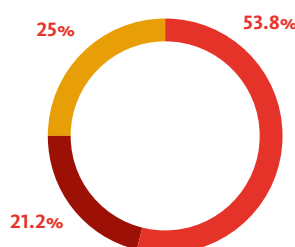


The portfolio of mortgages for homes in Spain kept its medium-low profile with limited expectations of further deterioration:

- All mortgages repay principle right from the start.
- Early amortization is usual and so the average life of the operation is well below that in the contract.
- High quality of collateral concentrated almost exclusively in financing the first home.
- Average affordability rate of close to 28%.
- Some 74% of the portfolio has a loan-to-value of less than 80% (total risk/latest available valuation of the home).

Income multiple

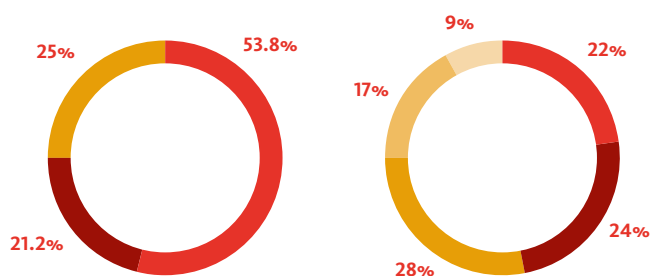
%



- IM < 30%
- 30% < IM < 40%
- IM > 40%

Loan to value

%



- LTV < 40%
- LTV between 40% and 60%
- LTV between 60% and 80%
- LTV between 80% and 100%
- LTV > 100%

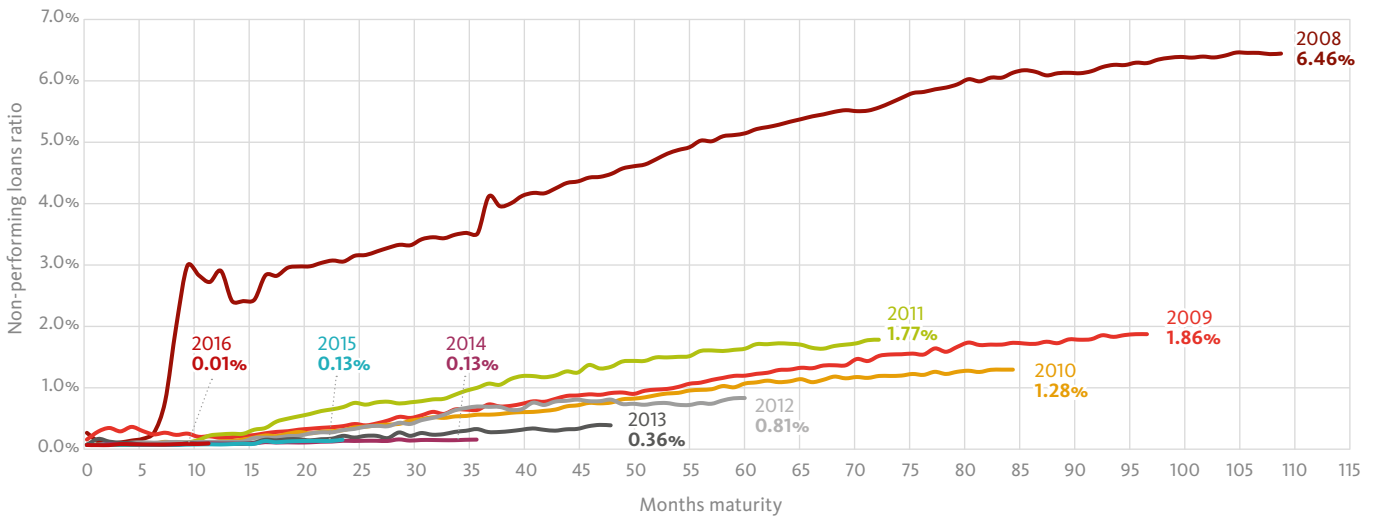
Loan to value: percentage indicating the total risk/latest available valuation of the home.

Income multiple: relation between the annual instalments and the customer's net income.

The evolution of vintages in 2016 continued to be very positive, backed by the quality of the admission measures applied since 2008

and a refocusing of demand towards better profiles, resulting in a decreasing rate of NPL entries.

■ **Maturity of vintages**



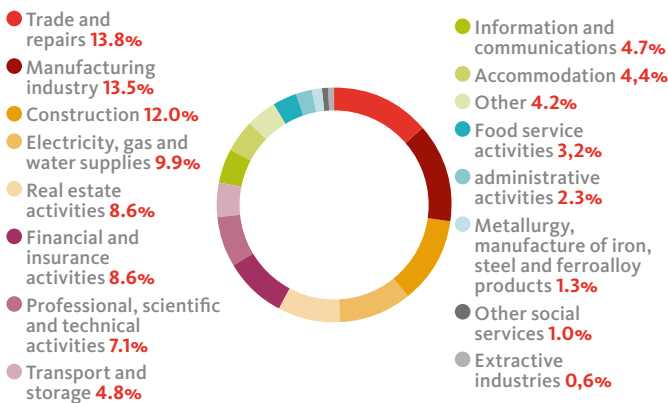
1.3.2.3. Business portfolio

Credit risk assumed directly with SMEs and companies (EUR 96,081 million) is the main lending segment in Spain (56% of the total).

Most of the portfolio (93%) corresponds to customers who have been assigned an analyst to monitor them continuously throughout the risk cycle.

It is a highly diversified portfolio, with over 199,561 active customers and without significant concentrations in any one particular business segment.

■ **Business portfolio distribution**



The NPL ratio of this portfolio was 5.79% at the end of 2016, 185 bp lower than 2015. This fall is the result of the growth in lending (which reduces the NPL ratio by 16 bp) and the fall in delinquency (NPL ratio

down by 169 bp), with gross NPL entries 33% lower than the previous year and a rate of recoveries at similar levels.

1.3.2.4. Real estate activity in Spain

The Group manages real estate activity in Spain through a separate unit, which includes loans to customers mainly for real estate promotion, and has a specialised management model, with stakes in companies in the real estate sector¹² and foreclosed assets.

The Group's strategy in the last few years has been to reduce the volume of these assets, which at the end of 2016 stood at EUR 5,937 million in net terms (around 2% of loans in Spain and less than 1% of the Group's loans). The portfolio's composition is as follows:

- Net loans of EUR 1,874 million, EUR 722 million less than at December 2015, with coverage of 54%.
- Net foreclosed assets at year end were EUR 3,403 million, with coverage of 58%.
- The net value of stakes in real estate companies was EUR 660 million.

The gross exposure in loans and foreclosures continued the downward trend of previous years and fell 65% between 2008 and 2016.

12. As of December 2014, the stake in Metrovacesa was consolidated by the full equity method.

The changes over time and the classification of the credit and foreclosed assets portfolios are shown in the table below:

■ Credits and foreclosed assets portfolio

Million euros

	2016			2015		
	Gross balance	% cover.	Net balance	Gross balance	% cover.	Net balance
1. Lending	4,069	54%	1,874	5,959	56%	2,596
a. Performing	228	5%	217	435	27%	318
b. Non-performing loans	3,841	57%	1,657	5,524	59%	2,278
2. Foreclosed	8,061	58%	3,403	8,253	55%	3,707
Total 1+2	12,130	56%	5,277	14,212	56%	6,303

Net exposure under the management scope of the real estate unit fell by 16% in 2016.

By type of real estate that guarantees the loans and foreclosed assets, the coverage levels are as follows:

■ Coverage by guarantee type

Million euros

	Real estate lending		Foreclosed real estate assets		Total	
	Expos.	Cover.	Expos.	Cover.	Expos.	Cover.
Completed buildings	2,120	47%	2,178	49%	4,298	48%
Developments under construction	97	26%	839	46%	936	44%
Land	1,517	62%	5,044	63%	6,561	63%
Other guarantees	335	72%	0	-	335	72%
TOTAL	4,069	54%	8,061	58%	12,130	56%

D. 1.3.3. United States

The credit risk of Santander's US subsidiary stood at EUR 91,709¹³ million at year-end 2016. This subsidiary comprises the following business units, after their integration under Santander Holdings USA in July:

- **Santander Bank N.A.:** With total loans, including off-balance sheet exposure, of EUR 54,040 million (59% of Santander US total). Its lending activity is focused on retail and commercial banking, of which 33% is with individuals and approximately 67% with companies. One of the main strategic goals for this unit is its transformation plan. This focuses on compliance with all regulatory programs, together with the development of the retail and commercial banking model towards a comprehensive solution for its customers.

- **Santander Consumer USA (SC USA):** Focused on Automobile financing with lending of EUR 28,590 million (31% of the total for the USA), and a vehicle leasing portfolio amounting to EUR 9,120 million. This activity is mainly based on its relationship with the Fiat Chrysler Automobiles (FCA) group, which dates back to 2013. Through this agreement, SC USA became the preferred lender for Chrysler vehicles in the USA.

- **Other USA businesses:** Banco Santander Puerto Rico (BSPR) is a retail and commercial bank operating in Puerto Rico. Its lending stood at EUR 3,843 million at year-end 2016, 4% of total lending in the USA. Santander Investment Securities (SIS), Nueva York, is dedicated to wholesale banking, with total lending at year-end 2016 of EUR 1,459 million (2% of the USA total). Finally, Banco Santander International (BSI), Miami, focuses mainly on private banking. Its lending stood at EUR 3,760 million at year-end 2016, 4% of total lending in the USA.

At an aggregate level, Santander US's lending increased by 1.1% compared to year-end 2015. Non-performing loans and cost of credit remained stable. This was due to the improved performance of SC US's Auto portfolios, following the implementation of new risk policies in the first quarter to improve the profile of new originations, and adjustments to the Oil & Gas sector in Santander Bank, in line with the industry. The NPL ratio stood at 2.28% (+15 bp) at year end, with a cost of credit of 3.68% (+2 bp). Details of the performance of Santander US's main units are set out below.

Great progress has been made in projects related to existing regulatory commitments, particularly with regard to stress testing and CCAR (Comprehensive Capital Adequacy and Review) exercises, reducing the number of outstanding recommendations by 66%.

1.3.3.1. Santander Bank N.A. performance

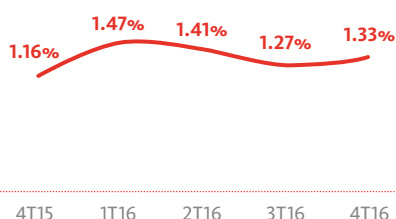
Most of the lending of Santander Bank is secured - around 60% of the total - mainly in the form of mortgages to individuals and also in companies lending. This explains its low NPL ratio and cost of credit. Lending remained broadly stable in 2016.

The NPL ratio remains very low, as shown in the charts below, standing at 1.33% at 31 December. The increase is explained by NPL classifications carried out in the first quarter for the Oil & Gas sector, which were offset by significant improvements throughout the rest of the year due to active portfolio management and favourable movements in oil prices. The cost of credit stood at 0.23%, up 10 bp compared to year-end 2015, due mainly to increased coverage for customers in this sector.

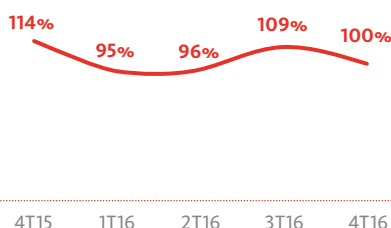
13. Includes EUR 17 million of lending under the holding company.

The coverage ratio, therefore, remains at comfortable levels ending the year at 100%.

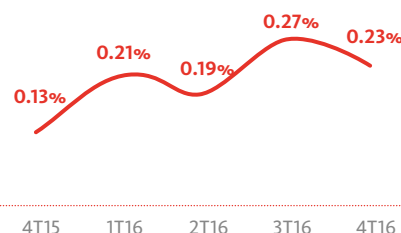
● Non-performing loans ratio



● Coverage ratio



● Cost of credit



The unit's strategic priority is its transformation plan, which seeks to ensure regulatory compliance and the alignment of management and governance standards with the corporate model. Significant progress was made throughout the year.

1.3.3.2. SC USA Performance

The risk indicators for Santander Consumer USA are higher than those of the other US units, due to the nature of its business, which focuses on vehicle financing through loans and leases. The credit profile of the unit's customers covers a wide spectrum as SC USA seeks to optimise the risk assumed and the associated returns. This means that the costs of credit are higher than those in other Group units, but these are compensated by the returns generated. This is facilitated by one of the most advanced technological platforms in the industry, including a servicing structure for third parties that is scalable and extremely efficient. Other competitive advantages include its excellent knowledge of the market and the use of internally-developed pricing, admission, monitoring and recovery models, based on effective management of comprehensive databases. This is complemented by the availability of numerous other business tools, such as discounts from the brands (OEM - Original Equipment Manufacturers), pricing policies with highly responsive recalibration capacity, strict monitoring of new production and optimised recovery management.

The lending of Santander Consumer USA also include the personal lending portfolio, which is considered non-strategic. In early 2016 the Lending Club business was sold for EUR 824 million.

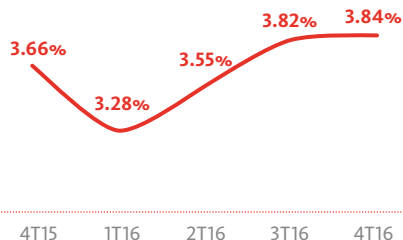
The NPL ratio remains moderate at 3.84% (up 18 bp compared to the previous year), thanks to preventive delinquency management accordingly to the type of business involved. The cost of credit improved to 10.72%, from 10.97% at year-end 2015. This was due to new risk policies implemented in the first quarter, with more demanding criteria resulting in a higher quality mix of new lending, and lower volumes of new vehicle lending.

The leasing portfolio - business carried out exclusively under the FCA agreement and focused on customers with high quality credit profiles - grew by 30.9% in the year, to EUR 9,120 million. The performance of customers has been positive, and the focus is now on managing and mitigating the residual value risk of leasing: i.e. the difference between the book value of the vehicles at the time of underwriting of the leasing agreement, and their potential value at maturity. These mitigating actions are carried out in accordance with the prudent risk appetite framework, through the definition of limits, and through management of the business, with rapid and efficient sales of the vehicles when the agreements end. The unit is currently evaluating "share-agreement" structures and sales agreements with third parties.

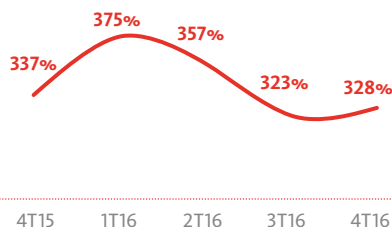
The growth in this portfolio has maintained profitability at adequate levels, with revenues performing favourably. This is reflected in the positive results for leases that matured during the year, and the mark-to-market valuation of vehicles in the portfolio compared to their book value, amounting to EUR 67 million at year-end 2016.

The coverage ratio remains high, at 328% compared to 337% in the previous year.

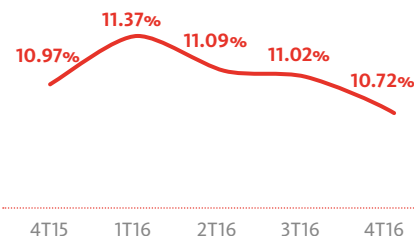
Non-performing loans ratio



Coverage ratio



Cost of credit



SC USA is benefitting from increasing access to third party funding, with a 7.5% increase in funding obtained throughout the year.

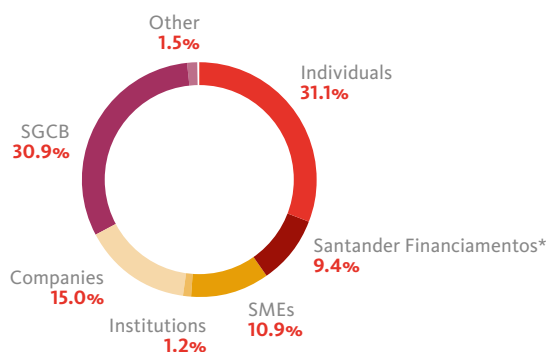
The main strategic focus is on continuing to improve the portfolio mix and its profitability, which has started to be achieved in 2016, and continuing to improve control and monitoring processes in relation to regulatory compliance and practices with customers.

D. 1.3.4. Brazil

Credit risk in Brazil amounts to EUR 89,572 million, up 24.1% against 2015 and largely due to the strengthening of the Brazilian currency. Santander Brasil thus accounts for 10.5% of all Grupo Santander lending. It is adequately diversified and with a mainly retail profile (51.4% individuals, consumer finance and SMEs).

Portfolio mix

%



* Santander Financiamentos: unit specialising in consumer finance (mainly auto finance).

As of December 2016, there was a decrease of around 1.5% in local currency terms, in line with the other private banks in the country.

This was mainly due to a lack of solvent demand, maturities of wholesale transactions (partially offset in the last quarter with the signing of confirming transactions) and the strengthening of the Brazilian real against the US dollar.

The strategy focused on changing the mix used in recent years continued during 2016. Stronger growth was obtained in segments with a more conservative profile, fostering customer loyalty and digitalisation at the same time. The individuals segment was marked by growth in the mortgage portfolio and the portfolio of payroll discount loans (marketed under the brand name *Olé Consignado*), commercial efforts aimed at the select segment, and by marketing campaigns to increase card exposure in the third quarter.

Turning to SMEs, unsecured products - such as the special cheque - also lost ground to less risky forms of funding, such as *Adquirência*. Finally, the companies and GCB portfolios (with large dollar positions in both cases) were both hit by the appreciation of the real against the US dollar, and the strategy of reducing exposure to some commodity sectors (mainly oil and gas and electricity), whilst the agricultural and foreign trade segments were boosted.

The following table shows the levels of lending and growth in the main segments at current exchange rates.

Lending: segmentation

Million euros. Exchange rate fixed at 31 December 2016

	2016	2015	2014	16 / 15	15 / 14
Individuals	29,200	23,838	23,131	22%	3%
Mortgages	8,069	7,677	6,321	5%	21%
Consumer	11,687	8,810	9,814	33%	(10%)
Cards	5,973	5,535	5,313	8%	4%
Other	3,472	1,816	1,683	91%	8%
Santander financiamentos	8,420	7,592	8,207	11%	(7%)
SMEs and large companies	51,952	56,365	51,707	(8%)	9%
SMEs	10,838	10,609	11,131	2%	(5%)
Companies	13,436	15,033	13,507	(11%)	11%
Corporate	27,678	30,723	27,069	(10%)	13%

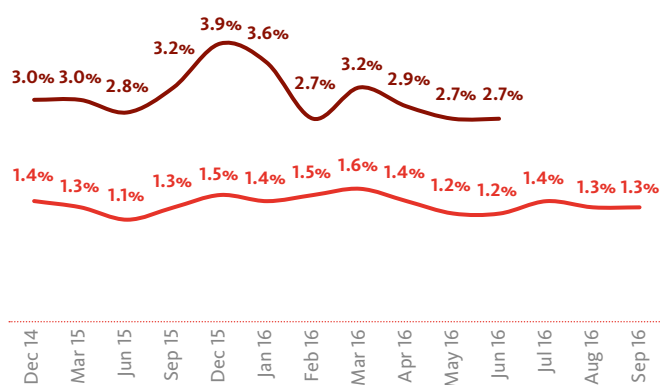
The leading indicators for the credit profile of new loans (vintages) are continuously tracked. These are shown below, confirming the entity's resilience to this macroeconomic climate.

The vintages show transactions over 30 days in arrears at three and six months respectively from their origination date, in order to anticipate any possible portfolio impairment. This enables the Entity to define corrective measures (Defence Plans), if any deviations from expected scenarios are detected. As we can see, these vintages were kept at comfortable levels through proactive risk management.

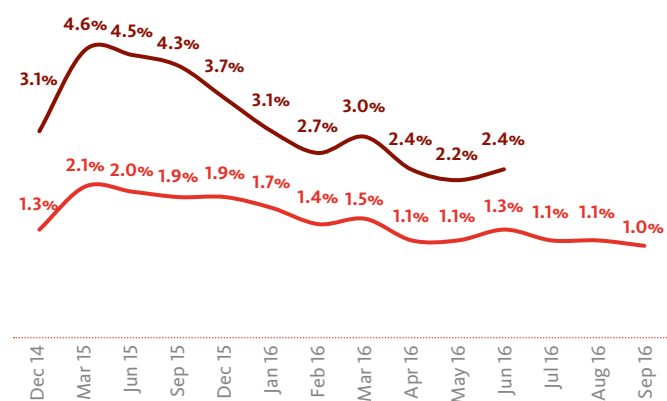
Vintages. Performance of the Over 30* ratio at three and six months from each vintage admission

As a percentage

Individuals



SMEs¹



— Over30 Mob3² — Over30 Mob6²

* Ratio calculated as the total value of business more than 30 days in arrears over the total value of the vintage.

1. Based on the new SME segmentation.

2. Months on Book

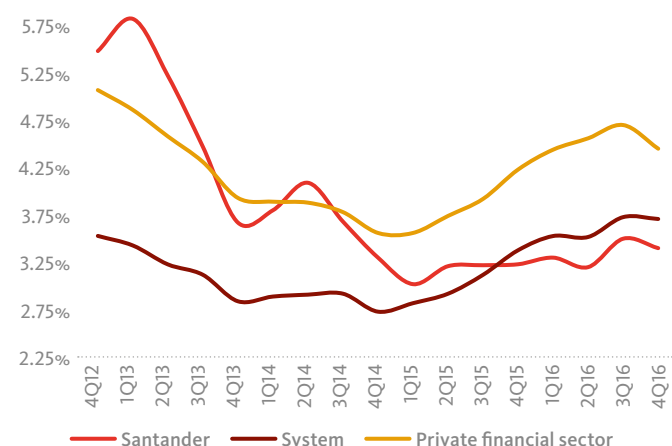
The NPL ratio stood at 5.90% at the end of 2016 (-8 bp compared to the previous year). Despite the economic situation, the outlook in Brazil is increasingly optimistic, as shown by the increase in confidence indicators and also inflation, which is converging towards the government's target range. As a result, the official interest rate (SELIC) has been reduced at recent meetings of the Monetary Policy Committee, after a period of increases. Nonetheless, the recovery could prove to be slower in terms of GDP and in employment, with direct impact on NPL entries/exists.

Given this situation, Santander Brasil has continued to beef up its risk management to anticipate any portfolio impairment through its **Defence Plan**. This Plan was implemented in the previous year, and is continuing to yield satisfactory results. These results include the performance of the retail portfolio, in terms of budget compliance and the evolution of the over 90 index (the local NPL ratio published for the Brazilian financial industry). The defensive measures in the Plan include:

- Preventive management of delinquency, extended through the payroll discount model ("consignado").
- Implementation of specific renegotiation products for different segments and products (Santander Financiamentos and real estate lending).
- Reduction of limits for high risk products and customers, and implementation of maximum indebtedness limits.
- Migration from revolving products to instalment repayment products.
- Increased collateralisation of the portfolio.
- Improved admission models, which are more accurate and predictive, and collection channels.
- More tailored treatment of the largest SMEs.
- Management of risk appetite by sectors, and restrictions on powers in the most critical sectors.

This proactive risk management - based on knowledge of our customers, strict policies and control mechanisms - is enabling Santander Brasil to enhance its position during the current economic cycle. As already mentioned, this is demonstrated by the evolution of the impairment rate for the loan portfolio (known locally as "over 90" rate). This stood at 3.40% at the end of 2016, below the average for private Brazilian banks, which stood at 4.52%.

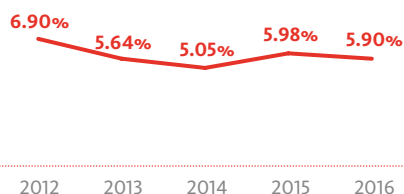
Over90 total



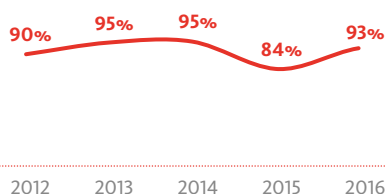
There has been an upward trend in the cost of credit, from 4.50% in 2015 to 4.89% in 2016. This is mainly due to increased coverage for specific economic groups in the Companies and GCB portfolios (generalised impact in the local financial system) and the general economic backdrop. However, the third quarter of 2016 is expected to be a turning point, after which the cost of credit should gradually correct over the following quarters in response to the efforts made previously.

The coverage ratio in the fourth quarter of 2016 stood at 93.1%, an increase of 9.4 pp compared to year-end 2015, due to increased coverage in companies.

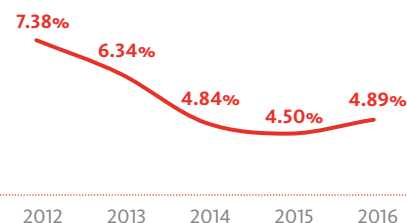
Non-performing loans ratio



Coverage ratio



Cost of credit



» D.1.4. Other credit risk optics

D.1.4.1. Credit risk by activity in the financial markets

This section covers credit risk generated in treasury activities with customers, mainly with credit institutions. This is developed through financing products in the money market with different financial institutions, as well as products with counterparty risk to provide services to Group customers.

According to chapter six of the CRR (EU regulation 575/2013), the credit risk of the counterparty is the risk that the customer in an operation could enter into non-payment before the definitive settlement of the cash flows of this operation. This includes the following types of operations: derivative instruments, operations with repurchase commitments, stock and commodities lending, operations with deferred settlement and financing of guarantees.

There are two methodologies for measuring this exposure: the mark to market (MtM) methodology (replacement value of derivatives or amount available in committed credit lines); and calculation of exposure by Montecarlo simulation, which was introduced in the middle of 2014 for some countries and products. The capital at risk or unexpected loss is also calculated, i.e. the loss which, once the expected loss has been subtracted, constitutes the economic capital, net of guarantees and recovery.

After markets close, exposures are re-calculated by adjusting all operations to their new time frame, adjusting the potential future exposure and applying mitigation measures (netting, collateral, etc), so that the exposures can be controlled directly against the limits approved by senior management. Risk control is done through an integrated system and in real time, enabling the exposure limit available with any counterparty, product and maturity and in any Group unit to be known at each moment.

Exposures in counterparty risk: over the counter (OTC) operations and organised markets (OM)

As of December 2016 total exposure on the basis of management criteria in terms of positive market value after applying netting agreements and collateral for counterparty risk activities was EUR 16,834 million (net exposure of EUR 44,554 million) and was concentrated in high credit quality counterparties (85.79% of counterparty risk has a rating of A or higher).

As of December 2016, there were also CVA (Credit Valuation Adjustments) of EUR 643.9 million (-24.3% compared to 2015) and DVA (Debt Valuation Adjustments) of EUR 390.2 million (-26.4%). These reductions were mainly due to improved methodologies for calculating exposure and a general narrowing of credit spreads¹⁴.

Around 93% of the counterparty risk operations in nominal terms were with financial institutions and central counterparties (CCPs), with whom we operate almost entirely under netting and collateral agreements. Other operations with customers that are not financial institutions are, in general, operations for hedging purposes. Operations are occasionally conducted for purposes other than hedging, but always with specialised customers.

● Distribution of counterparty risk by customer rating (in nominal terms)*

AAA	0.88%
AA	7.61%
A	77.30%
BBB	11.05%
BB	3.14%
B	0.02%
RESTO	0.003%

* Ratings based on equivalences between internal ratings and credit agency ratings.

14. The definition and methodology for calculating the CVA and DVA are set out in D.2.2.2.6. Credit Valuation Adjustment (CVA) and Debt Valuation Adjustment (DVA).

Counterparty risk: distribution by nominal risk and gross market value (*)

Million euros

	2016			2015			2014		
	Nominal	Market value		Nominal	Market value		Nominal	Market value	
		Positive	Negative		Positive	Negative		Positive	Negative
CDS protection bought**	23,323	83	(384)	32,350	80	(529)	38,094	60	(769)
CDS protection sold	19,032	339	(33)	26,195	428	(52)	31,565	658	(48)
Total credit derivatives	42,355	422	(416)	58,545	508	(581)	69,659	717	(817)
Equity forwards	134	48	(0)	980	5	(6)	1,055	117	(17)
Equity options	15,154	448	(426)	23,564	959	(1,383)	36,616	1,403	(2,192)
Spot equities	234	0	(0)	20,643	794	-	19,947	421	-
Equity swaps	15,388	631	(461)	28	-	(1,210)	472	-	(701)
Equities - ETF	36,512	-	-	6,480	-	-	8,616	-	-
Total equity derivatives	67,421	1,127	(888)	51,695	1,758	(2,598)	66,705	1,941	(2,910)
Fixed income forwards	6,357	37	(83)	11,340	39	(66)	3,905	3	(124)
Fixed income options	483	5	(2)	789	8	-	423	4	0
Spot fixed income	5,159	5	(2)	3,351	-	-	5,055	-	-
Fixed income - ETF	349	-	-	831	-	-	1,636	-	-
Total fixed income derivatives	12,348	48	(88)	16,311	47	(66)	11,018	8	(124)
Spot and term exchange rates	150,095	3,250	(6,588)	148,537	5,520	(3,315)	151,172	3,633	(2,828)
Exchange rate options	31,362	479	(624)	32,421	403	(644)	44,105	530	(790)
Other exchange rate derivatives	606	7	(27)	189	1	(4)	354	3	(6)
Exchange rate swaps	510,405	25,753	(24,175)	522,287	20,096	(21,753)	458,555	14,771	(15,549)
Exchange rate - organised markets	824	-	-	-	-	-	-	-	-
Total exchange rate derivatives	693,292	29,489	(31,413)	703,434	26,019	(25,716)	654,187	18,936	(19,173)
Asset swaps	22,948	1,178	(758)	22,532	950	(1,500)	22,617	999	(1,749)
Call money swaps	223,005	2,006	(1,581)	190,328	2,460	(1,792)	264,723	1,228	(1,150)
Interest rate structures	7,406	2,321	(593)	8,969	2,314	(3,031)	23,491	2,215	(2,940)
Forward rate agreements - FRAs	370,433	41	(106)	178,428	19	(78)	171,207	13	(63)
IRS	3,182,305	92,268	(92,873)	3,013,490	85,047	(85,196)	2,899,760	95,654	(94,624)
Other interest rate derivatives	210,061	3,762	(2,985)	194,111	3,838	(3,208)	218,167	4,357	(3,728)
Interest rate - ETF	117,080	-	-	26,660	-	-	38,989	-	-
Total interest rate derivatives	4,133,238	101,576	(98,896)	3,634,518	94,628	(94,806)	3,638,955	104,466	(104,253)
Commodities	539	108	(5)	468	130	(40)	1,020	243	(112)
Commodities - ETF	47	-	-	59	-	-	208	-	-
Total commodity derivatives	586	108	(5)	526	130	(40)	1,228	243	(112)
Total OTC derivatives	4,794,429	132,770	(131,706)	4,431,000	123,089	(123,805)	4,392,303	126,312	(127,389)
Total derivatives organised markets***	154,812			34,028			49,449		
Repos	122,035	2,374	(2,435)	128,765	3,608	(3,309)	166,047	3,871	(5,524)
Securities lending	33,547	9,449	(4,124)	30,115	10,361	(1,045)	27,963	3,432	(628)
Total counterparty risk	5,104,823	144,593	(138,265)	4,623,908	137,058	(128,159)	4,635,762	133,615	(133,541)

* Figures with management criteria.

** Credit derivatives acquired including hedging of loans.

*** Refers to transactions involving listed derivatives (proprietary portfolio). Listed derivatives have a market value of zero. No collateral is received for these types of transactions.

Counterparty risk: exposure in terms of market value and credit risk equivalent, including mitigation effect¹

Million euros

	2016	2015	2014
Market value, netting effect ²	34,998	34,210	28,544
Collateral received	18,164	15,450	11,284
Market value with netting effect and collateral ³	16,834	18,761	17,260
Net CRE ⁴	44,554	52,148	50,077

1. Figures with management criteria. Listed derivatives have a market value of zero. No collateral is received for these types of transactions.

2. Market value used to include the effects of mitigation agreements so as to calculate exposure for counterparty risk.

3. Considering the mitigation of netting agreements and having deducted the collateral received.

4. CRE (credit risk equivalent): net value of replacement plus the maximum potential value, minus collateral received. Includes regulatory EAD for organised markets (EUR 3.1 million in December 2016, EUR 41 million in December 2015 and EUR 71 million in 2014).

Counterparty risk: distribution of nominals by maturity*

Million euros

	Up to 1 year	Up to 5 years	Up to 10 years	More than 10 years	TOTAL
CDS protection bought**	9,113	13,413	79	717	23,323
CDS protection sold	7,020	11,681	54	277	19,032
Total credit derivatives	16,133	25,094	134	994	42,355
Equity forwards	134	0			134
Equity options	5,400	7,520	2,111	122	15,154
Spot equities	234				234
Equity swaps	12,503	2,885			15,388
Equities - ETF	10,490	24,678	1,343	0	36,512
Total equity derivatives	28,761	35,084	3,455	122	67,421
Fixed income forwards	6,333	24			6,357
Fixed income options	483				483
Spot fixed income	4,156	952	36	15	5,159
Fixed income - ETF	349	0	0	0	349
Total fixed income derivatives	11,321	976	36	15	12,348
Spot and term exchange rates	132,349	16,994	702	51	150,095
Exchange rate options	25,462	5,900			31,362
Other exchange rate derivatives	560	46			606
Exchange rate swaps	186,913	178,562	106,320	38,611	510,405
Exchange rate - organised markets	824	0	0	0	824
Total exchange rate derivatives	346,107	201,501	107,022	38,662	693,292
Asset swaps	200	1,121	1,584	20,043	22,948
Call money swaps	133,823	77,070	11,026	1,086	223,005
Interest rate structures	1,428	2,859	1,394	1,726	7,406
Forward rate agreements - FRAs	355,486	14,947			370,433
IRS	495,424	1,433,620	859,276	393,985	3,182,305
Other interest rate derivatives	38,011	107,215	50,262	14,573	210,061
Interest rate - ETF	60,906	55,241	881	53	117,080
Total interest rate derivatives	1,085,277	1,692,073	924,423	431,465	4,133,238
Commodities	308	1		229	539
Commodities - ETF	47	0	0	0	47
Total commodity derivatives	355	1	0	229	586
Total OTC derivatives	1,415,338	1,874,811	1,032,845	471,434	4,794,429
Total derivatives organised markets***	72,616	79,919	2,224	53	154,812
Repos	113,687	7,716	632	0	122,035
Securities lending	26,017	2,751	95	4,685	33,547
Total counterparty risk	1,625,289	1,965,196	1,035,797	476,172	5,104,823

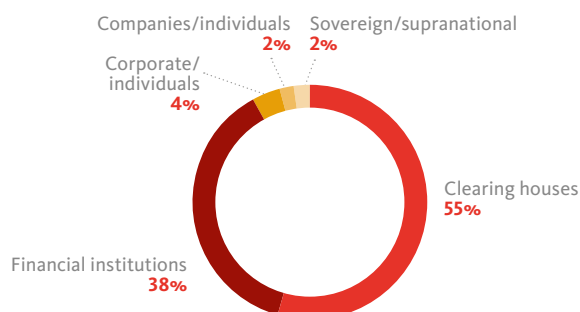
* Figures with management criteria.

** Credit derivatives acquired including hedging of loans.

*** Refers to transactions involving listed derivatives (proprietary portfolio). Listed derivatives have a market value of zero. No collateral is received for these types of transactions.

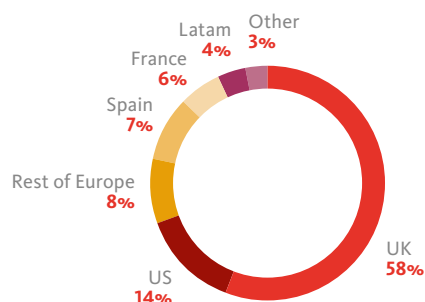
The distribution of risk in notional derivatives by type of counterparty was 38% with financial institutions and 55% with clearing houses.

Counterparty risk by customer type



As regards geographic distribution, 58% of notional derivatives are with UK counterparties (the weight of which within the total is due to the increasing use of clearing houses), 14% with North American counterparties and 7% with Spanish counterparties.

Counterparty risk by geography



Distribution of counterparty risk by settlement channel and product type*

Nominal in EUR million

	Bilateral		CCP**		Organised markets ***		Total
	Nominal	%	Nominal	%	Nominal	%	
Credit derivatives	38,440	90.8%	3,916	9.2%	-	0.0%	42,355
Equity derivatives	30,853	46%	56	0.1%	36,512	54.2%	67,421
Fixed income derivatives	11,999	97.2%	-	0.0%	349	2.8%	12,348
Exchange rate derivatives	691,874	99.8%	595	0.1%	823.8	0.1%	693,292
Interest rate derivatives	1,401,135	33.9%	2,615,023	63.3%	117,080.1	2.8%	4,133,238
Commodity derivatives	539	92.0%	-	0.0%	46.8	8.0%	586
Repos	92,272	75.6%	29,763	24.4%	-	0.0%	122,035
Securities lending	33,543	100%	4	0.0%	-	0.0%	33,547
General total	2,300,653		2,649,358		154,812	3.0%	5,104,823

* Figures with management criteria.

** Central counterparties (CCP).

*** Refers to transactions involving listed derivatives (proprietary portfolio). Listed derivatives have a market value of zero. No collateral is received for these types of transactions.

Counterparty risk, organised markets and clearing houses

The Group's policies seek to anticipate wherever possible the implementation of measures resulting from new regulations regarding operations of OTC derivatives, repos and securities lending, whether settled by clearing house or traded bilaterally. In recent years, there has been a gradual standardisation of OTC operations in order to conduct clearing and settlement of all new trading operations required by the new rules through clearing houses, and to foster internal use of electronic execution systems.

With regard to organised markets, regulatory credit exposure has been calculated for such operations since 2014 and the entry into force of the new CRD IV (Capital Requirements Directive) and CRR (Capital Requirements Regulation), transposing the Basel III principles for calculating capital, even though counterparty risk management does not consider credit risk on such operations¹⁵.

The following tables show the importance of transactions cleared through a clearing house as a share of total counterparty risk at year-end 2016, and the significant evolution of operations settled by clearing houses since 2014.

15. Credit risk is eliminated when organised markets act as the counterparty in the transaction, as they have in place mechanisms that enable them to protect their financial position through deposit and guarantee replacement systems and processes that ensure the liquidity and transparency of transactions.

● Distribution of risk settled by CCP and organised markets, by product and change over time*

Nominal in million euros

	2016	2015	2014
Credit derivatives	3,916	1,778	1,764
Equity derivatives	36,568	6,522	8,686
Fixed income derivatives	349	896	1,651
Exchange rate derivatives	1,419	11,755	484
Interest rate derivatives	2,732,103	2,069,802	1,778,261
Commodity derivatives	47	59	208
Repos	29,763	44,679	57,894
Securities lending	4	-	-
General total	2,804,170	2,135,489	1,848,948

* Figures with management criteria.

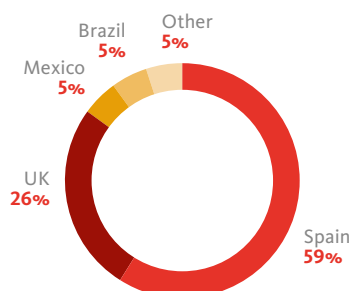
The Group actively manages operations not settled through clearing houses and seeks to optimise their volume, given the spread and capital requirements imposed by new regulations.

In general, transactions with financial institutions are done under netting and collateral agreements, and constant efforts are made to ensure that all other operations are covered under this type of agreement. Generally, the collateral agreements that the Group signs are bilateral ones with some exceptions, mainly with multilateral institutions and securitisation funds.

The collateral received under the different types of collateral agreements (CSA, OSLA, ISMA, GMRA, etc) signed by the Group amounted to EUR 18,164 million (of which EUR 12,870 million corresponded to collateral received for derivatives), being mostly cash (77.4%), with other types of collateral being subject to strict quality policies for the type of issuer and its rating, debt seniority and any haircuts applied.

The chart below shows the geographic distribution:

● Collateral received. Geographic distribution



Off-balance sheet credit risk

The off-balance sheet risk corresponding to funding and guarantee commitments with wholesale customers was EUR 93,279 million, with the following distribution by products:

● Off balance sheet exposure

Million euros

Product	Maturity				Total
	< 1 year	1-3 years	3-5 years	> 5 years	
Funding*	11,860	14,772	32,848	3,168	62,648
Technical guarantees	4,976	8,379	952	431	14,738
Financial and commercial guarantees	4,311	4,636	3,416	2,907	15,271
Foreign trade**	344	254	25	0	622
General total	21,492	28,041	37,241	6,505	93,279

(*) Mainly including committed bilateral and syndicated credit lines.

(**) Mainly including stand-by letters of credit.

Activity in credit derivatives

Grupo Santander uses credit derivatives to cover loans, customer business in financial markets and trading operations. The volume of this activity is small compared to that of our peers and, moreover, is subject to a solid environment of internal controls and minimising operational risk.

The risk of these activities is controlled via a broad series of limits, such as Value at Risk (VaR)¹⁶, nominal by rating, spread sensitivity by rating and name, and recovery rate and correlation sensitivity. Jump-to-default limits are also set by individual name, geographic area, sector and liquidity.

In notional terms, the CDS position incorporates EUR 19,984¹⁷ million of protection acquired and EUR 19,029 million of protection sold.

At 31 December 2016, the sensitivity of lending to increases in spreads of one basis point was EUR -4.1 million, whilst the average VaR at year-end 2016 was EUR 1.7 million, lower than the 2015 figure (EUR 2.4 million).

D. 1.4.2. Concentration risk

Control of concentration risk is a vital part of management. The Group continuously tracks the degree of concentration of its credit risk portfolios using various criteria: geographic areas and countries, economic sectors, products and groups of customers.

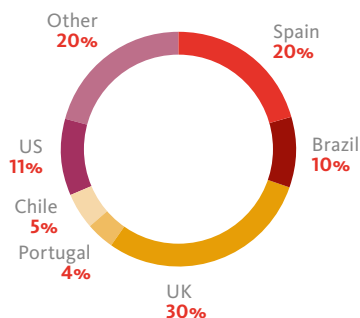
16. The definition and calculation methodology for VaR is set out in section D.2.2.2.1. Value at Risk (VaR).

17. This figure excludes CDSs with a value of around EUR 2,389 million used to hedge loans that for accounting purposes are recorded as financial guarantees rather than credit derivatives, as their change in value has no impact on results or reserves, in order to avoid accounting asymmetry.

The board, via the risk appetite, determines the maximum levels of concentration, as detailed in section B.3.1. Risk appetite and structure of limits. In line with the risk appetite, the Executive Risk Committee establishes the risk policies and reviews the exposure levels appropriate for adequate management of the degree of concentration of credit risk portfolios.

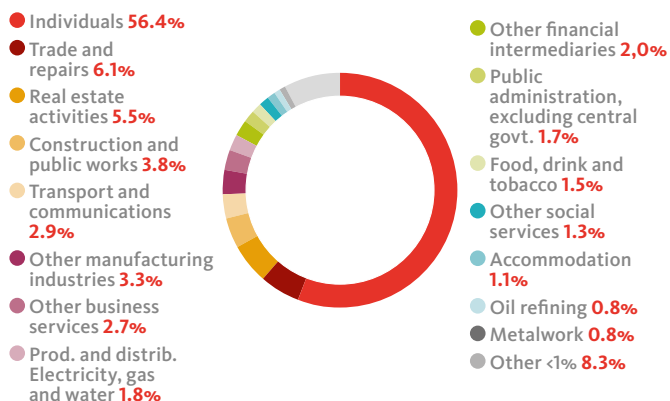
In geographic terms, credit risk with customers is diversified in the main markets in which the Group operates, as shown in the chart below.

Credit risk with customers



Some 56% of the Group's credit risk corresponds to individual customers, who, due to their inherent nature, are highly diverse. In addition, the portfolio is also well distributed by sectors, with no significant concentrations in specific sectors. The following chart shows the distribution at the end of the year.

Sector diversification



The Group is subject to the regulation on large risks contained in the fourth part of the CRR (EU regulations 575/2013), according to which the exposure contracted by an entity with a customer or group of customers linked among themselves will be considered a "large exposure" when it equates to 10% or more of eligible capital. In addition, in order to limit large exposures, no entity can assume exposure exceeding 25% of its eligible capital with a single customer or group of linked customers, after taking into account the impact of the reduction of credit risk contained in the regulation.

Having applied the risk mitigation techniques, no groups triggered these thresholds at the end of December.

The regulatory credit exposure with the 20 largest groups within the sphere of large risks represented 4.7% of outstanding credit risk with clients (lending plus balance sheet risks).

The Group's Risk division works closely with the Financial division to actively manage credit portfolios. Its activities include reducing the concentration of exposures through various techniques, such as using credit derivatives and securitisations to optimise the risk-return relationship for the whole portfolio.

D. 1.4.3. Country risk

Country risk is a component of credit risk in all cross-border credit operations for circumstances other than normal commercial risk. The main elements involved are sovereign risk, transfer risks and other risks that affect international financial activity (wars, natural disasters, balance of payments crises, etc).

At 31 December 2016, the provisionable exposure to country-risk was EUR 181 million (EUR 193 million in December 2015). At the end of December 2016, total provisions stood at EUR 29 million, compared to EUR 25 million at the end of the previous year. It should be noted that Argentina was reclassified from Group 4 to Group 5 in the Bank of Spain classification in 2016¹⁸.

The principles of country risk management continued to follow criteria of maximum prudence; country risk is assumed very selectively in operations that are clearly profitable for the bank, and which enhance the global relationship with customers.

D. 1.4.4. Sovereign risk and vis-à-vis the rest of public administrations

As a general criterion, sovereign risk is that contracted in transactions with a central bank (including the regulatory cash reserve requirement), the issuer risk of the Treasury or similar entity (portfolio of public debt) and that arising from operations with public institutions with the following features: their funds only come from the state's budgeted income and the activities are of a non-commercial nature.

This criterion, historically used by Grupo Santander, differs in some respects from that requested by the European Banking Authority (EBA) for its regular stress exercises. The main differences are that the EBA's criterion does not include risk with central banks, exposures with insurance companies, indirect exposures via guarantees and other instruments. On the other hand, it includes public administrations in general (including regional and local bodies), not only the State sector.

18. The typology of countries for each risk group is defined in Bank of Spain circular 4/2004.

Exposure to sovereign risk (according to the criteria applied in the Group) mainly emanates from the obligations to which our subsidiary banks are subject regarding the establishment of certain deposits in central banks, the establishment of deposits with excess liquidity and fixed-income portfolios held as part of the structural interest rate risk-management strategy for the balance sheet and treasury trading books. The vast majority of such exposure is in local currency and is funded on the basis of customer deposits captured locally, also in the local currency.

Local sovereign exposure in currencies other than the official one of the country of issuance is not very significant (EUR 14,477 million, 6.5% of total sovereign risk), and exposure to non-local sovereign issuers involving cross-border risk is even less significant (EUR 2,028 million, 0.90% of total sovereign risk).

In general, total exposure to sovereign risk has remained at adequate levels to support the regulatory and strategic motives of this portfolio.

The investment strategy for sovereign risk also takes into account the credit quality of each country when setting the maximum exposure limits. The following table shows percentage exposure by rating levels¹⁹.

Exposure by rating

%	31 Dec. 2016	31 Dec. 2015	31 Dec. 2014
AAA	16%	34%	29%
AA	17%	4%	4%
A	29%	22%	28%
BBB	8%	33%	32%
Lower than BBB	30%	7%	7%

The sovereign risk distribution by rating level has been affected by many rating reviews for the sovereign issuers of the countries where the Group operates over the last few years (Brazil, the UK, etc.).

On the basis of the EBA criteria already mentioned, the exposure to public administrations at the end of each of the last three years was as follows (figures in million euros)²⁰.

Exposure is moderate and remained on an upward path in 2016. The sovereign risk exposure to Spain (where the Group has its headquarters) is not high in terms of total assets (3.5% at the end of December 2016), compared to its Spanish peers.

Exposure to sovereign risk (EBA criterion)

Million euros

31 Dec 2016	Portfolio				
	Trading and other at fair value	Available for sale	Lending	Held-to-maturity portfolio	Total net direct exposure
Spain	9,415	23,415	11,085	1,978	45,893
Portugal	(58)	5,982	1,143	4	7,072
Italy	1,453	492	7	0	1,952
Greece	0	0	0	0	0
Ireland	0	0	0	0	0
Rest Eurozone	(1,171)	751	79	0	(341)
UK	475	1,938	7,463	7,764	17,639
Poland	287	5,973	30	0	6,290
Rest of Europe	0	502	289	0	791
US	1,174	3,819	720	0	5,713
Brazil	4,044	16,098	1,190	2,954	24,286
Mexico	2,216	5,072	3,173	0	10,461
Chile	428	2,768	330	0	3,525
Rest of America	134	497	541	0	1,172
Rest of the world	1,903	889	683	0	3,475
Total	20,300	68,197	26,732	12,701	127,930

31 Dec 2015	Portfolio				
	Trading and other at fair value	Available for sale	Lending	Held-to-maturity portfolio	Total net direct exposure
Spain	8,954	26,443	11,272	2,025	48,694
Portugal	104	7,916	1,987	0	10,007
Italy	2,717	0	0	0	2,717
Greece	0	0	0	0	0
Ireland	0	0	0	0	0
Rest Eurozone	(211)	143	69	0	1
UK	(786)	5,808	141	0	5,163
Poland	13	5,346	42	0	5,401
Rest of Europe	120	312	238	0	670
US	280	4,338	475	0	5,093
Brazil	7,274	13,522	947	2,186	23,929
Mexico	6,617	3,630	272	0	10,519
Chile	193	1,601	3,568	0	5,362
Rest of America	155	1,204	443	0	1,802
Rest of the world	3,657	1,687	546	0	5,890
Total	29,087	71,950	20,000	4,211	125,248

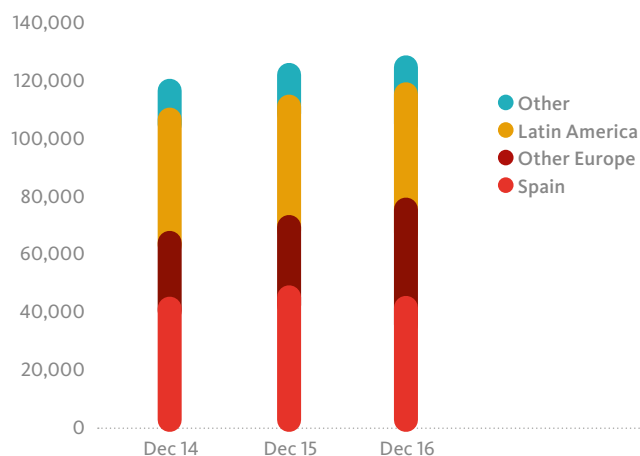
19. Internal ratings used.

20. In addition to 31 December 2016, the Group had direct net exposures to derivatives with a fair value of EUR 2,505 million, as well as indirect net exposure to derivatives with a fair value of EUR 2 million.

Sovereign exposure in Latin America is almost all in local currency, being recognised in the local accounts and concentrated in short-term maturities with lower interest rate risk and greater liquidity.

● Sovereign risk and vis-à-vis other public administrations: Net direct exposure (EBA criterion)

Million euros



D. 1.4.5. Social and environmental responsibility

Banco Santander fosters the protection, conservation and recovery of the environment and the fight against climate change. To do so, Santander analyses the social and environmental risks of its funding transactions in the framework of its sustainability policies. These policies were updated in late 2015 after a painstaking review process in which the best international practices and standards were taken into account.

During 2016, the Group went to great lengths to communicate and disseminate the new versions, coordination between the different teams was stepped up, and internal processes were improved to apply the new requirements of the social and environmental policies. Supporting documentation was developed for the business and risks teams, and a training course was given by external experts designed for the areas which take part in implementing the policies in sensitive sectors such as energy and soft commodities (related to the primary sector), and in other sectors such as mining-metals and chemicals. A total of 440 pupils from across the geographical spectrum in which the Group operates took part in the course.

Policies were implemented throughout the Group by creating social-environmental risk task forces in the main geographies where Banco Santander operates, chaired by the Chief Compliance Officer. These groups were created using the same format as the corporate task force chaired by the Group Chief Compliance Officer, which includes all the functions which take part in the origination, review and decision making so as to have a common understanding and opinion about the transactions and customers affected by policies.

In addition to the above, Grupo Santander has also applied the Equator Principles (EP) since 2009, to Project Finance and corporate funding for a known purpose, including bridge loans before project finance is granted and corporate lending arrangements for building or remodelling a specific project.

» D.1.5. Credit risk cycle

The process of credit risk management consists of identifying, analysing, controlling and deciding on the risks incurred by the Group's operations. The business areas, senior management and the risk areas are all involved.

Credit risk management is organised around a sound organisational and governance model, with the participation of the board of directors and the Executive Risk Committee, which establishes the risk policies and procedures, the limits and delegation of powers, and approved and oversees the framework of the credit risk function.

Exclusively within the field of credit risk, the Credit Risk Control Committee is the collegiate body responsible for credit risk oversight and control of Grupo Santander. The aim of the committee is to effectively control credit risk, ensuring and advising the Chief Risk Officer and the Risk Control Committee that credit risk is managed in accordance with Group's level of risk appetite approved by the board of directors, which includes identifying and monitoring current and emerging credit risk and its impact on the Group's risk profile.

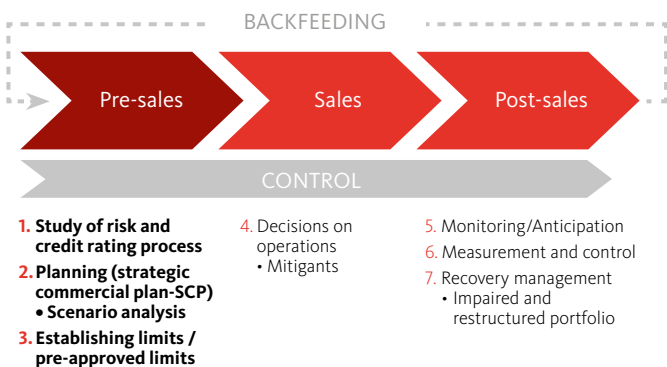
31 Dec 2014

Portfolio

	Trading and others at FV	Available for sale	Lending	Total net direct exposure
Spain	5,778	23,893	15,098	44,769
Portugal	104	7,811	589	8,504
Italy	1,725	0	0	1,725
Greece	0	0	0	0
Ireland	0	0	0	0
Rest Eurozone	(1,070)	3	1	(1,066)
UK	(613)	6,669	144	6,200
Poland	5	5,831	30	5,866
Rest of Europe	1,165	444	46	1,655
US	88	2,897	664	3,649
Brazil	11,144	17,685	783	29,612
Mexico	2,344	2,467	3,464	8,275
Chile	593	1,340	248	2,181
Other America	181	1,248	520	1,949
Rest of the world	4,840	906	618	6,364
Total	26,284	71,194	22,205	119,683

The risk cycle has three phases: pre-sale, sale and post-sale. The process is constantly revised, incorporating the results and conclusions of the post-sale phase to the study of risk and presale planning.

Each of these phases is associated with different decision models, understood as the manifestations of business objectives and the lending policy that underpins them in a logical sequence associated with a decision event, with the objective that all decisions should respect the lending policies defined by the entity.



D. 1.5.1. Study of risk and credit rating process

Generally speaking, risk study consists of analysing a customer’s capacity to meet their contractual commitments with the Bank and other creditors. This entails analysing the customer’s credit quality, risk operations, solvency and profitability on the basis of the risk assumed.

With this objective, the Group has used customer credit classification models since 1993. These models are applied to the SGCB segment (Santander Global Corporate Banking - sovereign, financial entities, corporate companies), companies and institutions, and SMEs and individuals.

These are known as rating models in the case of SGCB customers, companies and SMEs with individualised treatment, and scoring models for SMEs with standardised treatment and individuals.

The rating results from the application of mathematical algorithms incorporating a quantitative model based on balance sheet ratios or macroeconomic variables, and a qualitative module supplemented by the analyst’s expert judgment.

The ratings given to customers are regularly reviewed, incorporating the latest available financial information and experience in the development of banking relations. The regularity of the reviews increases in the case of customers who reach certain previously determined levels in the automatic warning systems and who are classified as special watch. The rating tools are also reviewed in order to adjust the accuracy of the rating granted.

Scoring is an automatic assessment system for loan applications. It automatically assigns an individual assessment to the customer for subsequent decision making on the loan, as explained in the ‘Decisions on operations’ section.

D. 1.5.2. Planning (strategic commercial plan)

The purpose of this phase is to limit the risk levels assumed by the Group, efficiently and comprehensively.

The credit risk planning process serves to set the budgets and limits at portfolio level. Planning is carried out through the Strategic Commercial Plan (SCP), created as a joint initiative between the sales and risk areas.

The SCP is a management model that sets out the planning and control of the Group’s lending portfolios. It has developed into an integrated and coordinated working procedure, involving all areas with a stake in the management of loan portfolios (risk, business, management control, capital and financial management). This working model makes it possible to plan and integrate sales strategies and lending policies based on the risk appetite, and to verify the availability of the resources needed to achieve the budget of each business.

The highest Executive Risk Committee of each entity is responsible for authorising and monitoring the plan. It is validated and monitored at corporate level.

SCPs are used to arrange the map of all the Group’s lending portfolios.

Analysis of scenarios

As described in section B.3.3. Analysis of scenarios, credit risk scenario analysis enables senior management to understand the portfolio’s evolution in the face of market conditions and changes in the environment. It is a key tool for assessing the sufficiency of provisions and capital in stress scenarios.

Scenario analysis is applied to all of the Group’s significant portfolios, usually over a three year horizon. The process involves the following main stages:

- Definition of **benchmark scenarios** for the central or most likely (baseline scenario) and more stressed scenarios, which are less likely, but still possible (stress scenarios). A global stress scenario is defined describing a world crisis situation and the way it would affect each of the countries in which Grupo Santander operates. In addition, a local stress scenario is defined which affects in an isolated way some of the main units with a greater degree of stress than the global stress scenario.

These scenarios are defined by Grupo Santander’s research department in coordination with each unit, using figures published by leading international institutions as a benchmark. All scenarios are backed by a rationale and are verified and reviewed by all areas involved in the simulation process.

- Determination of the value of **risk parameters** and metrics (probability of default, loss given default, etc) for the scenarios defined. These parameters are established using internally developed **statistical-econometric models**, based on the default and loss histories of the portfolios for which they are developed, in relation to historical data for macroeconomic variables. The simulation models employed by the Group use data from a complete economic cycle in order to calibrate the performance of risk factors in the face of changes in macroeconomic variables.

These stress test models follow the same development, validation and governance cycles as the Group's other internal models. They are subject to regular backtesting and recalibration to ensure they correctly capture the relationship between macroeconomic variables and the risk parameters.

- Estimation of the **expected loss** associated with each of the scenarios put forward and the other **important credit risk metrics** deriving from the parameters obtained (NPLs, provisions, ratios, etc.).
- **Analysis and rationale for the evolution of the credit risk profile** at the portfolio, segment, unit and Group levels, in the face of different scenarios and compared to previous years.
- A series of controls and comparisons are run to ensure that the **controls and back-testing** are adequate, thus completing the process.

The entire process takes place within a corporate governance framework, and is thus adapted to the growing importance of this framework and to best market practices, assisting the Group's senior management in gathering knowledge and in their decision making.

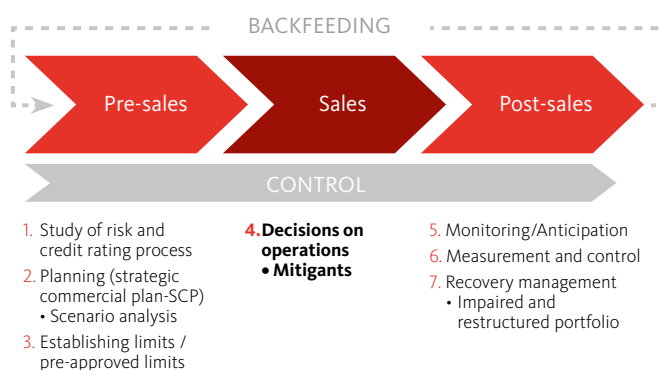
D. 1.5.3. Establishment of limits, pre-classifications and pre-approvals

Limits are planned and established using documents agreed between the business and risk areas and approved by the Executive Risk Committee or committees delegated by it, in which the expected business results, in terms of risk and return, are set out, together with the limits to which this activity is subject and management of the associated risks by group or customer.

Meanwhile, analysis is conducted at the customer level in the wholesale sphere and for other companies and institutions. When certain circumstances occur, the customer is assigned an individual limit (pre-approved limit).

In this way, a pre-classification model based on a system for measuring and monitoring economic capital is used for large corporate groups. The result of pre-classification is the maximum risk level that a customer or group can assume, in terms of amount of maturity. A more streamlined version of pre-approved limits is used for those companies which meet certain requirements (high knowledge, rating, etc).

When individuals and SMEs display certain characteristics, limits are established with a customer-centric vision. The objective is to determine pre-approved transactions for customers, and pre-granted transactions for potential customers, for marketing campaigns and policies to foster use of the limit. For example, sales of specific products, offers to increase operational limits, sales of consumer credit tailored to each customer, etc.



D. 1.5.4. Decisions on operations

The sales phase consists of the decision-making process, which analyses and resolves operations. Approval by the risk area is a prior requirement before the contracting of any risk operation. This process must take into account the policies defined for approving operations and both the risk appetite and those elements of the operation that are relevant in the search for the right balance between risk and profitability.

In the sphere of individual customers, businesses and SMEs with low turnover, large volumes of credit operations can be managed more easily with the use of automatic decision models for classifying the customer/transaction binomial. Lending is classified consistently into homogeneous risk groups, on the basis of the information on the features of the operation and of its owner.

As previously mentioned, the admission model makes a decision on the transaction based on the pre-approved limits and pre-sale models, checking against additional and more up-to-date information, such as internal and external information files. If there is no pre-approved limit, the transaction is analysed directly using the non-pre-approved model.

With regard to companies and SGCB, and as already indicated, the prior phase of setting limits can follow two different paths, giving rise to different types of decisions:

- Automatic, verifying whether there is capacity for the proposed operation (in terms of amount, product, maturity and other conditions) within the limits authorised under the pre-classification framework. This process is generally applied to SGCB pre-classifications.

- Always requiring the authorisation of the analyst although the operation meets the amount, maturity and other conditions set in the pre-approved limit. This process is applied to company pre-classifications.

Credit risk mitigation techniques

Grupo Santander applies various forms of credit risk reduction on the basis, among other factors, of the type of customer and product. As we will later see, some are inherent to specific operations (for example, real estate guarantees) while others apply to a series of operations (for example, netting and collateral).

The various mitigation techniques can be grouped into the following categories:

Determination of a net balance by counterparty

The concept of netting is the possibility of determining a net balance between operations of the same type, under the umbrella of a framework agreement such as the ISDA or similar.

It consists of aggregating the positive and negative market values of derivative transactions that Santander has with a certain counterparty, so that in the event of default it owes (or Santander owes, if the netting off is negative) a single net figure and not a series of positive or negative values corresponding to each operation with the counterparty.

An important aspect of framework contracts is that they represent a single legal obligation that covers all operations. This is fundamental when it comes to being able to net the risks of all operations covered by the contract with the same counterparty.

Real guarantees

These are assets that are subject to compliance with the guaranteed obligation. These can be provided by the customer or by a third party. The real assets or rights that are the object of the guarantee can be:

- Financial: cash, deposit of securities, gold, etc.
- Non-financial: property (both homes and commercial premises, etc), other movable property, etc.

Thus guarantees can be in the form of:

- Pledges/financial asset guarantees: a transaction with collateral in which the assets received as the guarantee are debt instruments or other financial assets.
- Real estate mortgages: a transaction with an ordinary or maximum mortgage guarantee on real estate assets.
- Other real guarantees: any other type of transaction with a real guarantee.

As a general rule, repayment capacity is the most important aspect in decisions on the acceptance of risks, although this is no impediment to seeking the highest possible level of real or personal guarantees. In order to calculate the regulatory capital, only those guarantees that meet the minimum qualitative requirements set out in the Basel agreements are taken into consideration.

A very important example of a real financial guarantee is **collateral**. This is a series of instruments with a certain economic value and high liquidity that are deposited/transferred by a counterparty in favour of another in order to guarantee/reduce the credit risk of the counterparty that could result from portfolios of transactions of derivatives with risk existing between them.

The nature of these agreements is diverse, but whatever the specific form of collateralisation, the final purpose, as in the netting technique, is to reduce the counterparty risk.

The operations subject to the collateral agreement are regularly valued (normally day to day) and, on the net balance resulting from this valuation, the parameters defined in the contract are applied so that a collateral amount is obtained (normally cash or securities), which is to be paid to or received from the counterparty.

As regards **property collaterals**, there are regular re-appraisal processes, based on real market values for the different types of property, which meet all the requirements set by the regulator.

Implementation of the mitigation techniques follows the minimum requirements established in the guarantee management policy, which consists of:

- Legal certainty. The possibility of legally requiring the settlement of guarantees must be examined and ensured at all times.
- The lack of substantial positive correlation between the counterparty and the value of the collateral.
- The correct documentation of all guarantees.
- The availability of documentation for the methodologies used for each mitigation technique.
- Adequate monitoring and regular control.
- Traceability of the goods or assets used as the guarantee.

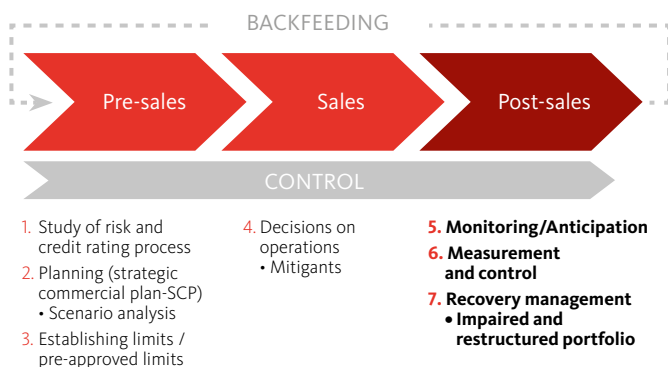
Personal guarantees and credit derivatives

This type of guarantees corresponds to those that place a third party in a position of having to respond to obligations acquired by another to the Group. It includes, for example, sureties, guarantees, stand-by letters of credit, etc. The only ones that can be recognised, for the purposes of calculating capital, are those provided by third parties that meet the minimum requirements set by the supervisor.

Credit derivatives are financial instruments whose main objective is to cover credit risk by acquiring protection from a third party, through which the bank transfers the issuer risk of the underlying asset. Credit derivatives are over the counter (OTC) instruments that are traded

in non-organised markets. Hedging with credit derivatives, mainly through credit default swaps, is contracted with front-line banks.

Information on mitigation techniques is set out in the “Credit risk reduction techniques of the Prudential Relevance Report (Pillar III)” section. There is also more information on credit derivatives in the section “Activity in credit derivatives” of section D.1.4.1. Credit risk by activity in financial markets.



D. 1.5.5. Monitoring/Anticipation

Monitoring is a continuous process of constant observation, which allows changes that could affect the credit quality of customers to be detected early on, in order to take measures to correct deviations with a negative impact.

Monitoring is based on customer segmentation, and is carried out by dedicated local and global risk teams, supplemented by internal audit.

In the companies and SME with assigned analyst model, the function consists, among other things, of identifying and tracking customers whose situations require closer monitoring, reviewing ratings and continuously monitoring indicators.

Four degrees are distinguished depending on the level of concern about the observed circumstances (extinguish, secure, reduce, monitor). The inclusion of a position in one of these four levels does not mean that default has occurred, but rather that it is advisable to adopt a specific policy toward that position, establishing a responsible person and time frame for it. Customers classified in this way are reviewed at least every six months, and every quarter in the most serious cases. A company can be classified in one of these levels as a result of monitoring, a decision by the officer responsible for the customer, the triggering of the system established for automatic warnings, or internal audit reviews.

Ratings are reviewed at least every year, but if weaknesses are detected, or on the basis of the rating, it is done more regularly.

Surveillance of the risks of individual customers, businesses and SMEs with a low turnover is carried out through automatic alerts for the main indicators, in order to detect shifts in the performance of the loan portfolio with respect to the forecasts in strategic plans.

D. 1.5.6. Measurement and control

As well as monitoring customer credit quality, Santander establishes the control procedures needed to analyse the current portfolio and its evolution, through the various phases of credit risk.

The function uses a comprehensive vision of credit risk to assess risks from various complementary perspectives, with the main elements being control by countries, business areas, management models, products, etc, facilitating early detection of points for specific attention, and preparing action plans to correct any deteriorations.

Portfolio analysis permanently and systematically controls the evolution of risk with respect to budgets, limits and benchmark standards, assessing the impacts of future situations, both exogenous and resulting from strategic decisions, to establish measures to bring the risk portfolio profile and volumes within the parameters set by the Group and in line with its risk appetite.

The credit risk control phase uses, among others and in addition to traditional metrics, the following metrics:

- **VMG (Change in Managed NPLs plus net write-offs)**

Unlike non-performing loans, **VMG** refers to the total impaired portfolio over a period of time, regardless of its current situation (non-performing loans and write-off). This makes the metric a main driver when it comes to establishing measures to manage the portfolio. The VMG and its components play a key role as monitoring variables.

VMG is the result of subtracting the initial balance of non-performing loans from the final balance for the period under consideration, plus the write-offs in this period, less loan loss recoveries in the same period.

It is an aggregate and forward looking measure at the portfolio level that allows a response to any observed deterioration in the evolution of NPLs.

- **Expected loss (EL) and capital**

Unlike the loss incurred, used by the Group to estimate loan-loss provisions, **expected loss** is the estimate of the economic loss which will occur during the following year in the existing portfolio at a given moment. Its forward-looking component complements the view provided by the VMG when analysing the portfolio and its evolution.

It is one more cost of activity, and must impact on the price of operations. Its calculation is mainly based on three parameters:

- Exposure at default (EAD): maximum amount that could be lost as a result of a default.
- Probability of default (PD): the probability of a customer's default during the year.

- **Loss Given Default (LGD):** this reflects the percentage of exposure that could not be recovered in the event of a default. It is calculated by discounting at the time of the default the amounts recovered during the whole recovery process. This figure is then compared in percentage terms with the amount owed by the customer at that moment.

Other relevant aspects regarding the risk of operations are covered, such as quantification of off-balance sheet exposures or the expected percentage of recoveries, related to the guarantees associated with the operation, as well as other issues such as the type of product, maturity, etc.

The risk parameters also enable economic and regulatory capital to be calculated. The integration in management of capital metrics is vital for optimising their use. More detail is available in chapter D.8. Capital risk.

D. 1.5.7. Recovery management

Recovery activity is a significant element in the Bank's risk management. This function is carried out by the recovery area, which defines a global strategy and an enterprise-wide focus for recovery management.

The Group has a corporate recovery management model that sets the guidelines and general lines of action to be applied in the various countries, always taking into account the local particularities that the recovery activity requires (economic environment, business model or a mixture of both).

The recovery areas are business areas that directly manage customers: the corporate model thus has a business focus, where sustained value creation is based on effective and efficient collection management, whether by regularisation of balances pending payment or by total recovery.

The recovery management model requires adequate co-ordination of all management areas (commercial, technology and operations, human resources and risks). It is subject to constant review and continuous improvement in the processes and management methodologies that sustain it, through applying the best practices developed in the various countries.

Recovery management is divided into four phases for adequate management: irregularity or early non-payment; recovery of non-performing loans; recovery of write-offs; and management of foreclosed assets. Indeed, the recovery function begins before the first non-payment, when the customer shows signs of impairment and ends when the debt has been paid or returned to normal. The function aims to anticipate non-compliance and is focused on preventative management.

The current macroeconomic environment directly impacts the non-performance ratio and customer delinquency. The quality of portfolios is thus fundamental for the development and growth of our businesses in different countries. Debt collection and recovery functions are given a special and continuous focus, in order to ensure that this quality always remains within expected levels.

The diverse features of our customers make segmentation necessary in order to manage recoveries adequately. Mass management of large groups of customers with similar profiles and products is conducted through processes with a high technological component, while personalised management focuses on customers who, because of their profile, require a specific manager and more individualised management.

Recovery activity has been aligned with the socio-economic reality of our countries and different risk management mechanisms are used with adequate prudential criteria on the basis of age, guarantees and conditions, always ensuring, as a minimum, the required classification and provisions.

Particular emphasis in the recovery function is placed on management of the aforementioned early management mechanisms, in line with corporate policies, taking account of local realities and closely tracking vintages, stocks and performance. These policies are renewed and regularly adapted to reflect best management practices and regulatory changes.

As well as measures to adapt transactions to the customer's payment capacity, another important feature is recovery management, which seeks non-judicial solutions to achieve early payment of debts.

One of the ways to recover debt from customers who have suffered a severe deterioration in their repayment capacity is through repossession (judicial or deed in lieu) of the real estate assets that serve as collateral for the loans. In countries with a high exposure to real estate risk, such as Spain, very efficient sales management instruments have been put in place that enable capital to be recovered by the bank, reducing the stock on the balance sheet at a faster pace than other banks.

D.2. Trading market risk and structural risks

» Organisation of this section

We will first describe the activities subject to market risk, setting out the different types and risk factors [pag. 215-216].

Next a section is given over to each one of the market risk types according to the purpose of the risk, distinguishing between trading market risk [pag. 217-229] and structural risks [pag. 229-234], and, within the latter, structural balance sheet risks and pension and actuarial risks.

The most relevant aspects to take into account such as the principal magnitudes and their evolution are set out for each type of risk, the methodologies and metrics employed in Santander and the limits used for their control.

» D.2.1. Activities subject to market risk and types of market risk

The **scope** of activities subject to market risk includes transactions in which equity risk is borne due to changes in market factors. Thus they include trading risks and also structural risks, which are also affected by market shifts.

This risk comes from changes in **risk factors** - interest rates, inflation rates, exchange rates, share prices, the spread on loans, commodity prices and the volatility of each of these elements - as well as from the liquidity risk of the various products and markets in which the Group operates.

- **Interest rate risk** is the possibility that changes in interest rates could adversely affect the value of a financial instrument, a portfolio or the Group as a whole. It affects loans, deposits, debt securities, most assets and liabilities in the trading books and derivatives, among others.
- **Inflation rate risk** is the possibility that changes in inflation rates could adversely affect the value of a financial instrument, a portfolio or the Group as a whole. It affects instruments such as loans, debt securities and derivatives, where the return is linked to inflation or to a change in the actual rate.
- **Exchange rate risk** is the sensitivity of the value of a position in a currency other than the base currency to a movement in exchange rates. Hence, a long or open position in a foreign currency will produce a loss if that currency depreciates against the base currency. Among the positions affected by this risk are the Group's investments in subsidiaries in non-euro currencies, as well as any foreign currency transactions.
- **Equity risk** is the sensitivity of the value of positions in equities to adverse movements in market prices or expectations of future dividends. Among other instruments, this affects positions in shares, stock market indices, convertible bonds and derivatives using shares as the underlying asset (put, call, equity swaps, etc).
- **Credit spread risk** is the risk or sensitivity of the value of positions in fixed income securities or in credit derivatives to movements in credit spread curves or in recovery rates associated with issuers and specific types of debt. The spread is the difference between financial instruments listed with a margin over other benchmark

instruments, mainly the IRR of Government bonds and interbank interest rates.

- **Commodities price risk** is the risk derived from the effect of potential changes in prices. The Group's exposure to this risk is not significant and is concentrated in derivative operations on commodities with customers.
- **Volatility risk** is the risk or sensitivity of the value of a portfolio to changes in the volatility of risk factors: interest rates, exchange rates, shares, credit spreads and commodities. This risk is incurred by all financial instruments where volatility is a variable in the valuation model. The most significant case is financial options portfolios.

All these market risks can be partly or fully mitigated by using options, futures, forwards and swaps.

Other types of market risk require more complex hedging. For example:

- **Correlation risk.** Correlation risk is the sensitivity of the portfolio to changes in the relationship between risk factors (correlation), either of the same type (for example, two exchange rates) or different types (for example, an interest rate and the price of a commodity).
- **Market liquidity risk.** Risk when a Group entity or the Group as a whole cannot reverse or close a position in time without having an impact on the market price or the cost of the transaction. Market liquidity risk can be caused by a reduction in the number of market makers or institutional investors, the execution of a large volume of transactions, or market instability. It increases as a result of the concentration of certain products and currencies.
- **Prepayment or cancellation risk.** When the contractual relationship in certain transactions explicitly or implicitly permits the possibility of early cancellation without negotiation before maturity, there is a risk that the cash flows may have to be reinvested at a potentially lower interest rate. This mainly affects mortgage loans and mortgage securities.
- **Underwriting risk.** This occurs as a result of an entity's involvement in underwriting a placement of securities or another type of debt, assuming the risk of partially owning the issue or the loan due to non-placement of all of it among potential buyers.

Pension and actuarial risks, which are described below, also depend on shifts in market factors.

Depending on the nature of the risk, activities are segmented as follows:

a) **Trading:** financial services for customers and purchase-sale and taking positions in fixed-income, equity and currency products, mainly. The SGCB (Santander Global Corporate Banking) division is mainly responsible for managing this risk.

b) **Structural risks:** we distinguish between balance sheet risks and pension and actuarial risks:

b.1) **Structural balance sheet risks:** market risks inherent to the balance sheet, excluding the trading portfolio. Management decisions on these risks are taken by the ALCO Committees of each country in coordination with the Group's ALCO Committee and are executed by the Financial Management division. This management seeks to inject stability and recurrence into the financial margin on the Group's commercial activity and economic value, maintaining adequate levels of liquidity and solvency. The risks are:

- **Structural interest rate risk:** This arises from maturity mismatches and re-pricing of all assets and liabilities.
- **Structural exchange rate risk/hedging:** Exchange rate risk occurs when the currency in which the investment is made is different from the euro, irrespective of whether the company consolidates or not (structural exchange rate). Exchange-rate hedging positions for future profits in currencies other than the euro (hedging of profits) are also included under this heading.
- **Structural equity risk:** This involves investments via stakes in financial or non-financial companies that are not consolidated, as well as available-for-sale portfolios consisting of equity positions.

b.2) **Pension and actuarial risk**

- **Pension risk:** the risk assumed by the Bank in relation to pension commitments with its employees. The risk lies in the possibility that the fund will not cover these commitments in the accrual period for the provision and the profitability obtained by the portfolio will not be sufficient, obliging the Group to increase its contributions.
- **Actuarial risk:** unexpected losses resulting from an increase in commitments to holders of insurance policies, as well as losses from unforeseen cost increases.

» D.2.2. Trading market risk

D.2.2.1. Key figures and change over time

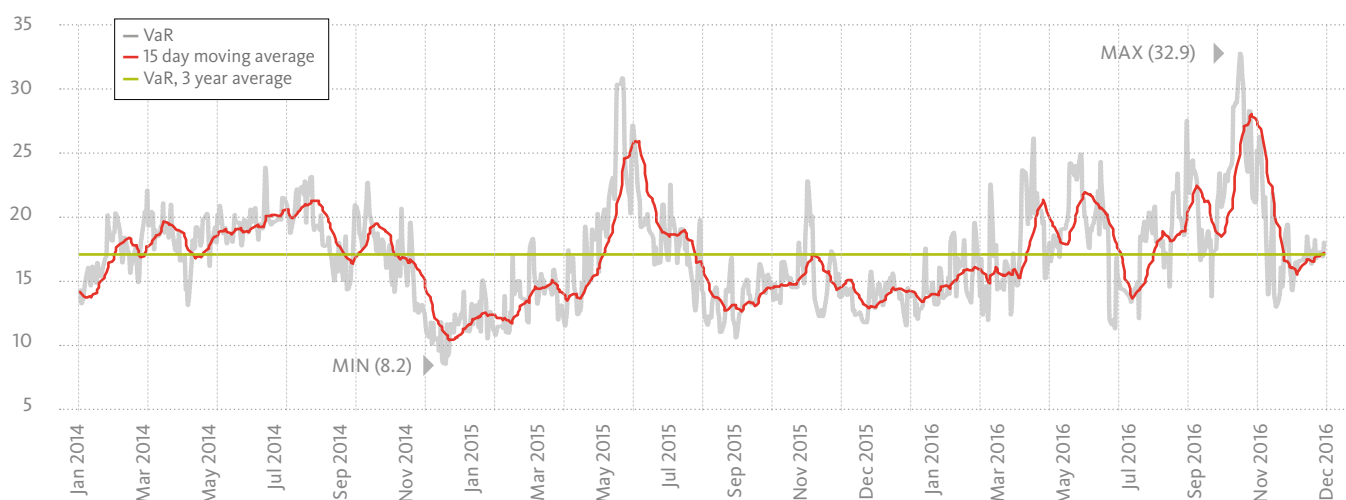
Grupo Santander's trading risk profile remained relatively low in 2016, in line with previous years, due to the fact that the Group's activity has traditionally focused on providing services to its customers, with only limited exposure to complex structured assets, as well as geographic diversification and risk factors.

D.2.2.1.1. VaR analysis²¹

In 2016, the Group maintained its strategy of concentrating its trading activity on customer business, minimising where possible exposures to directional risk in net terms. This is reflected in the Value at Risk (VaR) of the SGCB trading book, which, despite the market's volatility in response to events during the year (Brexit, elections in Spain and the USA, the political and economic situation in Brazil and the constitutional referendum in Italy), grew in line with its average path over the last three years, ending 2016 at EUR 17.9 million²².

■ VaR 2014-2016

Million euros. VaR at a 99% confidence interval over a one day horizon.



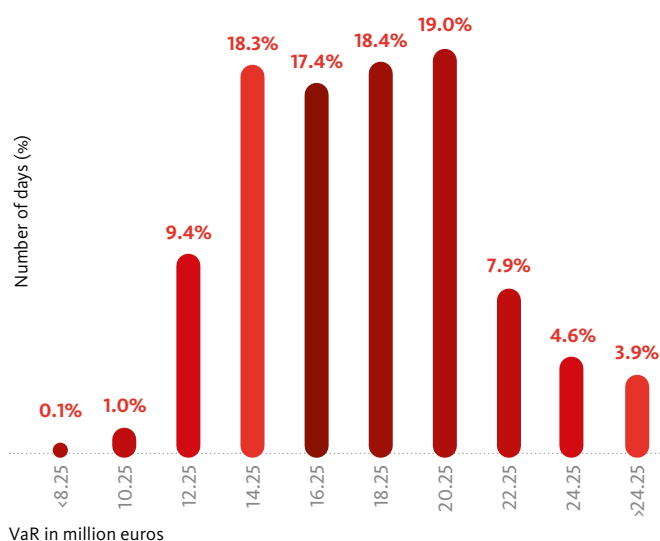
VaR during 2016 fluctuated between EUR 11.1 million and EUR 32.9 million. The most significant changes were related to changes in exchange rate and interest rate exposure and also market volatility.

The average VaR in 2016 was EUR 18.3 million, very similar to the two previous years (EUR 15.6 million in 2015 and EUR 16.9 million in 2014).

The chart below shows the distribution of risk in VaR terms from 2014 to 2016. The accumulation of days with levels of between EUR 8.25 million and EUR 24.25 million (96%) is shown. Values of higher than EUR 24.25 million (3.9%) largely occur in periods affected by temporary spikes in volatility, mainly in the Brazilian real against the dollar and also in the interest rates for both currencies.

■ VaR risk histogram

VaR at 99% over a one day horizon
Number of days (%) in each range



21. Value at Risk. The definition and calculation methodology for VaR is set out in section D.2.2.2.1. Value at Risk (VaR).

22. Regarding trading activity in financial markets by SGCB (Santander Global Corporate Banking). As well as the trading activity of SGCB, there are other positions catalogued for accounting purposes. The total VaR of trading of this accounting perimeter was EUR 17.8 million.

Risk per factor

The following table displays the average and latest VaR values at 99% by risk factor over the last three years, and the lowest and highest values in 2016 and the Expected Shortfall (ES) at 97.5%²³ at the close of 2016:

■ **VaR statistics and Expected Shortfall by risk factor**^{24, 25}

Million euros. VaR at 99% and ES at 97.5% with one day time horizon.

	2016					2015		2014		
	VaR (99%)				ES (97.5%)	VaR		VaR		
	Minimum	Average	Maximum	Latest	Latest	Average	Latest	Average	Latest	
Total	11.1	18.3	32.9	17.9	17.6	15.6	13.6	16.9	10.5	
Total trading	Diversification effect	(3.6)	(10.3)	(20.9)	(9.6)	(9.5)	(11.1)	(5.8)	(13.0)	(9.3)
	Interest rate	8.9	15.5	23.1	17.9	16.8	14.9	12.7	14.2	10.5
	Equities	1.0	1.9	3.3	1.4	1.7	1.9	1.1	2.7	1.8
	Exchange rate	3.3	6.9	13.3	4.8	4.9	4.5	2.6	3.5	2.9
	Credit spread	2.4	4.2	7.4	3.3	3.6	5.2	2.9	9.3	4.6
	Commodities	0.0	0.1	0.2	0.1	0.1	0.2	0.1	0.3	0.1
Total	6.0	9.0	19.5	9.4	9.1	11.6	11.1	12.2	7.3	
Europe	Diversification effect	(3.7)	(9.1)	(18.1)	(7.6)	(7.7)	(8.3)	(5.6)	(9.2)	(5.5)
	Interest rate	5.0	8.2	14.9	9.1	8.6	10.6	10.9	8.9	6.2
	Equities	0.9	1.6	2.8	1.5	1.6	1.4	1.0	1.7	1.0
	Exchange rate	1.5	4.1	13.2	3.0	3.2	3.3	1.9	2.9	1.5
	Credit spread	2.1	4.1	7.0	3.4	3.3	4.4	2.8	7.6	3.9
	Commodities	0.0	0.1	0.2	0.1	0.1	0.2	0.1	0.3	0.1
Total	5.9	13.7	26.9	13.5	14.4	10.6	9.7	12.3	9.8	
Latin America	Diversification effect	(0.6)	(3.6)	(15.1)	(2.7)	(3.0)	(4.8)	(4.4)	(3.5)	(12.2)
	Interest rate	5.4	11.4	21.6	13.0	14.1	10.7	9.3	11.8	9.8
	Equities	0.4	1.4	3.8	0.8	0.8	1.5	0.5	2.1	3.0
	Exchange rate	1.3	4.5	11.4	2.4	2.5	3.2	4.3	2.0	9.2
Total	0.7	1.3	4.8	2.7	2.8	0.9	0.9	0.7	0.7	
USA and Asia	Diversification effect	(0.2)	(0.5)	(1.2)	(0.6)	(0.2)	(0.5)	(0.4)	(0.3)	(0.2)
	Interest rate	0.7	1.3	4.9	2.7	2.8	0.8	0.8	0.7	0.7
	Equities	0.0	0.1	0.6	0.0	0.0	0.1	0.0	0.1	0.0
	Exchange rate	0.1	0.4	0.9	0.5	0.2	0.4	0.4	0.3	0.2
Total	0.3	0.6	1.9	0.5	0.8	1.6	0.4	2.3	1.9	
Global activities	Diversification effect	0.0	(0.1)	(0.3)	(0.1)	(0.1)	(0.6)	(0.2)	(0.6)	(0.6)
	Interest rate	0.0	0.1	0.2	0.1	0.1	0.5	0.1	0.6	0.4
	Credit spread	0.3	0.5	1.9	0.5	0.8	1.6	0.4	2.2	1.9
	Exchange rate	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.2

23. This metric is defined in detail in section 2.2.2.2. Following the recommendation of the Basel Committee in its Fundamental review of the trading book: a revised market risk framework (October 2013), the confidence level of 97.5% approximates a risk level similar to that captured by VaR with a 99% confidence level.

24. The VaR of global activities includes operations that are not assigned to any particular country.

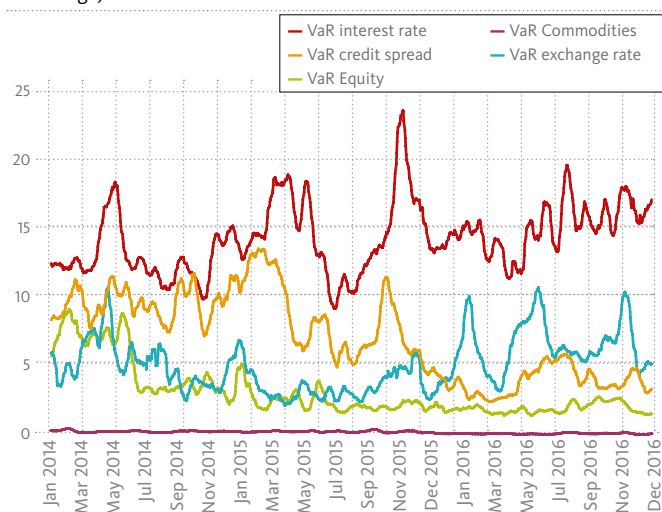
25. In Latin America, the United States and Asia, VaR levels are not shown separately for credit spreads and commodities, because of their scant or zero materiality.

At the end of 2016, VaR had increased by EUR 4.3 million against 2015, increasing average VaR by EUR 2.7 million. By risk factor, average VaR increased for exchange rates, interest rate and equity risk, but fell for credit spread and commodities. By geographies, there was a slight increase in Latin America and the United States/Asia, but it fell in the other geographies.

The evolution of VaR by risk factor has, in general, been stable over the last few years. The temporary rises in VaR for various factors are explained more by temporary increases in the volatility of market prices than by significant changes in positions.

Historical VaR by risk factor

Million euros. VaR at 99% with one day time horizon (15 day moving average)



Lastly, the table below compares the VaR figures with stressed VaR figures²⁶ for the trading activity of the two portfolios with the highest average VaR in 2016.

Stressed VaR vs. VaR in 2016: main portfolios

Million euros. Stressed VaR and VaR at 99% with one-day time horizon.

		2016				2015	
		Mín	Average	Max	Latest	Average	Latest
Spain	VaR (99%)	3.1	5.7	14.1	4.7	8.9	11.2
	Stressed VaR (99%)	10.5	14.9	23.9	14.3	19.4	13.5
Brazil	VaR (99%)	4.5	12.0	26.8	10.6	9.5	9.4
	Stressed VaR (99%)	6.4	22.2	47.5	23.0	16.6	14.2

D.2.2.1.2. Gauging and backtesting measures

The real losses can differ from the forecasts by the VaR for various reasons related to the limitations of this metric. This is set out in detail later in the section on the methodologies. The Group regularly analyses and contrasts the accuracy of the VaR calculation model in order to confirm its reliability.

The most important test consists of backtesting exercises, analysed at the local and global levels and in all cases with the same methodology. Backtesting consists of comparing the forecast VaR measurements, with a certain level of confidence and time frame, with the real results of losses obtained in a same time frame. This enables anomalies in the VaR model of the portfolio in question to be detected (for example, shortcomings in the parameterisation of the valuation models of certain instruments, not very adequate proxies, etc).

Santander calculates and evaluates three types of backtesting:

- “Clean” backtesting: daily VaR is compared to the results obtained without taking into account intraday results or changes in portfolio positions. This method contrast the effectiveness of the individual models used to assess and measure the risks of positions.
- Backtesting on complete results: the daily VaR is compared with the day’s net results, including the results of intraday operations and those generated by fees.
- Backtesting on complete results without mark-ups or fees: the daily VaR is compared to the day’s net results from intraday operations but excluding those generated by mark-ups and fees. This method aims to give an idea of the intraday risk assumed by Group treasuries.

In the first case and for the total portfolio, there were four exceptions for Value at Earnings (VaE)²⁷ at 99% in 2016 (days on which daily profit was higher than VaE) on 12 and 18 February, 13 April and 24 June. These were caused primarily by major shifts in the exchange rates of the euro and US dollar against the Brazilian real and the interest rate curves for these currencies, together with a generalised increase in volatility in the markets as a result of Brexit.

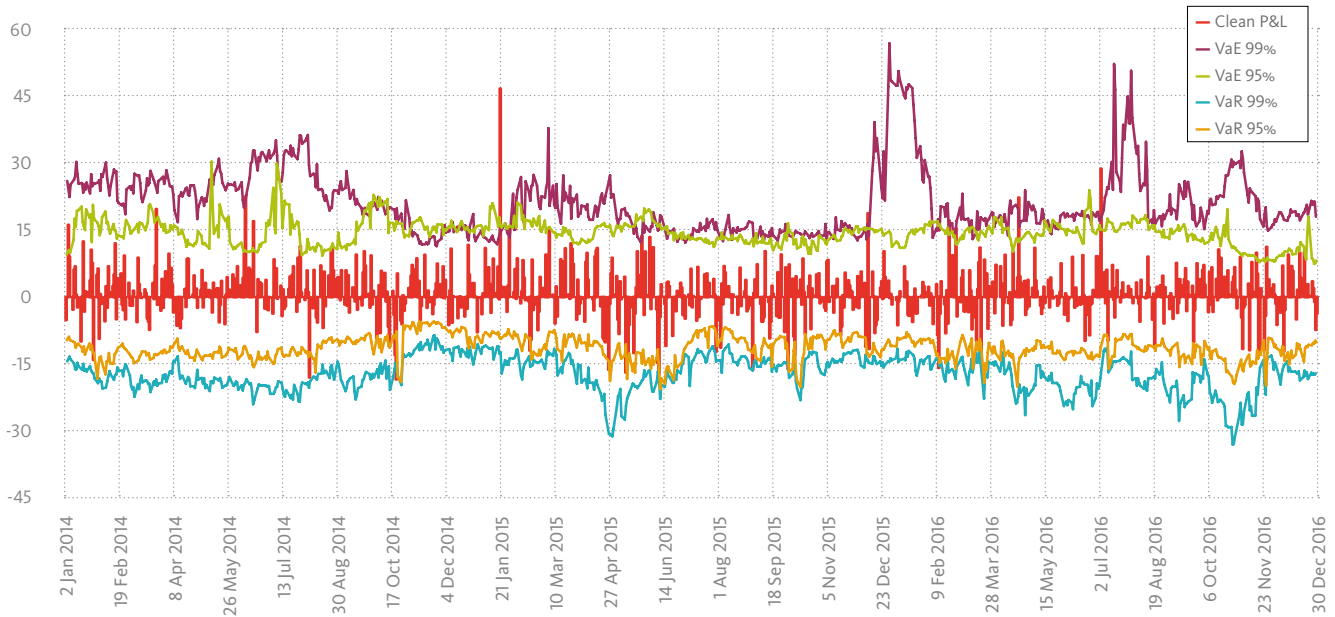
There was also an exception to VaR at 99% (days on which the daily loss was higher than the VaR) on 3 February, caused mainly, as in the above cases, by high volatility in exchange rates and interest curves, in this case for euro and Brazilian real.

The number of exceptions occurred is consistent with the assumptions specified in the VaR calculation model.

26. Description in section 2.2.2.2.

27. The definition and calculation methodology for VaE is set out in section 2.2.2.1.

● **Backtesting of trading portfolios: daily results vs. Value at Risk (VaR) for previous day**
 Million euros



D.2.2.1.3. Distribution of risks and management results²⁸

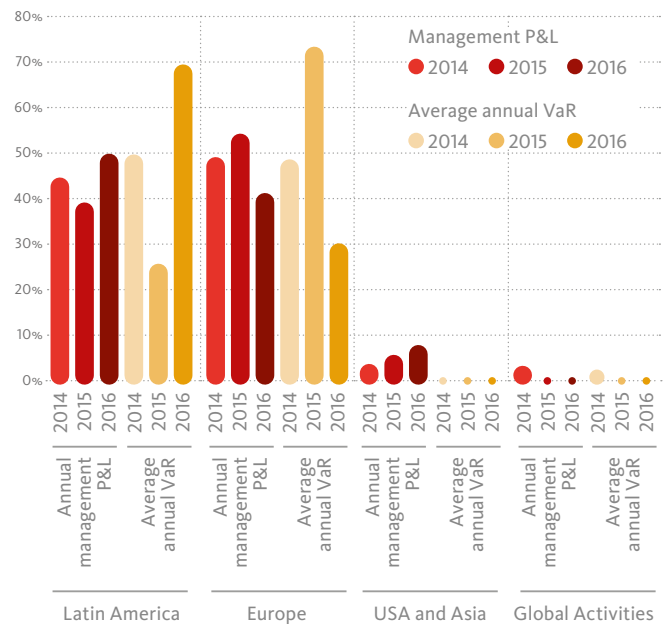
Geographic distribution

In trading activity, the average contribution of Latin America to the Group's total VaR in 2016 was 69.6% compared with a contribution of 50.1% in economic results. Europe, with 29.7% of global risk, contributed 41.9% of results. In relation to prior years, there was a gradual homogenisation in the profile of activity in the Group's different units, focused generally on providing service to professional and institutional clients.

Below is the geographic contribution (by percentage) to the Group total, both in risks, measured in VaR terms, as well as in results, measured in economic terms.

● **VaR - P&L binomial: Geographic distribution**

Average VaR (at 99% with a 1 day time horizon) and Annual cumulative management P&L (EUR million), % of annual totals



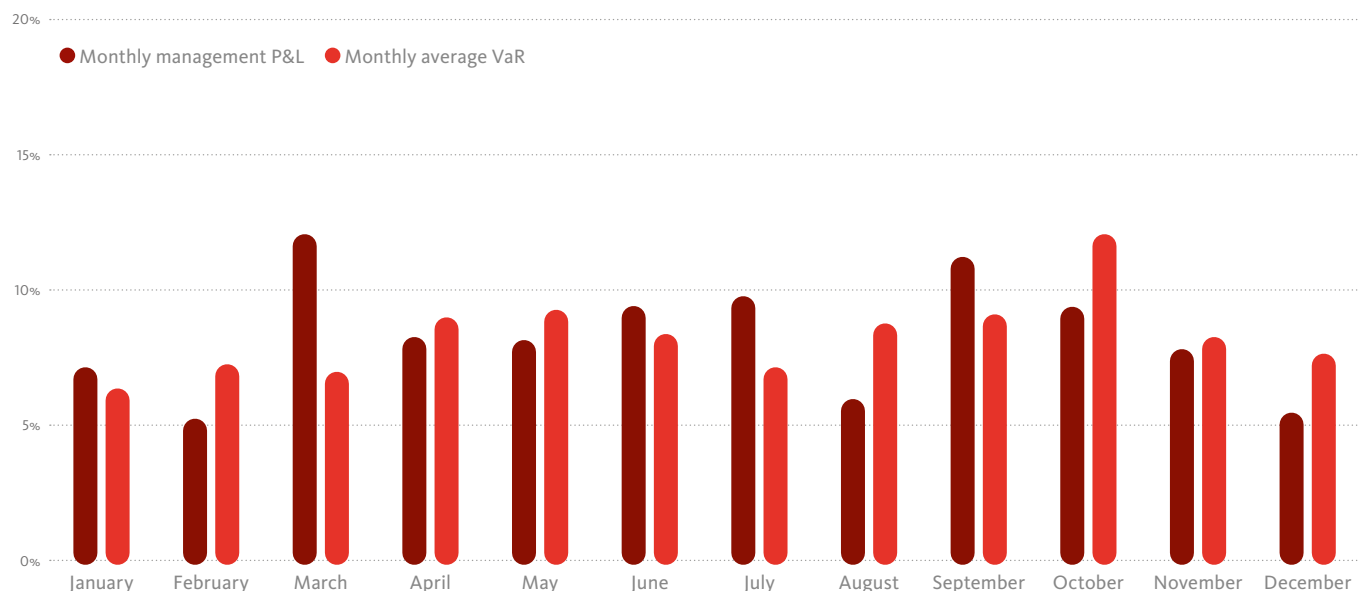
28. Results in terms similar to Gross Margin (excluding operating costs, the financial would be the only cost).

Distribution of risk by time

The next chart shows the risk assumption profile, in terms of VaR, compared to results in 2016. The average VaR remained relatively stable, albeit with higher values in the second half of the year, while results evolved in a more regular way during the same period, and were higher in the first half.

Time distribution of risks and P/L in 2016: percentages of annual totals

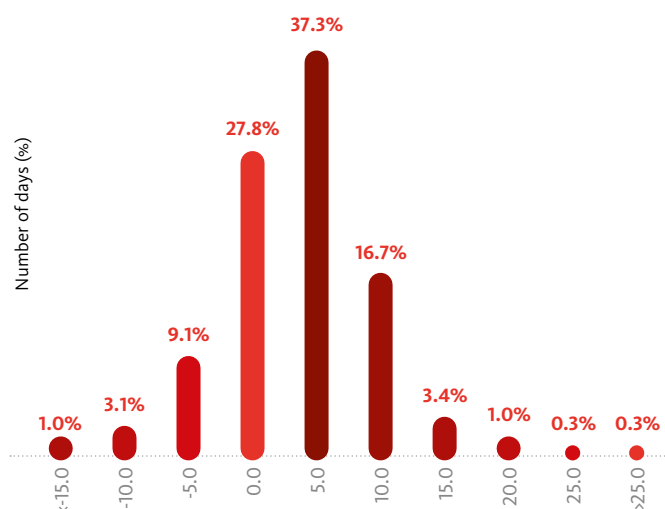
VaR (at 99% with a 1 day time horizon) and annual cumulative management P&L (EUR mn), % of annual totals.



The following frequency histogram shows the distribution of daily economic results on the basis of their size between 2014 and 2016. It shows that on over 95.9% of days on which the markets were open daily²⁹ returns were in a range of between EUR -12 and +13 million.

Daily management P&L (MtM) frequency histogram

Daily management P&L "clean" of fees and intraday operations (EUR mn). Number of days (%) in each range



D.2.2.1.4. Risk management of derivatives

Derivatives activity is mainly focused on marketing investment products and hedging risks for clients. Management is focused on ensuring that the net risk opened is the lowest possible.

These transactions include options on equities, fixed-income and exchange rates. The units where this activity mainly takes place are: Spain, Santander UK, and, to a lesser extent, Brazil and Mexico.

The chart below shows the VaR Vega³⁰ performance of structured derivatives business over the last three years. It fluctuated at around an average of EUR 5 million. In general, the periods with higher VaR levels related to episodes of significant rises in volatility in the markets.

Although in 2015, VaR Vega was similar to the previous year in the first quarter of the year, in the two next quarters it was affected by high market volatility due to events such as Greece's bail-out, high stock market volatility in China currency depreciation, and rating downgrade in Brazil, as well the strong depreciation of its currency against the euro and the dollar. During 2016, a number of different events pushed up market volatility as indicated above (Brexit, general elections in Spain and the US, political-economic situation in Brazil, constitutional referendum in Italy).

29. Yields "clean" of fees and results of intraday derivative operations.

30. Vega, a Greek term, means here the sensitivity of the value of a portfolio to changes in the price of market volatility.

Change in risk over time (VaR) of the derivatives business

Million euros. VaR vega at a 99% over a one day horizon.



As regards the VaR by risk factor, on average, the exposure was concentrated, in this order, in interest rates, equities, exchange rates and commodities. This is shown in the table below:

Financial derivatives. Risk (VaR) by risk factor.

Million euros. VaR at a 99% over a one day horizon.

	2016				2015		2014	
	Minimum	Average	Maximum	Latest	Average	Latest	Average	Latest
Total VaR Vega	2.4	4.0	11.4	2.5	6.8	7.0	3.3	2.7
Diversification effect	(1.1)	(2.4)	(7.1)	(2.3)	(2.3)	(1.7)	(2.1)	(2.6)
VaR interest rate	2.0	3.6	10.6	2.6	6.5	7.3	2.4	1.7
VaR equities	0.9	1.7	3.0	1.3	1.5	0.8	1.8	2.0
VaR exchange rate	0.5	1.1	4.8	0.9	1.1	0.6	1.2	1.6
VaR commodities	0.0	0.0	0.1	0.0	0.1	0.0	0.0	0.1

Exposure by business unit was mainly concentrated in Spain, Santander UK, Brazil and Mexico (in that order).

Financial derivatives. Risk (VaR) by unit

Million euros. VaR at a 99% over a one day horizon.

	2016				2015		2014	
	Minimum	Average	Maximum	Latest	Average	Latest	Average	Latest
Total VaR Vega	2.4	4.0	11.4	2.5	6.8	7.0	3.3	2.7
Spain	2.1	3.6	11.3	2.3	6.6	6.9	2.4	1.5
Santander UK	0.6	1.3	3.4	0.9	0.9	0.9	1.4	0.9
Brazil	0.3	0.8	2.4	0.7	0.7	0.4	0.8	0.7
Mexico	0.2	0.4	0.8	0.2	0.8	0.3	0.9	1.3

The average risk in 2016 (EUR 4 million) is lower compared to 2015 and higher than in 2014, for the reasons explained above.

Grupo Santander continues to have a very limited exposure to complex structured instruments or vehicles, showing that it maintains a culture in which prudence in risk management is particularly important. At the end of 2016, the Group had:

- Hedge funds: the total exposure is not significant (EUR 179.4 million at close of December 2016) and is all indirect, acting as counterparty in derivatives transactions. The risk with this type of counterparty is analysed case by case, establishing percentages of collateralisation on the basis of the features and assets of each fund. Exposure has fallen compared with the previous year.
- Monolines: the Grupo Santander's exposure to bond insurance companies (monolines) was, EUR 49.5 million as of December 2016, mainly indirect exposure, EUR 49 million by virtue of the guarantee provided by this type of entity to various financing or traditional securitisation operations. The exposure in this case is to double default, been the primary underlying assets of high credit quality. The small remaining amount is direct exposure (for example, via purchase of protection from the risk of non- payment by any of these insurance companies through a credit default swap). Exposure has fallen compared with the previous year.

This was mainly due to the integration of positions of institutions acquired by the Group, as Sovereign in 2009. All these positions were known at the time of purchase, having been duly provisioned. These positions, since their integration in the Group, have been notably reduced, with the ultimate goal of eliminating them from the balance sheet.

Santander's policy for approving new transactions related to these products remains very prudent and conservative. It is subject to strict supervision by the Group's senior management. Before approving a new transaction, product or underlying asset, the Risks division verifies:

- The existence of an appropriate valuation model to monitor the value of each exposure: Mark-to-Market, Mark-to-Model or Mark-to-Liquidity.
- The availability in the market of observable data (inputs) needed to be able to apply this valuation model.

And provided these two points are always met:

- The availability of appropriate systems, duly adapted to calculate and monitor every day the results, positions and risks of new operations.
- The degree of liquidity of the product or underlying asset, in order to make possible their coverage when deemed appropriate.

D.2.2.1.5. Issuer risk in trading portfolios

Trading activity in credit risk is mainly conducted in the Treasury Units in Spain. It is done by taking positions in bonds and credit default swaps (CDS) at different maturities on corporate and financial references, as well as indices (Itraxx, CDX).

The accompanying table shows the major positions at year-end in Spain, distinguishing between long (purchases of bonds and sales of CDS protection) and short (sales of bonds and purchases of CDS protection) positions.

Million euros. Data at December 2016

	More 'long' positions (sales of protection)		More 'short' positions (purchase of protection)	
	Exposure at default (EAD)	% of total EAD	Exposure at default (EAD)	% of total EAD
1st reference	1,132.6	18.5%	(30.9)	0.7%
2nd reference	132.3	2.2%	(24.0)	0.5%
3rd reference	90.9	1.5%	(19.0)	0.4%
4th reference	87.3	1.4%	(19.0)	0.4%
5th reference	81.9	1.3%	(18.7)	0.4%
Sub-total top 5	1,525.0	24.9%	(111.6)	2.4%
Total	6,130.0	100%	(4,748.4)	100%

Note: zero recoveries are supposed (LCR=0) in the EAD calculation

D.2.2.1.6. Analysis of scenarios

Various stress scenarios were calculated and analysed regularly in 2016 (at least monthly) at the local and global levels for all the trading portfolios and using the same risk factor assumptions.

Maximum volatility scenario (worst case)

This scenario is given particular attention as it combines historic movements of risk factors with an ad-hoc analysis in order to reject very unlikely combinations of variations (for example, sharp falls in stock markets together with a decline in volatility). A historic volatility equivalent to six standard deviations is applied. The scenario is defined by taking for each risk factor the movement which represents the greatest potential loss in the portfolio, rejecting the most unlikely combinations in economic-financial terms.

At year-end, that scenario implied, for the global portfolio, interest rate rises in Latin American markets and falls in core markets, stock market falls, depreciation of all currencies against the euro, and increased credit spreads and volatility.

The results for this scenario at the close of 2016 are shown in the following table.

Stress scenario: maximum volatility (worst case)

Million euros. Data at December 2016

	Interest rate	Equities	Exchange rate	Credit spread	Commodities	Total
Total trading	(100.5)	(3.1)	(10.3)	(10.0)	(0.1)	(124.0)
Europe	(14.7)	(1.2)	(2.9)	(9.2)	(0.1)	(28.1)
Latin America	(74.8)	(1.9)	(6.8)	0.0	0.0	(83.5)
US	(7.5)	0.0	(0.5)	0.0	0.0	(8.0)
Global activities	(0.1)	0.0	0.0	(0.8)	0.0	(0.9)
Asia	(3.4)	0.0	(0.1)	0.0	0.0	(3.5)

The stress test shows that the economic loss suffered by the Group in its trading portfolios, in terms of the mark to market (MtM) result, would be, if the stress movements defined in the scenario materialised in the market, EUR 12.4 million. This loss would be concentrated in Latin America (in the following order: interest rates, exchange rates and equity) and Europe (in the following order: interest rates, credit spread, exchange rates and equities).

Other global stress scenarios

Abrupt crisis: an ad hoc scenario with sharp market movements. Rise in interest rate curves, sharp falls in stock markets, strong appreciation of the dollar against other currencies, rise in volatility and in credit spreads.

Subprime crisis: historic scenario of the US mortgage crisis. The objective of the analysis is to capture the impact on results of the reduction in liquidity in the markets. Two time horizons were used (one day and 10 days), in both cases there are falls in stock markets and in interest rates in core markets and rises in emerging markets, and dollar appreciation against other currencies.

“Plausible Forward Looking Scenario”: a hypothetical plausible scenario defined at local level in market risk units, based on the portfolio positions and their expert judgement regarding short-term changes in market variables which can have a negative impact on such positions. This year, the new scenario has been included in the set of scenarios handled by the entity.

EBA adverse scenario: the scenario proposed by the European Banking Authority (EBA) in April 2014 as part of the EBA 2014 EU-Wide Stress Test and updated in January 2016. It was initially conceived as an adverse scenario proposed by European banks thinking in terms of a 2014-2016 time horizon and updated this year to the 2016-2018 time horizon. It reflects the systemic threats which are considered to be the most serious threats to the stability of the banking sector in the European Union.

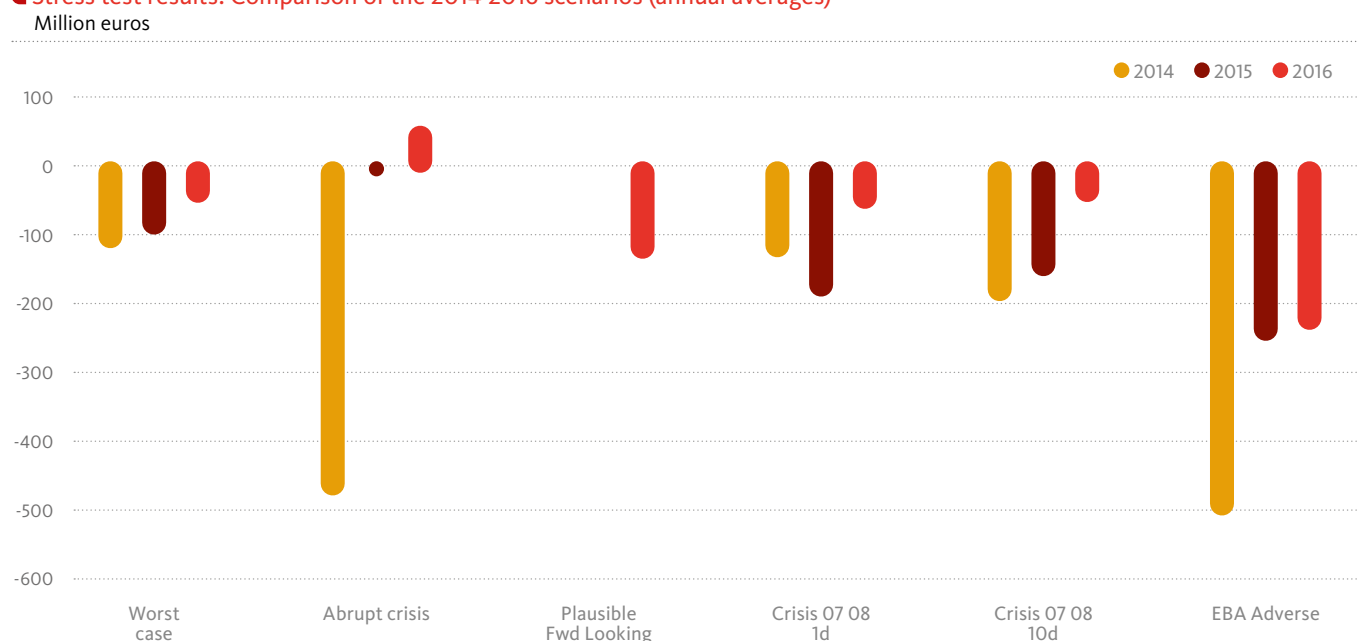
This latter scenario replaced the sovereign debt crisis scenario in November 2014. This historic scenario identified four geographic zones (the USA, Europe, Latin America and Asia) and included interest rate rises, falls in stock markets and volatilities, widening credit spreads, depreciation of the euro and Latin American currencies, and appreciation of Asian currencies, against the dollar.

In 2016, the analysis of the Reverse Stress Tests was added. These tests are based on establishing a predefined result (unfeasibility of a business model or possible insolvency) and subsequently the risk factor scenarios and movements which could cause that situation are identified.

Every month a consolidated stress test report is drawn up with explanations of the main changes in results for the various scenarios and units. An early warning mechanism has also been established so that when the loss for a scenario is high in historic terms and/or in terms of the capital consumed by the portfolio in question, the relevant business executive is informed.

The results of these global scenarios for the last three years are shown in the following table:

Stress test results. Comparison of the 2014-2016 scenarios (annual averages)



D.2.2.1.7. Linkage with balance sheet items.**Other alternative risk measures**

Below are the balance sheet items in the Group's consolidated position that are subject to market risk, distinguishing the positions whose main risk metric is VaR from those where monitoring is carried out with other metrics. The items subject to market trading risk are highlighted.

Relation of risk metrics with balances in Group's consolidated position

Million euros. (December 2016)

	Balance sheet amount	Main market risk metric		Main risk factor for 'Other' balance
		VaR	Other	
Assets subject to market risk	1,339,125	189,372	1,149,753	
Cash and deposits at central banks	76,454		76,454	Interest rate
Trading portfolio	148,187	147,738	449	Interest rate, credit spread
Other financial assets at fair value	31,609	31,284	325	Interest rate, credit spread
Available-for-sale financial assets	116,774	-	116,774	Interest rate; equities
Investments	4,836	-	4,836	Equities
Hedging derivatives	10,377	10,350	27	Interest and exchange rates
Loans	854,472		854,472	Interest rate
Other assets financials ¹	35,531		35,531	Interest rate
Other non-financial assets ²	60,885		60,885	
Liabilities subject to market risk	1,339,125	157,098	1,182,027	
Trading portfolio	108,765	108,696	69	Interest rate, credit spread
Other financial liabilities at fair value	40,263	40,255	8	Interest rate, credit spread
Hedging derivatives	8,156	8,147	9	Interest and exchange rates
Financial liabilities at amortised cost ³	1,044,688		1,044,688	Interest rate
Provisions	14,459		14,459	Interest rate
Other financial liabilities	9,025		9,025	Interest rate
Equity	102,699		102,699	
Other non-financial liabilities	11,070		11,070	

1. Includes adjustments to macro hedging, non-current assets held for sale, reinsurance assets, and insurance contracts linked to pensions and fiscal assets.

2. Includes intangible assets, material assets and other assets.

3. Macro-hedging adjustment.

For activity managed with metrics other than VaR, alternative measures are used, mainly: sensitivity to different risk factors (interest rate, credit spread, etc).

In the case of the trading portfolio, the securitisations and "level III" exposures (those in which non-observable market data constitutes a significant input in the corresponding internal valuation models) are excluded from the VaR measurement.

Securitisations are mainly treated as if they were part of the credit risk portfolio (in terms of default, recovery rate, etc). For "level III" exposures, which are not very significant in Grupo Santander (basically derivatives linked to the home price index - HPI - in market activity in Santander UK, and interest rate and correlation derivatives for share prices in the parent bank's market activity), as well as in general for inputs that cannot be observed in the market (correlation, dividends, etc), a very conservative policy is followed: this is reflected in valuation adjustments as well as sensitivity.

D.2.2.2. Methodologies**D.2.2.2.1. Value at Risk (VaR)**

The standard methodology the Group applies to trading activities is Value at Risk (VaR), which measures the maximum expected loss with a certain confidence level and time frame. The standard for historic simulation is a confidence level of 99% and a time frame of one day. Statistical adjustments are applied enabling the most recent developments affecting the levels of risk assumed to be incorporated efficiently and quickly. A time frame of two years or at least 520 days from the reference date of the VaR calculation is used. Two figures are calculated every day: one applying an exponential decay factor that accords less weight to the observations furthest away in time and another with the same weight for all observations. The higher of the two is reported as the VaR.

Value at Earnings (VaE) is also calculated. This measures the maximum potential gain with a certain level of confidence and time frame, applying the same methodology as for VaR.

VaR by historic simulation has many advantages as a risk metric (it sums up in a single number the market risk of a portfolio; it is based on market movements that really occurred without the need to make assumptions of functions forms or correlations between market factors, etc), but it also has its limitations.

Some limitations are intrinsic to the VaR metrics, regardless of the methodology used in their calculation, including:

- The VaR calculation is calibrated at a certain level of confidence, which does not indicate the levels of possible losses beyond it.
- There are some products in the portfolio with a liquidity horizon greater than that specified in the VaR model.
- VaR is a static analysis of the risk of the portfolio, and the situation could change significantly during the following day, although the likelihood of this occurring is very low.

Using the historic simulation methodology also has its limitations:

- High sensitivity to the historic window used.
- Inability to capture plausible events that would have significant impact, if these do not occur in the historic window used.
- The existence of valuation parameters with no market input (such as correlations, dividend and recovery rate).
- Slow adjustment to new volatilities and correlations, if the most recent data receives the same weight as the oldest data.

Some of these limitations are overcome by using Stressed VaR and Expected Shortfall, calculating VaR with exponential decay and applying conservative valuation adjustments. Furthermore, as previously stated, the Group regularly conducts analysis and backtesting of the accuracy of the VaR calculation model.

D.2.2.2.2. Stressed VaR (sVaR) and Expected Shortfall (ES)

In addition to standard VaR, Stressed VaR is calculated daily for the main portfolios. The calculation methodology is the same as for VaR, with the two following exceptions:

- The historical observation period for the factors: when calculating Stressed VaR a window of 260 observations is used, rather than 520 for VaR. However, this is not the most recent data: rather, the data used is from a continuous period of stress for the portfolio in question. This is determined for each major portfolio by analysing the history of a subset of market risk factors selected based on expert judgement and the most significant positions in the books.
- Unlike VaR, Stressed VaR is obtained using the percentile with uniform weighting, not the higher of the percentiles with exponential and uniform weightings.

Moreover, the Expected Shortfall (ES) is also calculated, estimating the expected value of the potential loss when this is higher than the level set by VaR. Unlike VaR, ES has the advantages of capturing the risk of large losses with low probability (tail risk) and

being a subadditive metric³¹. Going forward, in the near term the Basel Committee has recommended replacing VaR with Expected Shortfall as the baseline metric for calculating regulatory capital for trading portfolios³². The committee considers that ES with a 97.5% confidence interval delivers a similar level of risk to VaR at a 99% confidence interval. ES is calculated by applying uniform weights to all observations.

D.2.2.2.3. Analysis of scenarios

The Group uses other metrics in addition to VaR, giving it greater control over the risks it faces in the markets where it is active. These measures include scenario analysis. This consists of defining alternative behaviours for various financial variables and obtaining the impact on results of applying these to activities. These scenarios may replicate events that occurred in the past (such as a crisis) or determine plausible alternatives that are unrelated to past events.

The potential impact on earnings of applying different stress scenarios is regularly calculated and analysed, particularly for trading portfolios, considering the same risk factor assumptions. Three scenarios are defined, as a minimum: plausible, severe and extreme. Taken together with VaR, these reveal a much more complete spectrum of the risk profile.

A number of trigger thresholds have also been established for global scenarios, based on their historical results and the capital associated with the portfolio in question. When these triggers are activated, the portfolio managers are notified so they can take appropriate action. The results of the global stress exercises, and any breaches of the trigger thresholds, are reviewed regularly, and reported to senior management, when this is considered appropriate.

D.2.2.2.4. Analysis of positions, sensitivities and results

Positions are used to quantify the net volume of the market securities for the transactions in the portfolio, grouped by main risk factor, considering the delta value of any futures or options. All risk positions can be expressed in the base currency of the unit and the currency used for standardising information. Changes in positions are monitored on a daily basis to detect any incidents, so they can be corrected immediately.

Measurements of market risk sensitivity estimate the variation (sensitivity) of the market value of an instrument or portfolio to any change in a risk factor. The sensitivity of the value of an instrument to changes in market factors can be obtained using analytical approximations by partial derivatives or by complete revaluation of the portfolio.

In addition, the statement of income is also drawn up every day, providing an excellent indicator of risk, enabling us to identify the impact of changes in financial variables on the portfolios.

31. According to the financial literature, subadditivity is a desirable property for a coherent risk metric. This property establishes that $f(a+b)$ is less than or equal to $f(a)+f(b)$. Intuitively, it assumes that the more instruments and risk factors there are in a portfolio, the lower the risks, because of the benefits of diversification. Whilst VaR only offers this property for some distributions, ES always does so.

32. "Minimum Capital Requirements for Market Risk" (BCBS Document on banking supervision, January 2016).

D.2.2.2.5. Derivatives activities and credit management

Also noteworthy is the control of derivative activities and credit management which, because of its atypical nature, is conducted daily with specific measures. First, the sensitivities to price movements of the underlying asset (delta and gamma), volatility (vega) and time (theta) are controlled. Second, measures such as the sensitivity to the spread, jump-to-default, concentrations of positions by level of rating, etc. are reviewed systematically.

With regard to the credit risk inherent to trading portfolios, and in line with the recommendations of the Basel Committee on Banking Supervision and prevailing regulations, a further metric is also calculated: the Incremental Risk Charge (IRC). This seeks to cover the risks of non-compliance and ratings migration that are not adequately captured in VaR, through changes in the corresponding credit spreads. This metric is basically applied to fixed-income bonds, both public and private, derivatives on bonds (forwards, options, etc.) and credit derivatives (credit default swaps, asset backed securities, etc.). IRC is calculated using direct measurements of loss distribution tails at an appropriate percentile (99.9%), over a one year horizon. The Montecarlo methodology is used, applying one million simulations.

D.2.2.2.6. Credit Valuation Adjustment (CVA) and Debt Valuation Adjustment (DVA)

Grupo Santander incorporates credit valuation adjustment (CVA) and debt valuation adjustment (DVA) when calculating the results of trading portfolios. The **CVA** is a valuation adjustment of over the-counter (OTC) derivatives, as a result of the risk associated with the credit exposure assumed by each counterparty.

The CVA is calculated by taking into account the potential exposure with each counterparty in each future maturity. The CVA for a particular counterparty is therefore the sum of the CVAs over all such future terms. The following inputs are used:

- Expected exposure: including, for each operation the current market value (MtM) as well as the potential future risk (add-on) to each maturity. CVA also considers mitigating factors such as collateral and netting agreements, together with a decay factor for derivatives with interim payments.
- Loss given default: the percentage of final loss assumed in case of credit/ non-payment of the counterparty.
- Probability of default: for cases in which there is no market information (spread curve traded through CDS, etc.), general proxies generated on the basis of companies with listed CDSs for the same sector and external rating as the counterparty are used.
- Discount factor curve.

The **Debt Valuation Adjustment (DVA)** is a valuation adjustment similar to the CVA, but in this case as a result of the Group's risk that counterparties assume in OTC derivatives.

D.2.2.3. System for controlling limits

Setting market risk and liquidity limits is designed to be a dynamic process, responding to the Group's risk appetite level (as described in section B.3.1. Risk appetite and limits structure). This process is part of an annual limits plan drawn up by the Group's senior management, involving every Group entity.

The market risk limits used in the Group are established based on different metrics and try to cover all activity subject to market risk from many perspectives, applying a conservative approach. The main ones are:

- VaR and Stressed VaR limits.
- Limits of equivalent and/or nominal positions.
- Interest rate sensitivity limits.
- Vega limits.
- Delivery risk limits for short positions in securities (fixed income and securities).
- Limits to constrain the volume of effective losses, and protect results generated during the period:
 - Loss trigger.
 - Stop loss.
- Credit limits:
 - Total exposure limit.
 - Jump to default by issuer limit.
 - Others.
- Limits for origination transactions.

These general limits are complemented by other sub-limits to establish a sufficiently granular limits framework for effective control of the market risk factors to which the Group is exposed in its trading activities. Positions are monitored on a daily basis, at both the unit and global levels, with exhaustive control of changes to portfolios, so as to identify any incidents that might need immediate correction. Meanwhile, the daily drawing up of the income statement by the Risks area is an excellent indicator of risks, as it allows the impact that changes in financial variables have had on portfolios to be identified.

Implementation of the Volcker Rule throughout the Group in July 2015 required activities to be reorganised to ensure compliance with this new regulation, the preparation of new metrics and the definition of limits at the desk level.

Three categories of limits were established based on the scope of approval and control: global approval and control limits, global approval limits with local control, and local approval and control limits. The limits are requested by the business executive of each country/entity, considering the particular nature of the business and so as to achieve the budget established, seeking consistency between the limits and the risk/return ratio. The limits are approved by the corresponding risk bodies.

Business units must comply with the approved limits at all times. In the event of a limit being exceeded, the local business executives have to explain, in writing and on the day, the reasons for the excess and the action plan to correct the situation, which in general might consist of reducing the position until it reaches the prevailing limits or setting out the strategy that justifies an increase in the limits.

If the business unit fails to respond to the excess within three days, the global business executives will be asked to set out the measures to be taken in order to make the adjustment to the existing limits. If this situation lasts for 10 days as of the first excess, senior risk management will be informed so that a decision can be taken: the risk takers could be made to reduce the levels of risk assumed.

» D.2.3. Structural balance sheet risks³³

D.2.3.1. Key figures and change over time

The market risk profile inherent in Grupo Santander's balance sheet, in relation to its asset volumes and shareholders' funds, as well as the budgeted financial margin, remained moderate in 2016, in line with previous years.

D.2.3.1.1. Structural interest rate risk

Europe and the United States

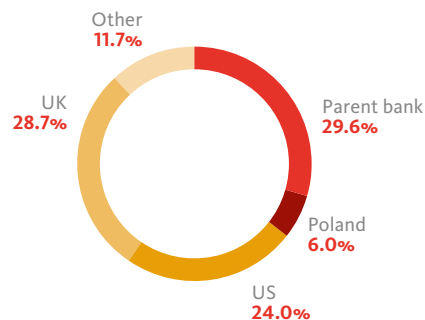
The main balance sheets, the Parent, United Kingdom and United States, in mature markets and in a low interest rate setting, usually show positive sensitivities to interest rates in economic value of equity and net interest income.

Exposure levels in all countries are moderate in relation to the annual budget and capital levels.

At the end of 2016, net interest income risk at one year, measured as sensitivity to parallel changes in the worst-case scenario of ± 100 basis points, was concentrated in the euro yield curve, at EUR 186 million, the British pound, at EUR 166 million, the US dollar, at EUR 140 million and the Polish zloty, at EUR 32 million, all relating to risks of rate cuts.

Net interest income (NII) sensitivity³⁴

% of total

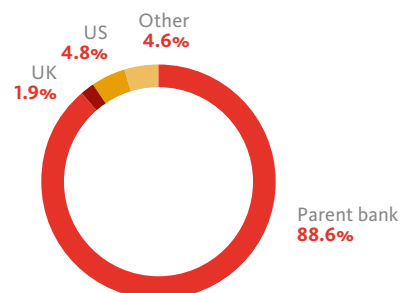


Other: Portugal and SCF.

At the same date, the main risk to the most relevant economic value of equity, measured as its sensitivity to parallel changes in the worst-case scenario of ± 100 basis points, was in the euro interest rate curve, at EUR 3,736 million, followed by the US dollar at EUR 341 million, the British pound at EUR 59 million and the Polish zloty at EUR 45 million, all with a risk of falling interest rates, scenarios which are now very unlikely.

Economic value of equity (EVE) sensitivity³⁵

% of total



Other: Poland, Portugal and SCF.

33. This includes the whole balance sheet with the exception of trading portfolios.

34. Sensitivity to the worst-case scenario between +100 and -100 basis points.

35. Sensitivity to the worst-case scenario between +100 and -100 basis points.

The tables below set out the interest-rate risk of the balance sheets of the Parent bank and Santander UK by maturity, at the end of 2016.

● **Parent: Interest rate repricing gap³⁶**

Million euros. December 2016

	Total	3 months	1 year	3 years	5 years	> 5 years	Not sensitive
Assets	365,495	112,927	67,646	21,565	15,836	27,989	119,534
Liabilities	399,667	112,551	43,856	57,518	43,329	59,929	82,484
Off balance sheet	34,172	34,174	(445)	2,477	45	(2,079)	0
Net gap	0	34,550	23,346	(33,477)	(27,448)	(34,020)	37,049

● **Santander UK: Interest rate repricing gap³⁷**

Million euros. December 2016

	Total	3 months	1 year	3 years	5 years	> 5 years	Not sensitive
Assets	322,299	162,655	37,162	63,408	19,719	19,106	20,249
Liabilities	326,740	194,038	23,848	27,133	21,550	29,803	30,368
Off balance sheet	4,441	(18,061)	8,872	(713)	8,598	5,745	0
Net gap	0	(49,443)	22,186	35,562	6,766	(4,953)	(10,118)

In general, the gaps by maturities are at reasonable levels in relation to the size of the balance sheet.

Latin America

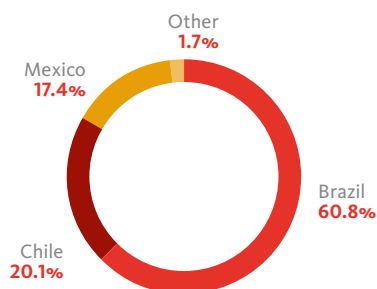
Latin American balance sheets are usually positioned for interest rate cuts for both economic value and net interest income, except for net interest income in Mexico, where excess liquidity is invested in the short term in the local currency.

In 2016, exposure levels in all countries were moderate in relation to the annual budget and capital levels.

At the end of the year, net interest income risk over one year, measured as sensitivity to parallel changes in the worst-case scenario of ±100 basis points, was concentrated in three countries: Brazil (EUR 112 million), Chile (EUR 37 million) and Mexico (EUR 32 million), as shown in the chart below.

● **Net interest income (NII) sensitivity³⁸**

% of total

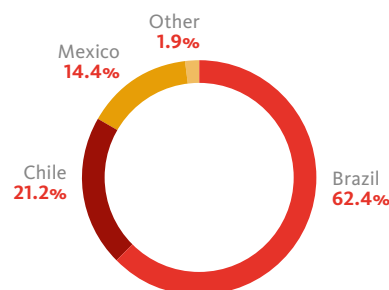


Other: Argentina and Uruguay.

Risk to the economic value of equity over one year, measured as sensitivity to parallel changes in the worst-case scenario of ±100 basis points, was also concentrated in Brazil (EUR 489 million), Chile (EUR 166 million) and Mexico (EUR 113 million).

● **Economic value of equity (EVE) sensitivity³⁹**

% of total



Other: Argentina and Uruguay.

36. Aggregate gap for all currencies on the balance sheet of the parent bank unit, in euros.

37. Aggregate gap for all currencies on the balance sheet of the Santander UK unit, in euros.

38. Sensitivity to the worst-case scenario between +100 and -100 basis points.

39. Sensitivity to the worst-case scenario between +100 and -100 basis points.

The table below shows the interest-rate risk maturity structure of the Brazil balance sheet in December 2016.

● Brazil: Interest rate repricing gap⁴⁰

Million euros. December 2016

	Total	3 months	1 year	3 years	5 years	> 5 years	Not sensitive
Assets	205,668	102,488	21,710	20,601	8,911	16,078	35,880
Liabilities	205,668	141,865	7,188	7,322	3,734	7,027	38,533
Off balance sheet	0	15,059	2,506	2,572	(140)	2,384	(22,382)
Net gap	0	(24,317)	17,028	15,852	5,037	11,435	(25,035)

Balance sheet structural interest rate VaR

In addition to sensitivities to interest rate movements (in which, assessments of ± 100 bp movements are supplemented by assessments of ± 25 bp, ± 50 bp and ± 75 bp movements to give a fuller understanding of risk in countries with very low rates), Santander also uses other methods to monitor structural balance sheet risk from interest rates: these include scenario analysis and VaR calculations, applying a similar methodology to that for trading portfolios.

The table below shows the average, minimum, maximum and year-end values of the VaR of structural interest rate risk over the last three years:

● Balance sheet structural interest rate risk (VaR)

Million euros. VaR at a 99% over a one day horizon.

	2016			
	Minimum	Average	Maximum	Latest
Structural interest rate VaR*	242.5	340.6	405.8	327.2
Diversification effect	(129.2)	(271.0)	(294.3)	(288.6)
Europe and USA	157.7	376.8	449.3	365.0
Latin America	214.0	234.9	250.8	250.8

* Includes credit spread VaR on ALCO portfolios.

	2015			
	Minimum	Average	Maximum	Latest
Structural interest rate VaR*	250.5	350.0	775.7	264.2
Diversification effect	(90.8)	(181.1)	(310.7)	(189.1)
Europe and USA	171.2	275.2	777.0	210.8
Latin America	170.1	255.9	309.3	242.6

* Includes credit spread VaR on ALCO portfolios.

	2014			
	Minimum	Average	Maximum	Latest
Structural interest rate VaR*	411.3	539.0	698.0	493.6
Diversification effect	(109.2)	(160.4)	(236.2)	(148.7)
Europe and USA	412.9	523.0	704.9	412.9
Latin America	107.6	176.4	229.4	229.4

* Includes credit spread VaR on ALCO portfolios.

Structural interest rate risk, measured in terms of VaR at one-day and at 99%, averaged EUR 340.6 million in 2016. It is important to note the high level of diversification between the Europe and United States balance sheets and those of Latin America.

D.2.3.1.2. Structural exchange-rate risk/hedging of results

Structural exchange rate risk arises from Group operations in currencies, mainly related to permanent financial investments, and the results and hedging of these investments.

This management is dynamic and seeks to limit the impact on the core capital ratio of movements in exchange rates⁴¹. In 2016, hedging levels of the core capital ratio for exchange rate risk were maintained at around 100%.

At the end of 2016, the largest exposures of permanent investments (with their potential impact on equity) were, in order, in Brazilian reais, pounds sterling, US dollars, Chilean pesos, Mexican pesos and Polish zlotys. The Group hedges some of these positions of a permanent nature with exchange-rate derivatives.

In addition, the Financial Management area is responsible for managing exchange-rate risk for the Group's expected results and dividends in units where the base currency is not the euro.

D.2.3.1.3. Structural equity risk

Santander maintains equity positions in its banking book in addition to those of the trading portfolio. These positions are maintained as available for sale portfolios (capital instruments) or as equity stakes, depending on the percentage or control.

The equity portfolio available for the banking book at the end of 2016 was diversified in securities in various countries, mainly Spain, China, the USA, Brazil and the Netherlands. Most of the portfolio is invested in the financial and insurance sectors. Other sectors, to a lesser extent, are public administrations (stake in Sareb), professional, scientific and technical activities, the transport and storage sector and manufacturing industry.

Structural equity positions are exposed to market risk. VaR is calculated for these positions using market price data series or proxies. At the close of 2016, the VaR at 99% with a one day time frame was EUR 323 million (EUR 208.1 and EUR 208.5 million at the end of 2015 and 2014, respectively).

40. Aggregate gap for all currencies on the balance sheet of the Brazil unit, in euros.

41. In early 2015, the criteria for coverage of the core capital ratio was changed from phase-in to fully loaded.

D.2.3.1.4. Structural VaR

A standardised metric such as VaR can be used for monitoring total market risk for the banking book, excluding the trading activity of Santander Global Corporate Banking (the VaR for this activity is described in section 2.2.1.1.), distinguishing between fixed income (considering both interest rates and credit spreads on ALCO portfolios), exchange rate and equities.

In general, structural VaR is not high in terms of the Group's volume of assets or equity.

Structural VaR

Million euros. VaR at a 99% over a one day horizon.

	2016				2015		2014	
	Minimum	Average	Maximum	Latest	Average	Latest	Average	Latest
Structural VaR	717.8	869.3	990.6	922.1	698.5	710.2	718.6	809.8
Diversification effect	(288.0)	(323.4)	(399.5)	(316.6)	(509.3)	(419.2)	(364.1)	(426.1)
VaR interest rate*	242.5	340.6	405.8	327.2	350.0	264.2	539.0	493.6
VaR exchange rate	564.1	603.4	652.7	588.5	634.7	657.1	315.3	533.8
VaR equities	199.3	248.7	331.5	323.0	223.2	208.1	228.4	208.5

* Includes credit spread VaR on ALCO portfolios.

D. 2.3.2. Methodologies**D.2.3.2.1. Structural interest rate risk**

The Group analyses the sensitivity of its net interest income and equity value to changes in interest rates. This sensitivity arises from gaps in maturity dates and the review of interest rates in the different asset and liability items.

The financial measures to adjust the positioning to that sought by the Group are agreed on the basis of the positioning of balance sheet interest rates, as well as the situation and outlook for the market. These measures range from taking positions in markets to defining the interest rate features of commercial products.

The metrics used by the Group to control interest rate risk in these activities are the repricing gap, the sensitivities of net interest income and of economic value of equity to changes in interest rate levels, the duration of equity and Value at Risk (VaR), for the purposes of calculating economic capital.

Assets and liabilities interest rate gap

This is the basic concept for identifying the entity's interest-rate risk profile and measuring the difference between the volume of sensitive assets and liabilities on and off the balance sheet that re-price (i.e. that mature or are subject to rate revisions) at certain times (buckets). This provides an immediate approximation of the sensitivity of the entity's balance sheet and its net interest income and equity value to changes in interest rates.

Net interest income (NII) sensitivity

This is a key measure of the profitability of balance sheet management. It is calculated as the difference which arises in the net interest income during a certain period of time due to a parallel movement in interest rates. The standard period for measuring net interest income sensitivity is one year.

Economic value of equity (EVE) sensitivity

This measures the interest rate risk implicit in equity value (which for the purposes of interest rate risk is defined as the difference between the net current value of assets and the net current value of liabilities outstanding), based on the impact that a change in interest rates would have on those current values.

Treatment of liabilities without defined maturity

In the corporate model, the total volume of the balances of accounts without maturity is divided between stable and unstable balances. This separation between stable and unstable balances is obtained from a model that is based on the relation between balances and their own moving averages.

From this simplified model, the monthly cash flows are obtained and used to calculate NII and EVE sensitivities.

This model requires a variety of inputs:

- Parameters inherent in the product.
- Performance parameters of the client (in this case analysis of historic data is combined with the expert business view).
- Market data.
- Historic data of the portfolio.

Pre-payment treatment for certain assets

The pre-payment issue mainly affects fixed-rate mortgages in units where the relevant interest rate curves for the balance sheet are at low levels. This risk is modelled in these units, and this can also be applied, with some modifications, to assets without defined maturity (credit card businesses and similar).

The usual techniques used to value options cannot be applied directly because of the complexity of the factors that determine borrower pre-payments. As a result, the models for assessing options must be combined with empirical statistical models that seek to capture pre-payment performance. Some of the factors conditioning this performance are:

- **Interest rate:** the differential between the fixed rate on the mortgage and the market rate at which it could be refinanced, net of cancellation and opening costs.
- **Seasoning:** pre-payment trends downward at the start of the instrument's life cycle (signing of the contract) and upwards, stabilising, as time passes.
- **Seasonality:** redemptions or early cancellations tend to take place at specific dates.
- **Burnout:** decreasing trend in the speed of pre-payment as the instrument's maturity approaches, which includes:
 - a) Age: defines low rates of pre-payment.
 - b) Cash pooling: defines as more stable those loans that have already overcome various waves of interest rate falls. In other words, when a portfolio of loans has passed one or more cycles of downward rates and thus high levels of pre-payment, the "surviving" loans have a significantly lower pre-payment probability.
 - c) Others: geographic mobility, demographic, social and available income factors, etc.

The series of econometric relations that seek to capture the impact of all these factors is the probability of pre-payment of a loan or pool of loans and is denominated the pre-payment model.

Value at Risk (VaR)

For balance sheet activity and investment portfolios, this is defined as the 99% percentile of the distribution function of losses in equity value, calculated based on the current market value of positions and returns over the last two years, at a particular level of statistical confidence over a certain time horizon. As with trading portfolios, a time frame of two years or at least 520 days from the reference date of the VaR calculation is used.

The Group is working on implementing the guidelines published by the Basel Committee in its review of the treatment of Interest Rate Risk in the Banking Book (IRRBB), published in April 2016, which come into force in 2018.

D.2.3.2.2. Structural exchange-rate risk/hedging of results

These activities are monitored via position measurements, VaR and results, on a daily basis.

D.2.3.2.3. Structural equity risk

These activities are monitored via position measurements, VaR and results, on a monthly basis.

D.2.3.3. System for controlling limits

As already stated for the market risk in trading, under the framework of the annual limits plan, limits are set for balance sheet structural risks, responding to the Group's risk appetite level.

The main ones are:

- Balance sheet structural interest rate risk:
 - Limit on the sensitivity of net interest income to 1 year.
 - Limit of the sensitivity of equity value.
- Structural exchange rate risk:
 - Net position in each currency (for hedging positions of results).

In the event of exceeding one of these limits or their sub limits, the relevant risk management executives must explain the reasons and facilitate the measures to correct it.

» D.2.4. Pension and actuarial risk

D.2.4.1. Pension risk

When managing the pension fund risks of employees (defined benefit), the Group assumes the financial, market, credit and liquidity risks it incurs for the assets and investment of the fund, as well as the actuarial risks derived from the liabilities, and the responsibilities for pensions to its employees.

The Group's objective in the sphere of controlling and managing pension risk focuses on identifying, measuring, monitoring, controlling, mitigating and communicating this risk. The Group's priority is thus to identify and mitigate all the focuses of risk.

This is why the methodology used by the Group estimates every year the combined losses in assets and liabilities in a defined stress scenario from changes in interest rates, inflation, stocks markets and properties, as well as credit and operational risk.

D.2.4.2. Actuarial risk

Actuarial risk is produced by biometric changes in the life expectancy of those with life assurance, from the unexpected increase in the indemnity envisaged in non-life insurance and, in any case, from unexpected changes in the performance of insurance takers in the exercise of the options envisaged in the contracts.

The following are actuarial risks:

Risk of life liability: risk of loss in the value of life assurance liabilities caused by fluctuations in risk factors that affect these liabilities:

- Mortality/longevity risk: risk of loss from movements in the value of the liabilities deriving from changes in the estimation of the probability of death/survival of those insured.
- Morbidity risk: risk of the loss from movements in the value of the liabilities deriving from changes in estimating the probability of disability/incapacity of those insured.
- Redemption/fall risk: risk of loss from movements in the value of the liabilities as a result of the early cancellation of the contract, of changes in the exercise of the right of redemption by the insurance holders, as well as options of extraordinary contribution and/or suspending contributions.
- Risk of costs: risk of loss from changes in the value of the liabilities derived from negative variances in envisaged costs.
- Catastrophe risk: losses caused by catastrophic events that increase the entity's life liability.

Risk of non-life liability: risk of loss from the change in the value of the non-life insurance liability caused by fluctuations in risk factors that affect these liabilities:

- Premium risk: loss derived from the insufficiency of premiums to cover the disasters that might occur.
- Reserve risk: loss derived from the insufficiency of reserves for disasters, already incurred but not settled, including costs from management of these disasters.
- Catastrophe risk: losses caused by catastrophic events that increase the entity's non-life liability.

D.3. Liquidity risk and funding

» Organisation of this section

First, we present the Group's **Liquidity management**, which includes the principles on which it is based and the framework in which it is included.

We then look at the **funding strategy developed by the Group and its subsidiaries**, with particular attention to the **evolution of liquidity in 2016**. For the last year, we examine changes in the liquidity management ratios and the business and market trends that gave rise to these [pag. 236-241].

The section ends with a qualitative description of the **outlook** for funding in the following year for the Group and its main countries [pag. 242].

» D.3.1. Liquidity management in Grupo Santander

Management of structural liquidity aims to fund the Group's recurring activity in optimum conditions of maturity and cost, avoiding the assumption of undesired liquidity risks.

Santander's **liquidity management** is based on the **following principles**:

- Decentralised liquidity model.
- Needs derived from medium- and long-term activity must be financed by medium- and long-term instruments.
- High contribution from customer deposits, due to the retail nature of the balance sheet.
- Diversification of wholesale funding sources by instruments/ investors, markets/currencies and terms.
- Limited recourse to wholesale short-term funding.
- Availability of sufficient liquidity reserves, including the discounting capacity in central banks to be used in adverse situations.

- Compliance with regulatory liquidity requirements required at Group and subsidiary level, as a new conditioning factor in management.

The effective application of these principles by all the institutions that comprise the Group required the development of a unique **management framework** built upon three essential pillars:

- **A solid organisational and governance model** that ensures the involvement of the senior management of subsidiaries in decision-taking and its integration into the Group's global strategy. The decision-making process for all structural risks, including liquidity and funding risk, is carried out by Local Asset and Liability Committees (ALCO) in coordination with the global ALCO, which is the body empowered by Banco Santander's board in accordance with the ALM corporate framework.

This governance model has been reinforced as it has been included within the Santander Risk Appetite Framework. This framework meets the demands of regulators and market players emanating from the financial crisis to strengthen banks' risk management and control systems.

- **In-depth balance sheet analysis and measurement of liquidity risk**, supporting decision-taking and its control. The objective is to ensure the Group maintains optimum levels of liquidity to cover its short and long-term needs with stable funding sources, optimising the impact of its cost on the income statement, both under ordinary circumstances and under stress.

Accordingly, risk appetite metrics have been set up with specific levels, both for the different ratios and for the minimum liquidity horizons under the different stress scenarios. Generally, the following scenarios are defined for all Group units in their reporting to the senior management, without overlooking the local development of ad hoc scenarios:

- a. Idiosyncratic crisis: Only affects the entity but not its environment.
- b. Local systemic crisis: A loss of trust by international financial markets in the country where the unit is located.

c. Global crisis: The global economy deteriorates, mainly in the United States and in Europe, and this effect spreads to the leading emerging countries (BRIC).

- **Management adapted** in practice to the **liquidity needs of each business**. Every year, based on business needs, a liquidity plan is developed which will ensure a solid balance sheet structure, with a diversified presence in the wholesale markets in terms of products and maturities, with moderate recourse to short-term products; the use of liquidity buffers and limited use of balance sheet assets, as well as complying with both regulatory metrics and other metrics included in each entity's risk appetite statement. Over the course of the year, all the dimensions of the plan are monitored.

The Group applies **ILAAP** (internal liquidity adequacy assessment process), an internal self-assessment process of the adequacy of liquidity which must be integrated into the Group's other risk management and strategic processes. It focuses on both quantitative and qualitative matters and is used as input for the SREP (Supervisory Review and Evaluation Process). The ILAAP shares the stress scenarios described above, with the Grupo Santander recording sound liquidity ratios in all of these.

» D.3.2. Funding strategy and evolution of liquidity in 2016

D.3.2.1. Funding strategy and structure

Santander's funding activity over the last few years has focused on extending its management model to all Group subsidiaries, including new incorporations, and, in particular, adapting the strategies of the subsidiaries to the increasingly demanding requirements of both markets and regulators.

- Santander has developed a funding model based on autonomous subsidiaries responsible for covering their own liquidity needs.
- This structure makes it possible for Santander to take advantage of its solid retail banking business model in order to maintain comfortable liquidity positions at Group level and in its main units, even during stress in the markets.
- Over the last few years, it has been necessary to adapt funding strategies to reflect commercial business trends, market conditions and new regulatory requirements.
- In 2016, Santander continued to improve in specific aspects based on a very comfortable liquidity position at the level of the Group and in the subsidiaries, with no significant changes in liquidity management or funding policies or practices. All of this enables us to face 2017 from a good starting point, with no restrictions on growth.

In general terms, **the approaches** to funding strategies and liquidity management implemented by Santander subsidiaries **are being maintained**:

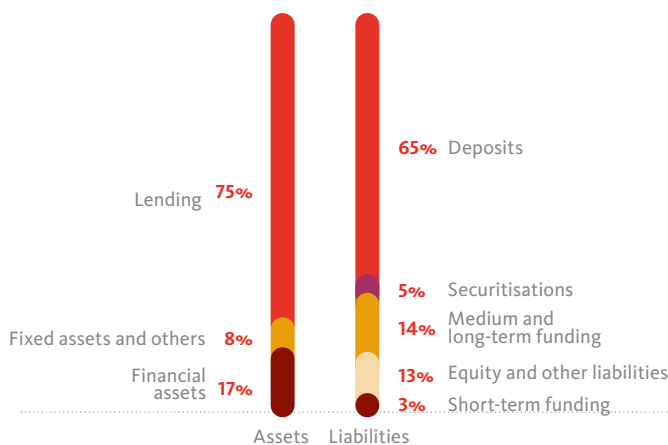
- Maintaining adequate and stable medium and long-term wholesale funding levels.
- Ensuring a sufficient volume of assets which can be discounted in central banks as part of the liquidity reserve.
- Strong liquidity generation from the commercial business through lower credit growth and increased emphasis on attracting customer deposits.

All these developments, built on the foundations of a solid liquidity management model, enable Santander to enjoy a very robust funding structure today. **The basic features of this are:**

- **High share of customer deposits in a retail banking balance sheet.** Customer deposits are the main source of the Group's funding, representing around two-thirds of the Group's net liabilities (i.e. of the liquidity balance) and 87% of net loans at the end of 2016.

They are also very stable funds given their origin mainly in business with retail customers (89% of the Group's deposits come from retail and private banking, whilst the remaining 11% come from large corporate and institutional clients).

■ Grupo Santander liquidity balance sheet %. December 2016



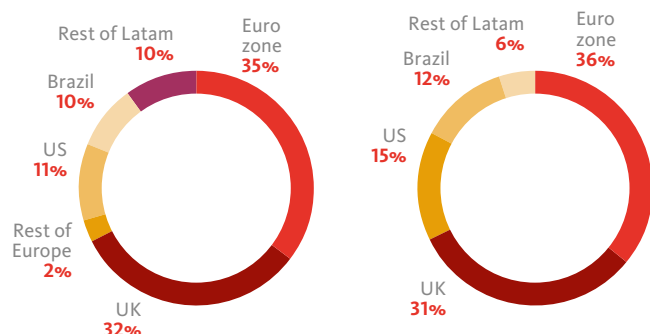
- **Diversified wholesale funding focused on the medium and long term, with a very small relative short-term component**. Medium and long term wholesale funding accounts for 20% of the Group's net funding and comfortably covers the lending not financed by customer deposits (commercial gap).

This funding is well balanced by instruments (approximately 40% senior debt, 30% securitisations and structured products with guarantees, 20% covered bonds, and the rest preferred shares and subordinated debt) and also by markets so that those with the highest weight in issues are those where investor activity is the strongest.

The following charts show the **geographic distribution** of customer loans in the Group, and its medium and long-term wholesale funding, so that their similarity can be appreciated.

■ **Net customer loans**
December 2016

■ **M/LT wholesale funding**
December 2016



The bulk of medium and long-term wholesale funding consists of debt issues. Their outstanding balance at the end of 2016 was 149,578 million in nominal terms, with an adequate maturity profile and average maturity of 4.3 years).

The distribution of this by instrument, evolution over the last three years and maturity profile was as follows:

■ **Medium and long-term debt issue. Grupo Santander**

Million euros

	Change in outstanding balance at nominal value		
	Dec-16	Dec-15	Dec-14
Preferred	8,515	8,491	7,340
Subordinated	11,981	12,262	8,360
Senior debt	89,568	83,630	68,457
Covered bonds	39,513	45,010	56,189
Total	149,578	149,393	140,346

	Distribution by contractual maturity. December 2016*								Total
	0-1 month	1-3 months	3-6 months	6-9 months	9-12 months	12-24 months	2-5 years	more than 5 years	
Preferred	-	-	-	-	-	-	-	8,515	8,515
Subordinated	61	-	-	-	215	601	580	10,524	11,981
Senior debt	2,035	7,331	4,438	6,892	8,018	15,374	32,310	13,170	89,568
Covered bonds	3,112	749	3,284	-	4,850	1,073	11,629	14,816	39,513
Total*	5,208	8,079	7,722	6,892	13,083	17,048	44,520	47,025	149,578

* In the case of issues with put option in favour of the holder, the maturity of the put option is considered instead of the contractual maturity. Note: there are no additional guarantees for any of the senior debt issued by the Group's subsidiaries.

In addition to debt issues, medium and long-term wholesale funding is completed by securitised bonds placed on the market, and collateralised and other specialist financing amounting in total to EUR 57.012 million, with a maturity of 1.7 years.

The wholesale funding of short-term issuance programmes is a residual part of the Group's financial structure, accounting for around 3% of net funding, which is related to treasury activities and is comfortably covered by liquid financial assets.

The outstanding balance at the end of 2016 was EUR 27.250 million, distributed as follows: various certificate of deposit and commercial paper programmes in the UK, 36%; European commercial paper and US commercial paper and the domestic programmes of the parent bank, 25%, and programmes in other units, 39%.

D.3.2.2. Evolution of liquidity in 2016

The main aspects of liquidity in 2016 can be summarised as follows:

- i. Basic liquidity ratios were maintained at comfortable levels.
- ii. We are continuing to achieve regulatory ratios ahead of schedule.
- iii. Our large liquidity reserves are continuing to increase.
- iv. Moderate use of encumbered assets in funding operations.

i. Basic liquidity ratios at comfortable levels

The table shows the evolution of the basic metrics for monitoring liquidity at the Group level over the last few years:

■ Grupo Santander Monitoring metrics

	2016	2015	2014
Net loans/net assets	75%	75%	74%
Net loan-to-deposit ratio (LTD ratio)	114%	116%	113%
Customer deposits and medium and long-term funding/net loans	114%	114%	116%
Short-term wholesale funding/net liabilities	3%	2%	2%
Structural liquidity surplus (% net liabilities)	14%	14%	15%

At the end of 2016, and compared to the previous year, Grupo Santander recorded:

- A stable ratio of credits over net assets (total assets minus trading derivatives and inter-bank balances) of 75%, similar to the level in recent years. This high level in comparison with European competitors reflects the retail nature of Grupo Santander's balance sheet.
- Net loan-to-deposit ratio (LTD ratio) at 114%, within a very comfortable range (below 120%). This stability shows a balanced growth between assets and liabilities.
- The ratio of customer deposits plus medium and long-term funding to lending was held at 114% in the year.

- Reduced recourse to short-term wholesale funding. The ratio was around 3%, in line with previous years.

- Lastly, the Group's structural surplus (i.e. the excess of structural funding resources - deposits, medium and long-term funding and capital - over structural liquidity needs - fixed assets and loans) rose in 2016, to an average of EUR 151,227 million, unchanged on the end of the previous year.

At 31 December 2016, the consolidated structural surplus stood at EUR 150,105 million. This consists of fixed-income assets (EUR 169,931 million) and equities (EUR 17,139 million), partly offset by short-term wholesale funding (EUR -27,250 million) and net interbank and central bank deposits (EUR -9,716 million). In relative terms, the total volume was equivalent to 14% of the Group's net liabilities, a similar level to December 2015.

The table below sets out the most frequently used liquidity ratios for Santander's main units at the end of December 2016:

■ Main units and liquidity metrics

%.. December 2016

	LTD Ratio	Deposits + M< funding/Net lending
Spain	86%	148%
Portugal	91%	124%
Santander Consumer Finance	243%	66%
Poland	88%	116%
UK	118%	109%
Brazil	104%	129%
Mexico	94%	115%
Chile	138%	99%
Argentina	72%	141%
US	132%	113%
Group total	114%	114%

Generally speaking, there were **two drivers** behind the evolution of the Group's liquidity and that of its subsidiaries in **2016** (stripping out the forex effect):

1. Good performance in deposits in the main geographies where the Group operates, particularly in Spain and the UK. This performance has helped to narrow the commercial gap, which has more than made up for the increased lending.
2. The firm momentum in debt issuance has been maintained, particularly by European units, although a more selective approach has been adopted in its execution due to the lower banking book requirements and the greater funding facilities implemented by central banks, in particular the Bank of England's Term Funding Scheme, following the UK's referendum on EU membership.

In 2016, the Group as a whole attracted EUR 45,995 million in medium and long-term funding.

In terms of **instruments**, the biggest fall was in issuances of medium and long-term fixed-income (senior debt, covered bonds, subordinated debt and preferred shares), down 25% to EUR 32,851 million, mainly due to the decrease in senior bonds. Spain and the UK were the largest issuers, followed by Santander Consumer Finance, accounting jointly for 73% of issuances. Securitisations and structured financing activities amounted to EUR 13,144 million, 9% lower than in 2015.

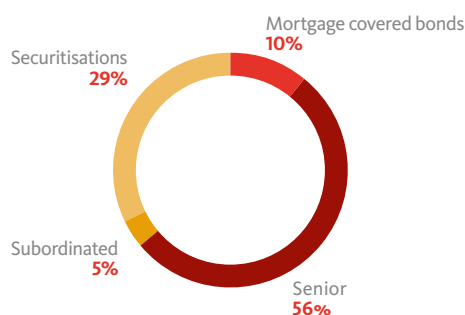
By **geography**, the biggest falls were in Brazil and the UK. In Brazil, this was mainly due to lower funding requirements, as a result of the performance of assets. In the UK, this was due to a more positive than expected performance by deposits.

Santander Consumer Finance achieved a securitisation volume of around EUR 4,868 million, significantly higher than in 2015, due to the new incorporations.

The chart below sets out in greater detail their distribution by **instruments and geographic areas**:

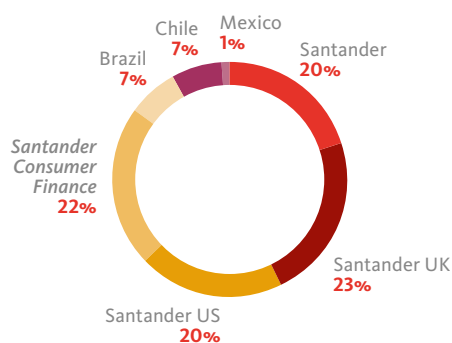
■ Distribution by instrument

Issued in 2016 (%)



■ Distribution by geography

Issued in 2016 (%)



In summary, Grupo Santander maintained comfortable access to the markets in which it operates, strengthened by the incorporation of new issuing units. It was involved in issuances and securitisations in 13 currencies in 2016, in which 23 issuers from 16 countries participated, with an average maturity of around 4 years, similar to the previous year.

ii. Compliance ahead of schedule with regulatory ratios

Under its liquidity management model, over the last few years Grupo Santander has been managing the implementation, monitoring and compliance - ahead of schedule - with the new liquidity requirements established under international financial regulations.

LCR (Liquidity Coverage Ratio)

Implementation was delayed until October 2015, although the initial compliance level of 60% was maintained. This percentage will be gradually increased to 100% in 2018.

The Group's strong short-term liquidity starting position, combined with autonomous management of the ratio in all major units, enabled compliance levels of more than 100% to be maintained throughout the year, at both the consolidated and individual levels. **As of December 2016, the Group's LCR ratio stood at 146%, comfortably exceeding regulatory requirements.** Although this requirement has only been set at the Group level, the other subsidiaries also comfortably exceed this minimum ratio: Spain 134%, the UK 139%, Brazil 165%.

NSFR (Net Stable Funding Ratio)

The final definition of the net stable funding ratio was approved by the Basel Committee in October 2014, and will come into force on 1 January 2018.

As regards this ratio, Santander benefits from a high weight of customer deposits, which are more stable, permanent liquidity needs deriving from commercial activity funded by medium and long-term instruments and limited recourse to short-term funds. Taken together, this enabled Santander to maintain a balanced liquidity structure, with a high NSFR. This ratio stood at over 100% at the Group level and in most subsidiaries at year-end 2016, even though this is not required until 2018.

In short, the liquidity models and management of the Group and its main subsidiaries have enabled them to meet both regulatory metrics ahead of schedule.

iii. High liquidity reserve

This is the third major aspect reflecting the Group's comfortable liquidity position during 2016.

The liquidity reserve is the total volume of highly liquid assets for the Group and its subsidiaries. This serves as a last resort recourse at times of maximum stress in the markets, when it is impossible to obtain funding with adequate maturities and prices.

As a result, this reserve includes deposits in central banks and cash, unencumbered sovereign debt, discounting capacity with central banks, assets eligible as collateral and undrawn credit lines in official institutions (e.g. Federal Home Loans Banks in the US).

All of this reinforces the solid liquidity position that Santander's business model (diversified, retail banking focus, autonomous subsidiaries, etc.) confers on the Group and its subsidiaries.

At 31 December 2016, Grupo Santander's liquidity reserve amounted to EUR 265,913 million, 3% higher than at year-end 2015 and 10% above the average for the year. The structure of this volume by asset type according to cash value (net of haircuts) was as follows:

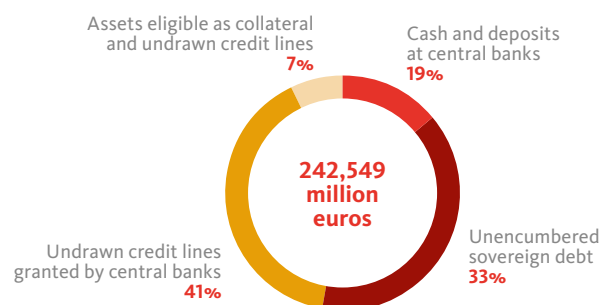
Liquidity reserve

Cash value (net of haircuts) in million euros

	2016	2016 average	2015
Cash and deposits at central banks	52,380	45,620	48,051
Unencumbered sovereign debt	89,135	81,040	85,454
Undrawn credit lines granted by central banks	105,702	100,531	110,033
Assets eligible as collateral and undrawn credit lines	18,696	15,358	14,202
Liquidity reserve	265,913	242,549	257,740

Liquidity reserve

Net of haircuts



This increase was accompanied by a qualitative rise in the Group's liquidity reserve, deriving from the varied evolution of its assets. The first two categories (cash and deposits in central banks + unencumbered sovereign debt), the most liquid (or high quality liquidity assets in Basel's terminology, as first line of liquidity), increased by more than the average. They rose by EUR 8,010 million, increasing their share of total reserves at the end of the year to 53% (52% in 2015).

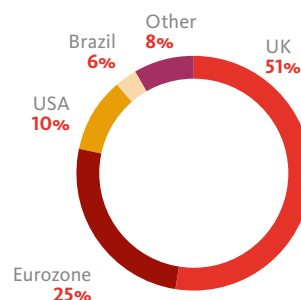
Under the autonomy conferred by the funding model, each subsidiary maintains a suitable composition of assets in its liquidity reserve for its business and market conditions (for example, capacity to mobilise their assets and recourse to additional discounting lines, such as in the US).

Most of the assets are denominated in the currency of the country, and so there are no restrictions on their use. There are however regulatory restrictions in most countries limiting activity between related parties.

Geographically, the liquidity reserve is distributed 51% in the UK, 25% in the Eurozone, 10% in the USA, 6% in Brazil and 8% in the other geographies.

Location of liquidity reserves

Million euros



iv. Asset encumbrance

Lastly, it is worth pointing out Grupo Santander's moderate use of assets as collateral in the structural funding sources of the balance sheet.

In line with the guidelines established by the European Banking Authority (EBA) in 2014, the concept of asset encumbrance includes both assets on the balance sheet contributed as collateral in operations to obtain liquidity as well as those off-balance sheet assets received and re-used for a similar purpose, as well as other assets associated with liabilities for different funding reasons.

The report on the Grupo Santander information required by the EBA at the end of 2016 is given below.

Grupo Santander Asset encumbrance

Billion euros	Carrying value of encumbered assets	Fair value of encumbered assets	Carrying value of unencumbered assets	Fair value of unencumbered assets
Assets	303.2		1,035.9	
Credit and loans	210.2		725.0	
Equities	10.9	10.9	9.7	9.7
Debt instruments	62.6	62.4	128.8	128.9
Other assets	19.5		172.5	

Grupo Santander Encumbered received collateral

Billion euros	Fair value of encumbered collateral received and or of debt issued by the encumbered entity	Fair value of collateral received or of the debt issued by the entity available to be encumbered
Collateral received	54.6	43.6
Credit and loans	0.0	0.0
Equities	1.9	3.1
Debt instruments	50.5	35.5
Other collateral received	2.2	5.1
Debt instruments issued by the entity other than covered loans and securitisations	0.0	4.1

Grupo Santander Encumbered assets and collateral received, and related liabilities

Billion euros	Liabilities, contingent liabilities or securities loan associated with the encumbered assets	Encumbered assets and collateral received, including debt instruments issued by the entity other than covered or securitised bonds encumbered
Total sources of encumbrances (carrying value)	279.4	357.8

On-balance sheet asset encumbrance amounted to EUR 303,200 million, over two-thirds of which is accounted for by loans (mortgages, corporate, etc.). Off-balance sheet asset encumbrance stood at EUR 54,600 million, mainly relating to debt securities received as collateral in operations to acquire assets which were re-used. The total for the two categories was EUR 357,800 million of encumbered assets, giving rise to a volume of associated liabilities of EUR 279,400 million.

At the end of 2016, total asset encumbrance in funding operations represented 25% of the Group's extended balance sheet under EBA criteria (total assets plus guarantees received: EUR 1,437 million as of December 2016). The ratio of encumbered assets in funding transactions stands at 25%, compared to 26% last year. The Group's request to the TLTRO in 2016 was more than offset by maturities of secured debt (mainly mortgage bonds).

Lastly, a distinction needs to be made between the different natures of the sources of encumbrance within these, as well as their role in funding the Group:

- 47% of total asset encumbrance corresponds to collateral contributed in medium and long-term funding operations (with a residual maturity of more than 1 year) to finance the commercial activity on the balance sheet. This puts the level of asset encumbrance understood as "structural" at 12% of the extended balance sheet, using EBA criteria.
- The other 53% corresponds to market transactions with a residual maturity of less than one year or collateral contributed in operations with derivatives the purpose of which is not to finance the ordinary activity of businesses but efficient short-term liquidity management.

» D.3.3. Funding outlook for 2017

Grupo Santander starts 2017 with a comfortable liquidity position and a good outlook for financing over the coming year. However, some risks to stability remain, such as volatility in financial markets and geopolitical risks.

With maturities which can be assumed in the coming quarters, due to the reduced weight of short-term maturities and a dynamic of medium and long-term issues similar to that in recent years, the Group will manage each geography separately to maintain a robust balance sheet structure in its units and the Group as a whole.

Low commercial requirements are envisaged over the Group as a whole, due, in most cases, to the increase in lending being balanced by increased customer deposits. The greatest liquidity requirements will arise in Santander Consumer Finance units and the UK.

Without prejudice to this, at Group level, Santander is continuing its long-term plan to issue liabilities eligible as capital. This plan seeks to enhance the Group's current regulatory ratios efficiently, and also takes into account future regulatory requirements. Specifically, this includes fulfilment of TLAC (total loss-absorbing capacity) requirements, which come into effect in 2019 for systemically-important financial institutions. Although this is currently just an international agreement and awaits transposition into European regulations, the Group is already incorporating it into its issuance plans to meet potential requirements. The issue of such instruments therefore does not relate so much to larger volumes of issuances as the need to focus on specific unsecured instruments. As a result, it is likely that the level of assets committed in long-term funding operations will be even more limited over the coming quarters.

Within this general picture, the Group's various units took advantage of favourable market conditions at the beginning of 2017 to make issues, capturing more than EUR 5,000 million in January.

D.4. Operational risk

» Organisation of this section

We first introduce the concept of operational risk and then describe the operational-risk management and control model [pag. 243-248].

We then detail the performance of the main metrics associated with this risk factor [pag. 248-250]. We then set out the Group's mitigation measures for the main sources of this risk and describe its Business Continuity Plan [pag. 250-252].

Finally, we discuss other aspects of the monitoring and control of operational risk [pag. 252-253].

» D.4.1. Definition and objectives

Following the Basel framework, Grupo Santander defines operational risk (OR) as the risk of losses from defects or failures in its internal processes, employees or systems, or external events, thus covering risk categories such as fraud, and technological, cyber, legal and conduct risk.

Operational risk is inherent to all products, activities, processes and systems and is generated in all business and support areas. For this reason, all employees are responsible for managing and controlling the operational risks generated in their sphere of action.

This chapter refers to operational risks in general (these are also referred to as non-financial risks in Santander). Particular aspects of some risk factors are set out in more detail in specific sections (for example, section D.5. Compliance and conduct risk).

The Group's objective in controlling and managing operational risk is to identify, measure, evaluate, monitor, control, mitigate and communicate this risk.

The Group's priority is thus to identify, assess and mitigate risk concentrations, regardless of whether they produce losses or not. Analysing exposure to OR helps to establish priorities in managing this risk.

During 2016, the Group has sought further improvement in its management model through a number of different initiatives designed by the Risks Division. One of these initiatives is to continue the AORM (Advanced Operational Risk Management)

transformation project. This programme is designed to enhance operational risk management capacities through an advanced risk measurement approach, helping to reduce future exposure and losses impacting the income statement.

The Bank has received a major boost through the completion of all the organisation of the risk identification and assessment exercise, in inherent and residual terms, and its control environment, and also the roll-out of the new Heracles application⁴².

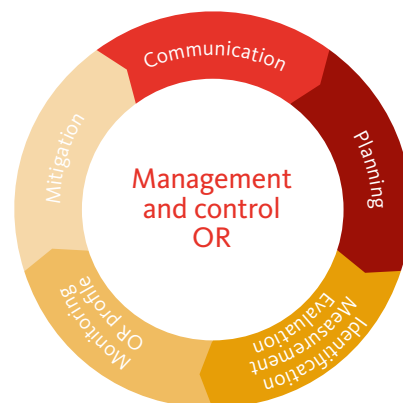
Grupo Santander has been calculating regulatory capital by operational risk using the standardised approach set forth in the European Capital Directive. The AORM programme helps Grupo Santander develop capital estimation models in its main geographic areas, both for economic capital and stress testing, and for potential application as regulatory capital. During 2016, operational losses under stress estimation methodology have been forecast using the guidelines provided by the EBA in the EU-Wide stress test (conduct risk and other operational risks) methodological note published in 2016.

The Prudential Relevance Report (Pillar III) includes information on the calculation of capital requirements for operational risk.

» D.4.2. Operational risk management and control model

D.4.2.1. Operational risk management cycle

In Grupo Santander, operational risk is managed in accordance with the following elements:



42. Heracles is a GRC (Governance, Risk & Compliance) application for enterprise-wide risk management.

The various phases of the operational risk management and control model are:

- Identify the inherent risk in all the Group's activities, products, processes and systems.
- Define the target profile for the risk, specifying the strategies by unit and time frame, by establishing the OR appetite and OR tolerance for the annual losses estimation and monitoring thereof.
- Promote the involvement of all employees in the operational risk culture, through adequate training in all spheres and at all levels.
- Measure and assess operational risk objectively, continuously and consistently with regulatory standards (BCBS, European Banking Authority, Single Supervisory mechanism, Bank of Spain) and the sector.
- Continuously monitor operational risk exposure, and implement control procedures, improve the internal control environment and mitigate losses.
- Establish mitigation measures that eliminate or minimise the risk.
- Produce regular reports on operational risk exposure and its level of control for senior management and the Group's areas and units, and inform the market and regulatory bodies.
- Define and implement the methodology needed to calculate internal capital in terms of expected and unexpected loss.

The following are needed for each of the aforementioned processes:

- Define and implement systems that enable operational risk exposure to be monitored and controlled, taking advantage of existing technology and achieving the maximum automation of applications.
- Define and document policies for managing and controlling operational risk, and implement management tools for this risk in accordance with regulations and best practices.

The advantages of Grupo Santander's operational risk management and control model include:

- It fosters the development of a risk culture, assigning responsibilities in risk management to all functions within the organisation.
- It allows comprehensive and effective operational risk management (identification, measurement, assessment, control and mitigation, and reporting).

- It sets out common tools, taxonomies and metrics for the entire organisation.
- It improves knowledge of existing and potential operational risks and assigns them to business and support lines.
- Operational risk information helps to improve processes and controls, and reduces losses and the volatility of revenues.
- It facilitates the establishment of operational risk appetite limits.
- It prioritises risks and the associated mitigation measures for decision making.

Grupo Santander has put in place a **management structure** for operational risk that complies with all regulatory requirements and is aligned with the Group's risk culture and the risk profile of its activities. This structure includes the lines of defence and interaction with corporate governance, ensuring the coverage of all operational risks and the involvement of the Group's senior management in managing operational risk.

The Corporate Operational Risk Committee (CORC) is the collegiate body responsible for oversight of the identification, mitigation, monitoring and reporting of operational risk in the Group. It ensures compliance with the operational risk framework, the risk tolerance limits and the policies and procedures set down in this area. The CORC oversees the identification and control of actual and emerging operational risks and their impact on the Group's risk profile, and the integration of the identification and management of operational risk into decision making. This is a transverse committee, which involves all corporate divisions in the management and control of operational risk.

The Group has also set up a number of specialist committees and forums in response to the scale of this risk and the specifics of each category. These include the marketing and anti-money laundering committees (for more detail, see chapter D.5 Compliance and conduct risk), the suppliers and cyber-security committees, and the fraud management, damage to physical assets, employment practices and cyber-security forums. These involve the first and second lines of defence. This risk and the mitigation measures implemented in the organisation are subject to special monitoring.

D.4.2.2. Risk identification, measurement and assessment model

A series of quantitative and qualitative corporate techniques and tools has been defined to identify, measure and assess operational risk. These are combined to produce a diagnosis on the basis of the risks identified and an assessment of the area or unit through their measurement and evaluation.

The **quantitative analysis** of this risk is carried out mainly with tools that register and quantify the level of losses associated with operational risk events. **Qualitative analysis** seek to assess aspects (coverage, exposure) linked to the risk profile, enabling the existing control environment to be captured.

The most important operational risk tools used by the Group are as follows:

- An **internal database of events**, which is designed to record all of the Group's operational risk events. The capture of operational risk events is not restricted by thresholds (i.e. there are no exclusions for reasons of amount), and events with both accounting (including positive effects) and non-accounting impact are entered.

Accounting reconciliation processes have been put in place to guarantee the quality of the information in the databases. The main events for the Group and each operational risk unit are specifically documented and reviewed.

- **Operational risk control self-assessment (RCSA)**. Self-assessment of operational risks and controls is a qualitative process that seeks, using the criterion and experience of a pool of experts in each function, to determine the main operational risks for each function, the control environment and their allocation to the different functions of the organisation.

The RCSA identifies and assesses the material operational risks that could stop a business or support unit achieving its objectives. Once they are assessed in inherent and residual terms, and the design and working of the controls are evaluated, mitigation measures are identified if the risk levels prove to be above the tolerable profile.

The Group has put in place an on-going operational risk self-assessment process: this ensures that material risks are assessed at least once a year. This process combines expert judgement and participation in workshops involving all interested parties, particularly the first-line managers responsible for the risks and their control. These workshops are run by a facilitator, who is neutral and has no decision-making authority, helping the Group achieve its desired results.

The Group also produces risk assessments for specific sources of operational risk, enabling transversal identification of risk levels at a greater degree of granularity. These are applied in particular to technological risks and factors that could lead to regulatory non-compliance, and areas that are exposed to money laundering and terrorism financing risks. The two latter areas, together with the conduct risks factor in 2016, are set out in greater detail in section D.5 Compliance and conduct risk.

- An **external database of events**, as Grupo Santander participates in international consortiums, such as the Operational Risk Exchange (ORX). The use of external data bases has been stepped up, providing quantitative and qualitative information leading to a more detailed and structured analysis of events in the sector, and the scenario analysis exercises described below have been adequately prepared.

- **Analysis of OR scenarios**. An expert opinion is obtained from the business lines and from risk and control managers to identify potential events with a very low probability of occurrence, but which could result in a very high loss for an institution. The possible effects of these are assessed and extra controls and mitigating measures are identified to reduce the likelihood of high economic impact.

- **Corporate indicators system**. These are various types of statistics and parameters that provide information on an institution's risk exposure and control environment. These indicators are regularly reviewed in order to flag up any changes that could reveal risk problems.

In 2016, the Group evolved its corporate indicators to monitor the main risk concentrations in the Group and the industry. It has also fostered the use of indicators in all spheres of the organisation, from front-line risk managers down. The objective is to incorporate the most relevant risk indicators into the metrics that form the basis for constructing the operational risk appetite.

- **Capital calculation through the standardised approach** (see the corresponding section in the Prudential Relevance Report/ Pillar III).

- **Internal data model and stress tests**: concerns the application of statistical models to measure expected and unexpected loss, mainly based on the information included in the internal loss database. In 2016, the Group has made headway in carrying out modelling exercises. The main application in this exercise has been the estimation of operational risk losses in the EBA stress tests.

- **Audit and regulatory recommendations**. These provide relevant information on inherent risk due to internal and external factors, enabling weaknesses in the controls to be identified.

- **Customer complaints**. The Group's increasing systemisation of the monitoring of complaints and their root causes also provides relevant information for identifying and measuring risk levels. In this regard, the compliance and conduct function prepares detailed analysis, as set out in section D.5.3. Governance and organisational model.

- **Other specific instruments** that enable more detailed analysis of technology risk, such as control of critical system incidents and cyber-security events.

- **Specific assessment of risks** related to technological infrastructure management processes, the acquisition and development of solutions, control of information security and IT governance.

The appetite for non-financial risks is structured as follows:

- A general statement setting out that Grupo Santander is, in principle, averse to operational risk events that could lead to financial loss, fraud and operational, technological, legal and regulatory breaches, conduct problems or damage to its reputation.

- General metrics. These include measures relating to the volume of losses compared to the gross margin, stressed losses, the relevant events ratio, the loss multiplier and expired audit recommendations.
- An additional statement is included for the most important risk factors, together with a number of forward-looking monitoring metrics. Specifically, these cover: fraud, technological, cyber, legal, anti-money laundering, commercialisation of products, regulatory compliance and supplier management risk.

D.4.2.3. Implementation of the model and initiatives

Almost all the Group's units are now incorporated into the model with a high degree of uniformity. However, the different pace of implementation and historical depth of the respective databases means that the degree of progress varies from country to country.

As set out in section D.4.1. Definition and objectives, the Group accelerated its transformation to an advanced operational risk management (AORM) approach in 2016. The programme has a twofold objective: on the one hand, to consolidate the current operational risk framework, and, on the other, to adopt the best market practices and to use monitoring of an integrated and consolidated operational risk profile to direct the business strategy and tactical decisions in a proactive way.

This programme involves a number of key areas (risk appetite, self-assessment, scenarios, metrics, etc.) that enable the Group to refine the improvements it is implementing: most of them, covering the ten main geographic areas, have been completed in 2016. A monitoring structure has been set up at the highest organisational levels, both at the corporate centre and in the local units, to ensure adequate monitoring of progress.

This programme is supported by the development of a customised and integrated operational risk solution (Heracles). It has been implemented for the main operational risk management instruments in 2016 in all Group geographies, in addition to the transformation plan.

The main activities and global initiatives adopted to ensure effective operational risk management are:

- Consolidation of the operational risk framework, policies and procedures, both at the corporate level and in the geographic areas. An important development here has been the approval of the new fraud model, and also the review of the documentary structure and promotion of the operational risk policies in the first lines of defence. This is independent of the new conduct framework discussed in section D.5. Compliance and conduct risk.
- The reinforcement of governance and the operational risk instruments in the first lines of defence, leading to a greater degree of involvement and integration in businesses and support functions, through the following:
 - Clear definition of roles and responsibilities for risk management and mitigation.

- Involvement of first lines in the risk instruments (self-assessment, database, event escalation, indicators, etc.).
- New operational risk appetite approach broken down for the most significant business units.
- Addition of further risk appetite metrics relating to the volume of relevant losses over total losses (losses multiplier) and controlling supplier management, and for the management and control of money laundering, conduct and regulatory compliance (As set out in section D.5.8. Risk assessment model of compliance and risk appetite).
- Improvement in the process of assurance, certification and oversight of control model and inclusion of control activities in the risks self-assessment process.
- Deployment of more robust cross-checking processes between different operational risk instruments, to ensure a better understanding of the relevant risks of the organisation.
- A training programme at all levels of the organisation (from the board to the employees most exposed to risk in the first business lines) and initiatives for the sharing of experiences (best practice sessions, launch of a monthly newsletter, etc.).
- Fostering of mitigation plans for aspects of particular relevance (information security and cyber-security in the widest sense, control of suppliers, etc.): monitoring of the implementation of corrective measures and projects under development.
- Improvements to the quality and granularity of the information on such risks analysed and presented to the main decision making forums.
- Improvements to contingency, business-continuity and, in general, crisis-management plans (this initiative is linked to the recovery and resolution plans).
- Fostering the control of risk associated with technology (application development and maintenance, design, implementation and maintenance or technological platforms, output of IT processes, etc.).
- Development of the model and governance of the compliance and conduct function, as described in section D.5. Compliance and conduct risk.

For the control of suppliers referred to above, in 2016 the corporate framework and model of reference were reviewed, covering the new requirements issued by the regulator in this field and aligning them with the best practices in the sector. We have also made progress in defining and deploying procedures and tools in the Group entities so as to adapt current processes to the model's principles and requirements. In 2016, our efforts have been focused on:

- Identifying and assigning roles and responsibilities to cover the various activities described in the model to manage the complete life cycle of the relationship with the supplier or other party (decision, approval, contracting, monitoring and termination) and ensure adaptation to the three lines of defence structure, where the first lines are responsible for the management functions and risks carries out the control procedure to check that the model's principles are fulfilled.
- Evolving the corporate supplier management system to cover the new model requirements, particularly regarding:
 - Adding a decision making tool which can be used to discriminate services by their relevance and level of associated risk, so that the most appropriate controls for each can be set up in other phases of the service life cycle.
 - Defining specific questionnaires which are used in the supplier approval stage to ensure that adequate controls are in place to cover the risks associated with the service given.
 - Setting up approval flows to guide the whole decision-making, approval, negotiations and contracting process.
- Creation of specific committees by geography to monitor and decision making for all matters concerning relevant services and suppliers and review of procedures and escalation criteria.

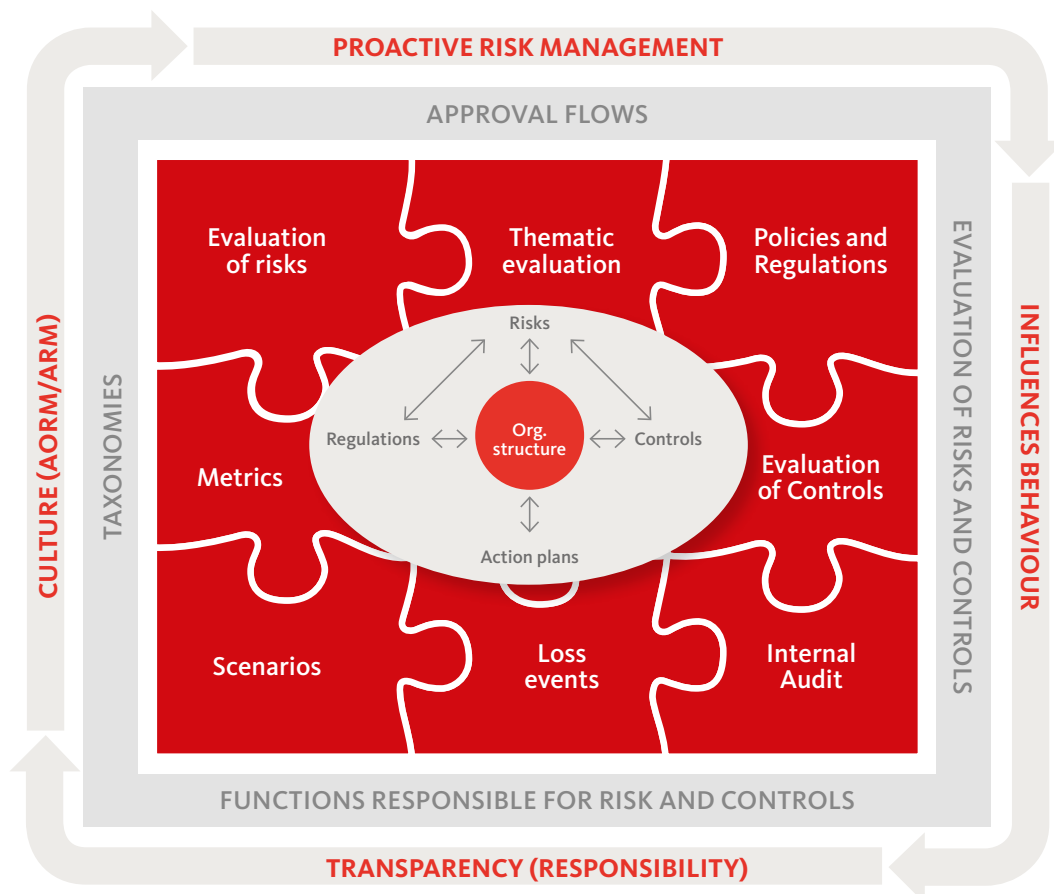
- Definition and monitoring of indicators and dashboard concerning the model implementation. Including specific suppliers metrics in the Group risk appetite report.
- Review and enhancing quality of data of inventories of relevant services and associated suppliers.
- Training and awareness raising of risks associated with suppliers and other third parties.

The Group is continuing to work on the implementation and consolidation of the model, reinforcing and standardising the activities to be carried out throughout the management life cycle for suppliers and other third parties.

D.4.2.4. Operational risk information system

The Group's corporate information system supports operational risk management tools, providing information for reporting functions and needs at both local/corporate levels.

As part of the implementation of the advanced operational risk management approach, and taking into account the synergies that will be produced in the control sphere (the operational risk control functions, broadly defined, its special features in the field of compliance and conduct, and internal control model control documentation and certification, are all integrated in the same tool), the Group is in the process of installing a new GRC (Governance, Risk and Compliance) tool based on the SAP system, known as Heracles. The objective of Heracles is to improve decision making for operational risk management throughout the organisation.



This objective will be achieved by ensuring that those responsible for risks in every part of the organisation have a comprehensive vision of the risk, and the supporting information they need, when they need it. This comprehensive and timely vision of risk is facilitated by the integration of various programmes, such as assessment of risks and controls, scenarios, events and metrics, using a common taxonomy and methodological standards. This integration provides a more accurate risk profile and significantly improves efficiency by cutting out redundant and duplicated effort.

Heracles also enables the interaction of everybody involved in operational risk management with the information in the system, but subject to their specific needs or limited to a particular sphere. However, it always draws on a single source of information for all of the functions involved.

At year-end 2016, Heracles had been implemented globally throughout the Group, providing integrated risk and control information for units that generate and control risks.

The risk self-assessment and certification of controls were completed in this tool during the year, together with the migration of the internal events database and operational risk indicators. Development of operational-risk scenario functionality is pending implementation this year.

In 2016, the Group also worked on uploading data in OR management systems, and on improving reporting capabilities in the context of the project to comply with regulations on effective aggregation and reporting principles (Risk Data Aggregation/Risk Reporting Framework - RDA/RRF).

In order to achieve the objectives for this project, a reference technological architecture has been developed, providing solutions for information capture and feeding an integrated and reliable database (Golden Source) that is used for the generation of operational risk reports.

Within the framework for the implementation of RDA standards, the progress made this year has been along the lines of extending the scope, through defining new metrics in the dictionary, as far as RIA and risk appetite tools are concerned.

Further work has also been done in automating the supply of data from entities' local systems.

D.4.2.5. Training initiatives and risk culture

The Group fosters awareness and knowledge of operational risk at all levels of the organisation through its risk-pro culture. During 2016, a number of different training sessions were conducted using the e-learning format, and which addressed general knowledge of OR and specifically, cybersecurity. The courses are designed for all Group employees, although specific courses for directors have also been designed.

The compliance and conduct function has prepared and launched a number of training actions, as described in section D.5.9. Transversal corporate projects.

A number of other new training initiatives were implemented in 2016, including specific disclosure and on-site sessions. This also included the creation of the Higher Operational Risk programme, providing in-depth knowledge for the employees most involved in this area. A number of specific courses were also held throughout the year for each of the modules of the new corporate Heracles tool.

The Group uses a number of different initiatives to enhance its implementation of a better operational risk culture, one of which is the OR newsletter, with the aim of raising awareness about the importance of this risk, distribution of procedure and guidelines, significant external events, related subjects of interest and events which have occurred in the Group.

» D.4.3. Evolution of the main metrics

Regarding the databases of events, and after consolidating the information received, the evolution of net losses (including both incurred loss and net provisions) by Basel⁴³ risk category over the last three years is set out in the chart below:

43. The Basel categories include the risks set out in chapter D.5. Compliance and conduct risk.

● **Distribution of net losses by operational risk category⁴⁴**
% total



The evolution of losses by category shows a large reduction in relative terms for practices with clients, products and business, although it continues to be the largest item.

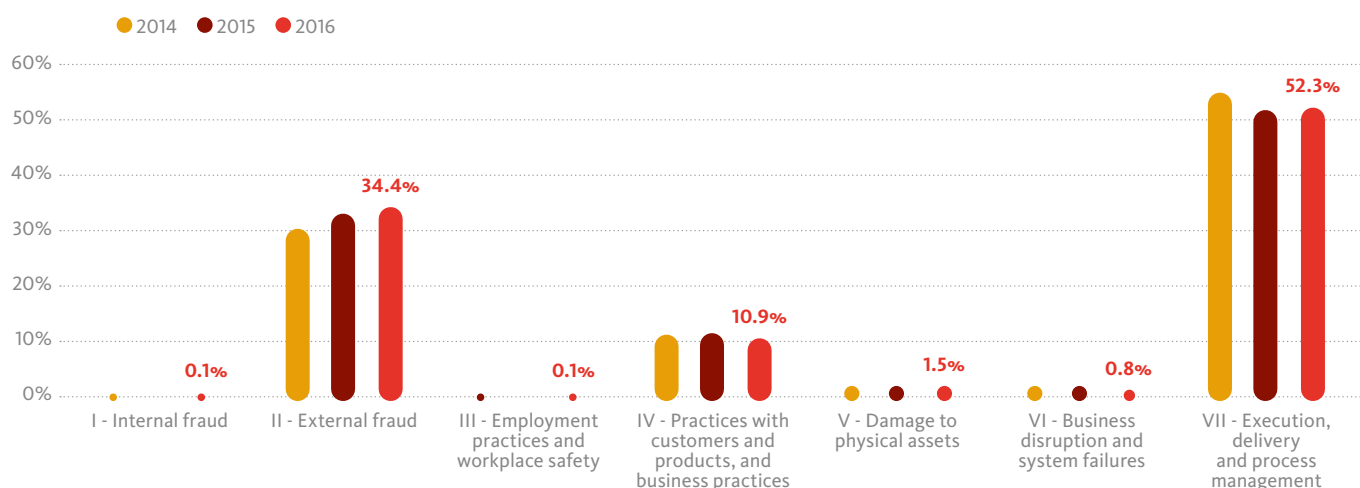
In the 2016 year, the most significant losses by type and geography are due to legal proceedings in Brazil. Here the Bank maintains a set of measures to improve customer service (as set down in the comprehensive mitigation plan described in section 4.4 Mitigation measures), enabling it to reduce the volume of losses due to legal proceedings. In 2016, the volume of losses fell in the UK, owing to

provisions allocated the previous year, primarily to cover future claims for the sale of Payment Protection Insurance (PPI).

The main risk concentrations in external fraud still concern the fraudulent use of debit and credit cards, card not present and channels (Internet banking and mobile banking).

The chart below shows the evolution of the number of operational risk events by Basel category over the last three years:

● **Distribution of number of events by operational risk categories⁴⁵**
% total



44. In accordance with local practices, the remuneration of employees in Brazil is managed as personnel expenses for the entity, without prejudice to its treatment under the Basel operational risk framework, and is therefore not included.

45. In accordance with local practices, the remuneration of employees in Brazil is managed as personnel expenses for the entity, without prejudice to its treatment under the Basel operational risk framework, and is therefore not included.

In 2015, the Group established a new procedure for escalation of relevant events (in terms of both financial impact and number of customers affected), enabling us to implement corrective measures more efficiently. This process has been updated in 2016, including more details in terms of impacts on customer data security. The concentration of relevant events compared to total events remained at very low levels, and was lower than in the previous year.

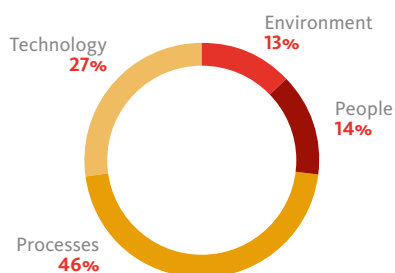
» D.4.4. Mitigation measures

The Group uses the model to monitor the mitigation measures for the main risk sources which have been identified through the tools (internal event database, indicators, self-assessment, scenarios, audit recommendations, etc.) used in OR management, and the preventive implementation of operational risk management and control policies and procedures.

Active mitigation management became even more important in 2016. A new governance model has been introduced, with the participation of the first line of defence and the operational risk control function, through which specialist business and support functions exercise additional control.

A significant volume of measures have been identified in the self-assessment exercise, and are distributed in accordance with the root cause of the risk, in the following way:

■ Mitigation 2016 - by root cause of risk



The most significant mitigation measures have been centred on improving the security of customers in their usual operations, the management of external fraud, continued improvements in processes and technology, and management of the sale of products and adequate provision of services.

Regarding the reduction of fraud, the main specific measures were:

Card fraud:

- Deployment of chip cards (EMV) in all the Group's geographic areas in line with the time frame set down by the payment channels industry and applying additional security measures:
- Replacement of vulnerable cards with new cards based on CDA technology, reducing the risk of cloning through more robust and complete encryption algorithms.
- Robust (Full Grade) validation of card transactions, including more checks, always carried out online.

- Implementation of the secure e-commerce standard (3DSecure) for internet purchases and requiring additional security codes for transactions, including the use of one-time passwords (OTP-SMS).
- Gradual roll-out in Brazil of a new biometric authentication system in ATMs and branch cashier desks. Customers can use this new system to withdraw cash from ATMs using their fingerprint to sign off their transactions.
- Incorporation of anti-skimming detectors and passive elements in ATMs to stop card cloning.
- Review of card limits based on the product and customer segment, to adjust these for risk levels.
- Application of specific fraud monitoring rules and detection tools to block suspicious transactions abroad.

Electronic fraud:

- Implementation of specific protection measures for mobile banking, such as identification and registration of customer devices (Device Id).
- An improved Internet banking authentication system, with additional checks depending on the risk level for the customer or transaction.
- Checks of online banking transactions through a second security factor based on one-time use passwords. Evolution of technology, depending on the geographic area (for example, based on image codes (QR) generated from data for the transaction).

Cyber-security and data security plans:

The Santander Cyber-Security Program has been developed to foster and complement actions in progress, setting out:

- management based on the three lines of defence;
- an approach based on cyber-resilience, including prevention, identification, detection, protection and response actions;
- aspects of cyber-security that affect training, access control and segregation of functions, and secure software development;
- organisational enhancement initiatives.

Throughout 2016, Santander continued paying full attention to cyber-security risks, which affect all companies and institutions, including those in the financial sector. This situation is a cause of concern for all entities and regulators, prompting the implementation of preventative measures to be prepared for any attack of this kind.

One particularly noteworthy technical improvement has been in protection measures to cope with denial of service attacks.

The Group has evolved its internal cyber-security model to reflect international standards (including, the US NIST - National Institute of Standards and Technology - framework), incorporating concepts which can be used to assess the degree of maturity in deployment. Based on this new assessment model, individual in-situ analyses have been carried out in the main geographies to identify deficiencies and include them in the cyber-security Master Plans.

The Group's organisational and governance structure for the management and control of this risk has also been beefed up. Specific committees have been set up and cyber-security metrics have been included in the Group's risk appetite.

The Group's intelligence and analysis function has also been reinforced, by contracting bank threat monitoring services.

Progress has also been made in the incident registration, notification and escalation mechanisms for internal reporting and reporting to supervisors.

Another good practice which has been continued is that local units take part in different coordinated cyber-exercises in the different countries with public bodies, and also carrying out internal cyber-security scenarios such as risk assessment mechanisms, and response capacity tests when faced with these kinds of events.

In addition, observation and analytical assessment of the events in the sector and in other industries enables us to update and adapt our models for emerging threats.

Other relevant mitigating measures:

The Group has set up mitigation measures to optimise process management according to our customers' needs. Plans in the UK in retail and commercial banking, and aimed at improving transaction banking and customer account management, are considered to be particularly important.

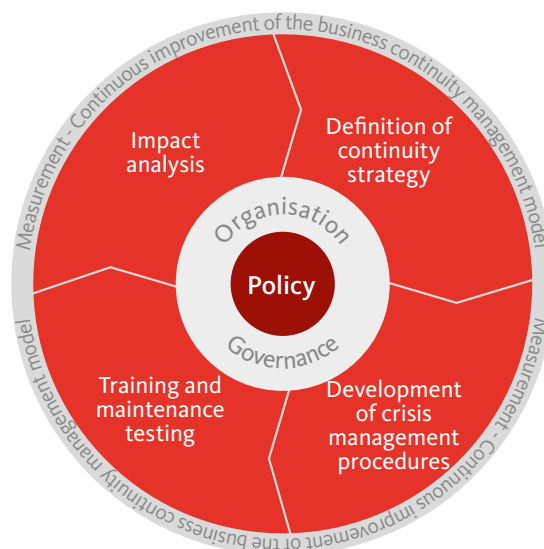
With regard to mitigation measures relating to customer practices, products and business, Grupo Santander is involved in continuous improvement and implementation of corporate policies on aspects such as the selling of products and services and prevention of money

laundering and terrorism financing. Detailed information on these areas can be found in section D.5.2. Compliance risk control and supervision.

The Working Well (Trabalhar Bem) project in Brazil is also relevant to this category of operational risk, seeking to provide the Bank's customers with a better service, with fewer incidents and complaints, by improving internal processes and the products offered. This project includes various lines of action to improve selling practices and customer protection, including: influencing design decisions for products and services, analysis and solution of the root causes of customer complaints, development of a complaints management and monitoring structure, and improvement of protection networks at contact points.

» D.4.5. Business continuity plan

The Group has a business continuity management system (BCMS), which ensures that the business processes of our entities continue to operate in the event of a disaster or serious incident.



The basic objective is to:

- Minimise the possible damage from an interruption to normal business operations on people, and adverse financial and business impacts for the Group.
- Reduce the operational effects of a disaster, providing predefined and flexible guidelines and procedures to be used to re-launch and recover processes.

- Restart time-sensitive business operations and associated support functions, in order to achieve business continuity, stable profits and planned growth.
- Protect the public image of, and confidence in, Grupo Santander.
- Meet the Group's obligations to its employees, customers, shareholders and other stakeholders.

During 2016, the Group continued to advance in implementing and continuously improving its business continuity management system. The methodology has been reviewed to include the definition of scenarios and plans to cope with emergency risks (such as cyber-risks), the reference policy for preparing IT contingency plans has been updated, and a control dashboard has been designed and deployed for monitoring the status of continuity plans in all geographies in which the Bank operates.

The Group has also updated the corporate application which is used to register and store the Group's continuity plans, improving the functionalities (continuity scenarios and strategies, control dashboard with monitoring metrics, etc.) so as to enhance the daily management of the plans' monitoring and maintenance.

Furthermore, and based on the improvements made to the Group's Recovery and resolution plans, a new comprehensive model for the management of special situations (crises) has been defined (for more details see section B.3.4. Recovery and resolution plans). This model helps to deal with potential non-financial stress situations (e.g. operational or reputational, etc.) by reinforcing the escalation and governance process protocols specifically established for crisis situations, in addition to those applied in normal situations.

The Group has rolled out this new model in the corporate centre and main geographies in 2016, adapting the current business continuity committees to the governance and the escalation procedures outlined in the new model.

» D.4.6. Other aspects of control and monitoring of operational risk

Analysis and monitoring of controls in market operations

Due to the specific nature and complexity of financial markets, the Group considers it necessary to continuously improve operational control procedures to keep them in line with new regulations and best practices in the market. During 2016, therefore, the control model of this business has been steadily improved, with special emphasis on preparing a framework on unauthorised trading, and also on drawing up an assessment methodology to measure the robustness of that environment in each geography. Further efforts have also been made in reinforcing the following points:

- Analysis of individual transactions of each Treasury trader in order to detect anomalous behaviour not aligned with the specific limits for each desk.
- Improvement of the "Speechminer" tool, which enhances control over recordings and enables compliance with new record keeping requirements for monitoring communication channels, adapted to the requirements of new regulations.

- Strengthening of controls on cancelling and modifying operations and calculation of the actual cost thereof, where these are due to operational errors.
- Reinforcement of additional controls to detect and prevent irregular transactions (such as controls on triangular sales).
- Formalisation of IT procedures, tools and systems for cyber-security protection, prevention and training.
- Review of specific procedure for control and governance of trading in remote books used in some geographies and applying the procedure to the rest.
- Development of the *Keeping in B* project. This involves a range of inter-disciplinary teams seeking to reinforce aspects relating to corporate governance, compliance with money laundering and credit risk controls and procedures, the architecture of financial and operational architecture, technological platforms, regulatory and organisational aspects and sufficiency of resources.

For more information on issues relating to regulatory compliance in markets, refer to section D.5.4. Regulatory compliance.

Lastly, it is important to note that the business is also undertaking a global transformation and evolution of its operational risk management model. This involves modernising its technology platforms and operational processes to incorporate a robust control model, enabling a reduction of the operational risk associated with its business.

Corporate information

The operational risk function has an operational risk management information system that provides data on the Group's main elements of risk. The information available for each country and unit in the operational risk sphere is consolidated to give a global vision with the following features:

- Two levels of information: corporate with consolidated information, and individual for each country or unit.
- Dissemination among Grupo Santander's countries and units of the best practices identified through a combined study of the results of qualitative and quantitative analysis of operational risk.

Information on the following aspects is drawn up:

- Grupo Santander's operational risk management model and the Group's main units and countries.
- The scope of operational risk management.
- Monitoring of risk appetite metrics.
- The risk profile by country and risk category, and the main operational risk concentrations.

- Operational risk regulatory capital.
- The action plans associated with each risk source.
- Distribution of losses by geographic area and risk category.
- Evolution of losses (accumulated annual, deviation on previous year and against budget) and provisions by detection and accounting dates.
- Analysis of the database of relevant internal and external events.
- Analysis of the most relevant risks detected from different information sources, such as the self-assessment exercises for operational and technological risk and operational risk scenarios.
- Assessment and analysis of risk indicators.
- Mitigating measures/active management.
- Business continuity and contingency plans.

This information forms the basis for complying with reporting requirements to the Executive Risk Committee, the Board Risk Committee, the Operational Risk Committee, senior management, regulators, rating agencies, etc.

Insurance in the management of operational risk

Grupo Santander regards insurance as a key element in the management of operational risk. In 2016, the Group has continued to develop procedures with a view to achieving better coordination between the different functions involved in management cycle of insurance policies used to mitigate operational risk. Once the functional relationship between the own insurance and operational risk control areas is established, the primary objective is to inform the different first line risk management areas of the adequate guidelines for the effective management of insurable risk. The following activities are particularly important:

- Identification of all risks in the Group that can be covered by insurance, including identification of new insurance coverage for risks already identified in the market.
- Establishment and implementation of criteria to quantify the insurable risk, backed by analysis of losses and loss scenarios that enable the Group's level of exposure to each risk to be determined.
- Analysis of coverage available in the insurance market, as well as preliminary design of the conditions that best suit the identified and assessed needs.
- Technical assessment of the protection provided by the policy, its costs and the elements retained in the Group (franchises and other elements at the responsibility of the insured) in order to make contracting decisions.
- Negotiating with suppliers and award of contracts in accordance with the procedures established by the Group.

- Monitoring of incidents declared in the policies, as well as of those not declared or not recovered due to an incorrect declaration, establishing protocols for action and specific monitoring forums.
- Analysis of the adequacy of the Group's policies for the risks covered, taking appropriate corrective measures for any shortcomings detected.
- Close cooperation between local operational risk executives and local insurance coordinators to strengthen mitigation of operational risk.
- Active involvement of both areas in the global insurance sourcing unit, the Group's highest technical body for defining coverage strategies and contracting insurance, the forum for monitoring the risk insured (created specifically in each geography to monitor the activities mentioned in this section), the claim monitoring forum, and the Corporate Operational Risk Committee.

The own insurance area has also played a more active role in different Group forums (damages in physical assets, fraud, scenarios, special situation management, etc.), thereby increasing its interaction with other Group functions and its capacity to properly identify and assess insurable risks and optimise the protection of the income statement.

D.5. Compliance and conduct risk

Organisation of this section

We first introduce the compliance and conduct function and describe how it is governed, its organisational model and the functions involved in monitoring and controlling risks in this area [pag. 254-257].

We then detail the transversal functions and those that control and monitor specialist risks: regulatory compliance, product governance and consumer protection, prevention of money laundering and terrorist financing, and reputational risk [pag. 257-261].

Finally, we describe the annual risk assessment exercise, and how the risk appetite proposed by compliance and conduct to the board in 2016 was prepared [pag. 261-262].

» D.5.1. Scope, aim, definitions and objective

The compliance and conduct function fosters the adherence of Grupo Santander to the rules, supervisory requirements, principles and values of good conduct, by setting standards, and discussing, advising and reporting in the interest of employees, customers, shareholders and the community at large.

This function addresses all matters related to regulatory compliance, prevention of money laundering and terrorism financing, product governance and consumer protection and reputational risk.

Under the current corporate configuration of the three lines of defence in Grupo Santander, compliance and conduct was consolidated in 2016 as an independent second-line control function reporting directly and regularly to the board of directors and the committees thereof, through the GCCO (Group Chief Compliance Officer), who acts independently. The compliance and conduct function reports to the Chief Executive Officer (CEO). This configuration is aligned with the requirements of banking regulation and with the expectations of supervisors.

The following compliance risks have been defined:

- **Compliance risk:** risk of not complying with the legal framework, internal rules or the requirements of regulators and supervisors.
- **Conduct risk:** risk arising from the actions of people or the Bank as a whole that might have poor consequences for customers or the markets.
- **Reputational risk:** risk of damage to the Bank's image among the public, customers, investors and other stakeholders.

The Group's objective is to minimise the probability that irregularities occur and that any irregularities that should occur are identified, assessed, reported and quickly resolved.

Other control functions (risks and audit) also take part in controlling these risks.

5.2. Compliance and conduct risk control and oversight

According to the configuration of lines of defence in the Grupo Santander and in particular, within this function, the first lines of defence have primary responsibility for managing this function's risks, jointly with the business units that directly originate such risks and the compliance and conduct function. This is performed either directly or through assigning compliance and conduct activities or tasks.

The function is also responsible for setting up, fostering and ensuring that units begin to use the standardised frameworks, policies and standards applied throughout the Group. A number of different initiatives have been launched along these lines in 2016 throughout the Group, and they have been monitored and controlled.

The GCCO is responsible for reporting to Grupo Santander's governance and management bodies, and must also advise and inform, as well as promote the development of the function, in accordance with the annual plan. This is independently of the vice chairman of risks' and the GCRO's other reporting to the governance and management bodies of all Group risks, which also includes compliance and conduct risks.

In 2016, the new compliance and conduct model was rolled out at the corporate level and started to be developed in the main Group units and countries, providing the basic components for these risks to be managed (frameworks and policies for prevention of money laundering and terrorism financing, governance of products and services and consumer protection, regulatory compliance, reputational risk, etc.) and ensuring that other risks are duly covered by the appropriate units (codes of conduct, responsible financing policies, etc.). The pertinent governance, control and oversight systems are established for this purpose.

Furthermore, Internal Audit - as part of its third line of defence functions - performs the tests and audits necessary to verify that adequate controls and oversight mechanisms are being applied, and that the Group's rules and procedures are being followed.

The corporate frameworks of the compliance and conduct function are as follows:

- General compliance and conduct framework.
- Commercialisation of products and services and consumer protection framework.
- Anti-money laundering and terrorist financing framework.

These corporate frameworks are developed in the Grupo Santander's internal governance and are consistent with the parent-subsidiary relationship model. The existing frameworks for marketing products and services and consumer protection were brought together in a single document in 2016, to improve the integration of these areas and simplify their management.

The General Code of Conduct enshrines the ethical principles and rules of conduct that govern the actions of all Grupo Santander's employees. It is supplemented in certain matters by the rules found in other codes and their internal rules and regulations.

In addition to the frameworks mentioned, the General Code of Conduct also establishes:

- Compliance functions and responsibilities in this field.
- The rules governing the consequences of non-compliance with it.
- A whistle-blowing channel for the submission and processing of reports of allegedly irregular conduct.

The compliance and conduct function, under the supervision of the Board Risk Committee (BRC), is responsible for ensuring effective implementation and oversight of the General Code of Conduct, as the board is the owner of the Code and the corporate frameworks that implement it.

» D.5.3. Governance and the organisational model

A global transformation process - TOM - was carried out in 2016, in accordance with the mandate entrusted to the compliance and conduct function by the board. The scope and targets of this model were defined in the first phase. In 2016, the model was deployed in the corporation, and the Group also launched an assessment and development process in the main Group units, seeking to ensure that the compliance and conduct function is in line with the best standards in the financial sector by the end of 2018.

It is also important to note the coordination with the risk function and in particular, with the operational risk function, which, through risk governance, fosters a global overview of all the Group's risks. It also reports to the board and its committees.

D.5.3.1. Governance

The following corporate committees - each of which has a corresponding local replica - are collegiate bodies with compliance competencies:

The **Regulatory Compliance Committee** is the collegiate body for regulatory compliance matters. It has the following key functions:

- (i) Controlling for regulatory compliance matters and overseeing regulatory compliance risk in the Group, as a second line of defence.
- (ii) Defining the regulatory compliance risk control model in the Group and validating the annual work plans of the different local units.
- (iii) Assessing proposed regulatory compliance programmes, or modifying them, for presentation to the Compliance Committee and subsequently, the board of directors for approval.

In 2016, the Regulatory Compliance Committee held 4 meetings.

The **Commercialisation Committee** is the collegiate governance body for the approval of products and services. It has the following key functions:

- (i) Validating new products or services proposed by the parent company or by any subsidiary/Group unit, prior to their launch.
- (ii) Establishing the commercialisation risk control model in the Group, including risk assessment indicators, and proposing the commercialisation risk appetite to the Compliance Committee.
- (iii) Establishing interpretation criteria and approving the reference models to develop the corporate product and service and consumer protection framework and its rules of commercialisation, and also to validate the local adaptations of those models.
- (iv) Assessing and deciding which significant commercialisation questions might pose a potential risk for the Group, depending on the authorities granted or the powers required to be exercised under legal obligations.

The Commercialization Committee met 15 times in 2016 and analysed 128 new products/services, having validated all of them.

The **Monitoring and Consumer Protection Committee** is the Group's collegiate governance body for the monitoring of products and services, and the assessment of customer protection issues in all Group units. It has the following key functions:

- (i) Monitoring the commercialisation of products and services by country and by product type, reviewing all the available information and focusing on products and services under special monitoring, and costs of conduct, compensation to customers, sanctions, etc.
- (ii) Monitoring the common claim measurement and reporting methodology, based on root-cause analysis and the quality and sufficiency of the information obtained.
- (iii) Establishing and assessing how effective corrective measures can be when risks are detected in the governance of products and consumer protection within the Group.
- (iv) Identifying, managing and reporting preventively on the problems, events, significant situations and best practices in commercialization and consumer protection in a transversal way across the Group.

The Monitoring And Consumer Protection Committee met 24 times in 2016.

The **Anti-money Laundering/Terrorism Financing Committee** is the collegiate body in this field. It has the following key functions:

- (i) Controlling and overseeing anti-money laundering/terrorism financing (AML/TF) risk in the Group, as a second line of defence.
- (ii) Defining the AML/TFC risk control model in Grupo Santander.
- (iii) Considering corporate AML/TF framework proposals for escalation to the Compliance Committee, and updates of that framework.
- (iv) Considering and analysing local adaptations and validating them, as the case may be.

It met on 4 times in 2016.

The **Compliance Committee**. In 2016, in order to reinforce function governance, the functions and objectives of these committees have been aligned, to bring them in line with the Group governance model, including its actions in the Compliance Committee, which is the higher-level collegiate body of the compliance and conduct function and which combines the objectives of these committees.

It has the following key functions:

- (i) Monitoring and assessing compliance and conduct risk which could impact on Grupo Santander, as the second line of defence.
- (ii) Proposing updates and modifications to the general compliance framework and corporate function frameworks for ultimate approval by the board of directors.
- (iii) Reviewing significant compliance and conduct risk events and situations, the measures adopted and their effectiveness, and proposing that they be escalated or transferred, whenever the case may be.
- (iv) Setting up and assessing corrective measures when risks of this kind are detected in the Group, either due to weaknesses in established management and control, or due to new risks appearing.
- (v) Monitoring new regulations which appear or those modified, and establishing their scope of application in the Group, and, if applicable, the adaptation or mitigation measures necessary.

The Compliance Committee met eight times in 2016.

D.5.3.2. Organisational model

Derived from the aforementioned transformation programme (TOM) and with the objective of attaining an integrated view and management of the different compliance and conduct risks, the function is structured using a hybrid approach in order to combine

specialised risks (vertical functions) with an aggregated and homogenised overview of them (transversal functions).

This functional structure has been consolidated and reinforced during the 2016 year, helping the Group's purpose in this field:

Transversal functions

Governance, planning and consolidation

- a) **Governance.** Governance and management of the functioning of the compliance and conduct function at the corporate level. Development of training, culture, talent and professional development initiatives and elements in the function, with a long-term approach. Interacting and ensuring the consistency of the relationship with other control and support functions, and acting with staff from the GCCO.
- b) **Planning.** Planning and fostering the definition of the compliance and conduct strategy and its annual plan and reporting on this to senior management. Maintaining the compliance and conduct regulatory map and policies. Managing and coordinating the function's internal organisational and human resource processes.
- c) **Consolidation.** Consolidating compliance risks and conduct at a global level through an annual risk assessment exercise in the various Group units, in coordination with risks. Supervising the application of the mitigation measures and risk assessment plans defined and monitoring responses to, and the implementation of, requests from regulators. Proposing risk appetites for compliance and conduct, by collating proposals from local levels into the Group's risk appetite.
- d) **Regulatory radar.** Developing and coordinating the creation and administration of the global repository of rules and regulations applicable to all units, through a multidisciplinary process involving various functions.

Coordination with units

Coordinating interactions with Group units, providing a global outlook on compliance risks and the models in these units.

Compliance processes and information systems

- a) **Compliance and conduct information systems.** Defining the information management model for the function and developing key indicators.
- b) **Information quality, systems and operations.** Defining the function's systems plan, providing a comprehensive compliance and conduct approach to system needs and prioritising these. Acting as the main channel with the technology and operations function.
- c) **Improving processes.** Identifying the map of the function's key processes and associated metrics. Defining and supervising application of the continuous improvement methodology for the processes identified.

- d) **Projects.** Leading the function's projects and other projects related to the transformation plan. Coordinating management of requirements with technology and operations teams. Implementing the execution methodology and monitoring projects.

Vertical functions

Regulatory compliance

Control and supervision of regulatory compliance risk events related to employees, organisational aspects, international markets and securities markets, developing policies and rules and ensuring compliance by units.

Governance of products and consumer protection

Management, control and supervision of governance of products and services in the Group and risks relating to conduct with customers, consumer protection and fiduciary and custody risk for financial instruments, developing specific policies and regulations in this regard.

Anti-money laundering/ terrorist financing

Management, control and supervision of the application of the anti-money laundering and terrorist financing framework, coordinating analysis of local and Group information to identify new risks that might attract domestic or international sanctions. Analysis of new suppliers and participants in corporate transactions for approval and ensuring units comply with the rules and policies established in this regard, consolidating the global vision of these risks in the Group and global trends.

Reputational risk

Development of the control and supervision model for reputational risk, through early detection and prevention of events and mitigation of any potential impact on the Group's reputation for employees, customers, shareholders, investors and society in general.

» D.5.4. Regulatory compliance

Functions

The following functions are in place for adequate control and supervision of regulatory compliance risks:

- Implement the Group's General Code of Conduct and other codes and rules developing the same. Advise on resolving doubts that arise from such implementation.
- Collaboration with Internal Audit on its regular audits of the General Code of Conduct and other codes and their implementing regulations, and other issues subject to direct review.
- Assessment and detection of risks not covered by specific regulations, and preparing and modifying compliance programmes for presentation to the Regulatory Compliance Committee and, as applicable, subsequent approval by the board of directors or its committees.

- Regularly report to the RSRCC and the board of directors on the development of the framework and the implementation of the compliance programme.
- Assess changes that need to be introduced into the compliance programme, particularly in the event of detecting unregulated risk situations and procedures which could be improved, proposing any changes required to the Regulatory Compliance Committee or the RSRCC.
- Receive and handle the accusations made by employees or third parties via the whistle blowing channel.
- Direct and coordinate investigations into possible acts of non-compliance, being able to request support from Internal Audit and proposing the sanctions that might be applicable in each case to the Irregularities Committee.
- Supervise mandatory training activity on Compliance programme.

The compliance TOM guides the focus of the regulatory compliance function in the following areas:

Employees

The objective - based on the General Code of Conduct - is to establish standards for the prevention of criminal risks and conflicts of interest and from a regulatory perspective, to cooperate with other areas in setting guidelines for remuneration and dealings with suppliers.

In corporate defence (prevention of criminal risks), the responsibility is undertaken of minimising the impact of the criminal responsibility of legal persons for any crimes committed on account of and for the benefit of them administrators, or representatives and by employees as a result of a lack of control.

In 2016, the Group rolled out a corporate defence model which focuses on the Group's main units, with the view of developing initiatives to raise awareness of the main criminal risks in the organisation. This model is structured in each country with the formal recognition of this function by each compliance function, with the appointment of a subject matter expert responsible for management of the model at the local level and coordinating with the corporate centre and disseminating corporate policies and tools in the local unit.

The system of managing risks for the prevention of criminal offences obtained AENOR certification in 2014. It was audited in 2016, with favourable results.

A key element in this system is the whistleblowing channel. The Group has 5 main whistleblower channels and in total, they received 450 complaints in 2016.

In 2016, a whistleblowing channel was set up for suppliers, through which any supplier of services to Banco Santander, S.A. or its subsidiaries in Spain can inform compliance and conduct of inappropriate conduct by Group employees in the contractual relationship between the supplier and the Group.

Organisational aspects

One of the main developments in 2016 was the launch of the new General Data Protection Regulation (GDPR), as a result of which the corporate centre has developed guidelines with uniform criteria to help Group countries adapt to the regulation. During the 2017 year and until May 2018, when compliance with the regulation will be compulsory, the approach will be to monitor the redesign of the impacted processes and to increase the degree of awareness about the importance of complying with this regulation.

There are two areas of work in relation to the automatic exchange of fiscal information between FATCA and CRS statements: support for implementation and the second line of compliance with the regulation in the Group.

Market regulations

In 2016, once the corporate project for adaptation to the US Volcker Rule was implemented, the next stage has been to supervise the compliance with this regulation which limits proprietary trading to very specific cases that the Group controls by means of a compliance programme. Compliance with other specific securities market regulations are also monitored: e.g. in the field of derivatives, the provisions of Title VII of the US Dodd Frank law or its European counterpart, EMIR (European Market Infrastructure Regulation).

Regulatory compliance is responsible for disclosing relevant information on the Group to the markets. Banco Santander made public 57 relevant facts in 2016, which are available on the Group's web site and that of the National Securities Market Commission (CNMV).

Code of Conduct in Securities Markets (CCSM)

The Code of Conduct in Securities Markets (CCSM), supplemented by the Code of Conduct for Analysis Activity and another series of regulations, contains Group policies in this field and defines, inter alia, the following responsibilities in regulatory compliance:

- Register and control sensitive information known and generated by the Group.
- Maintain the lists of securities affected and related personnel, and watch the transactions conducted with these securities.

- Monitor transactions with restricted securities according to the type of activity, portfolios or collectives to whom the restriction is applicable.
- Receive and deal with communications and requests to carry out proprietary trading.
- Control own account trading of the relevant personnel and manage possible non-compliance of CCSM.
- Identify, register and resolve conflicts of interest and situations that could give rise to them.
- Analyse activities suspicious of constituting market abuse and where appropriate, report them to the supervisory authorities.
- Resolve doubts on the CCSM.

In 2016, the corporate centre worked hard on deploying new IT tools to detect possible market abuse scenarios, to review procedures to adapt them to the European market abuse regulation and the training programmes which have been launched to inform people of the new developments in this new system.

» D.5.5. Product governance and consumer protection

The product governance and consumer protection function defines the key elements needed for adequate management and control of commercialization and consumer protection risks, which are defined as risks arising from inadequate practices in customer relations, the service and products offered to customers and their adequacy for each specific customer.

This function promotes an appropriate culture in Grupo Santander, fostering transparency and a Simple, Personal and Fair approach that protects the interests of customers. To do so, the following functions have been established, and organised on the basis of commercialisation of products and services and consumer protection corporate framework and a set of policies setting out the basic principles and guidelines in this field.

The corporate framework for the commercialization of products and services and consumer protection defines the key items for adequate management and control of risks arising from commercialisation, distribution, encompassing all phases (design, sale and post-sale).

Functions

The following functions are in place for adequate control and supervision of these risks:

- Foster units' adherence to aforementioned corporate framework.
- Facilitate the functions of the Corporate Commercialization Committee, ensuring correct validation of any new product or

service proposed by any Group subsidiary or the Parent prior to the launch thereof.

- Gather from local units - and analyse and report to the Group's governance bodies - the information needed to adequately monitor and analyse product and service commercialization risk throughout the entire life cycle and of complaints, with a twofold purpose: possible impact on customers and over the Group. Identify and follow up on actions taken to mitigate the detected risks.
- Identify and disclose the best practices for commercialization marketing and consumer protection.

The main activities carried out by this function in 2016 were as follows:

- Update of the products and services commercialization and consumer protection framework (including the previous corporate complaint management framework) and processing for its approval by the governing bodies.
- Updating the regulations of the committees associated with the function, integrating the fiduciary risks subcommittee into the function and adapting their responsibilities for the new organisational structure, functions and governance of the corporate compliance and conduct function.
- Development and dissemination within the Group of the procedure to control training for sale of products and services, which defines the set of activities which need to be performed to ensure correct training/qualification of the sales force and thereby, minimise risks arising from inadequate commercialization and of infringements of the applicable laws.
- Update of the new corporate procedure which regulates the processes for the approval and monitoring of own and/or customers assets custody.
- Preparation of the risk alerts report, in collaboration with the corporate credit risk function and distribution to units.
- Taking part, in coordination with the Group's human resources function, in defining the variable remuneration corporate policies associated with the sales force.
- In addition to the 128 products and services submitted to the Commercialisation Committee, the products and consumer protection governance function also analysed:
 - 32 products or services considered to be not new.
 - 37 structured notes issued by Santander International Products Plc. (subsidiary fully owned by Banco Santander), for which the compliance with applicable agreement is reviewed.
 - 172 consultations from different areas and countries for resolution.

- Preserve internal consumer protection, with the objective of improving relations with the Group, effectively promoting their rights, facilitating a solution to any controversies, in accordance with best practices through any channel and fostering financial knowledge. The objective is to contribute to lasting relationships with customers.
- Identify, analyse and control fiduciary risk generated by private banking, asset management, insurance and outsourced activity of custody services for customers' financial instruments. Fiduciary risks are considered to be risks incurred when acting as the trustee or manager of third party assets. Improper management or administration of assets could cause losses for the customer, and the trustee may be held responsible for such losses, and will face the ensuing economic or reputational impact.

Fiduciary risk management includes the admission and monitoring of products, and the exposure and performance of the assets of customers managed by Grupo Santander or whose management is delegated to a third party. This management includes collective investment vehicles, profiled discretionary management portfolios, and saving and investment insurance products, and involves:

- The regular assessment of compliance of products' mandates, such that the risk associated to customers' position is always handled in the customer's best interest.
- The monitoring of the final result of the investments both with regard to the fiduciary relations with the client who expects the best result as well as with regard to competitors.
- Establish and maintain methodologies to assess marketing risks and follow up on such assessments.
- Analysis and processing for corporate validation in the fiduciary risks subcommittee of:
 - 519 requests for the launch, renewal or modification of product characteristics (314 collective investment vehicles and profile discretionary management portfolios, 46 saving insurance/ investment, 134 products distributed by Private Banking and 25 structured notes/deposits).
 - 69 requests relating to policies, fund and ETF distribution focus lists and requests for opinion from other areas.
- Analyse and consolidate complaint information and management thereof from 25 local units and 36 business units and 10 branch offices of SGCB.

Corporate projects

- Definition of the commercialization conduct risks taxonomy, which has been used to carry out the first self-assessment exercise with a scope of 19 entities in 16 different geographies.
- Creation of the insurance conduct forum in seven countries to identify, assess and manage commercialization risks, so as to

centralise the information and controls which are currently carried out locally on insurance business, thus providing a global overview and simplifying reporting lines.

- Launch of compulsory online training on commercialization conduct risk in the corporation and dissemination thereof to Group subsidiaries for implementation.

» D.5.6. Anti-money laundering and terrorist financing

One of Grupo Santander strategic objectives is to maintain an advanced and efficient anti-money laundering and terrorist financing system, constantly adapted to the latest international regulations, with the capacity to confront the development of new techniques by criminal organisations.

- This is based on a corporate framework setting out the basic principles and guidelines for action, establishing mandatory minimum standards for Grupo Santander units. These are formulated based on the principles set out in Financial Action Task Force (FATF), recommendations and obligations in EU directives to prevent the use of the financial system for money laundering and terrorist financing.
- Local units are responsible for managing and coordinating anti-money laundering and counter terrorist financing systems and procedures in the countries where Santander operates. They also investigate and process communications relating to suspicious transactions and information requirements from supervisory bodies. Each local unit has appointed an officer with responsibilities for this function.
- Corporate systems and processes have been put in place in all units, based on decentralised exploitation of technological systems. These provide local management information and data for active and preventive management, enabling the analysis, identification and monitoring of suspicious activities that might involve money laundering or terrorist financing. These systems enable reporting to the corporate function responsible for oversight and control.
- Grupo Santander is a founding member of the Wolfsberg Group, with other major international financial entities, which works to establish international standards and develop initiatives to improve the effectiveness of programmes in this area. Supervisory authorities and experts in this area believe that the principles and guidelines set by the Wolfsberg Group represent an important step in the fight against money laundering, corruption, terrorism and other serious crimes.

The prevention organisation covers 169 different Group units established in 31 countries. Over one thousand Group professionals currently carry out the anti-money laundering/financing of terrorism function.

The main activity data in 2016 are as follows:

- Subsidiaries reviewed: 169
- Investigations: 118,453
- Disclosure to authorities: 32,036
- Employee training: 139,246

The Group has training plans in place at both local and corporate level, in order to cover all employees. Specific training plans are also in place for the most sensitive areas from the perspective of anti-money laundering and combating terrorism financing.

» D.5.7. Reputational risk

Due to the transformation of the compliance function through the development of the TOM model, very significant progress has been made in spelling out the details of the reputational risk model.

The specific characteristics of reputational risk are: there are a vast number of sources and a widely varying understanding of the concept among stakeholders. This means it requires a unique approach and control model, separate from other risks.

The reputational risk model uses a primarily preventive approach, but it also takes part in efficient crisis management processes.

The aim is for reputational risk to be integrated into both business and support activities, and internal processes, allowing the risk control and oversight functions to include it in their activities.

The reputational risk model also implies a comprehensive understanding not only of the bank's activities and processes in carrying out its business activity, but also of how it is perceived by stakeholders (employees, customers, shareholders and investors and the wide society), in its different settings. This approach requires the management, support and control functions to be closely coordinated with different stakeholders.

Reputational risk governance is thus included in the governance of compliance and conduct, as described. This function reports to senior management on reputational risk questions, once data on the sources of this risk has been consolidated.

» D.5.8. Risk assessment model of compliance and risk appetite

The Group sets out the type of compliance and conduct risks that it is not willing to incur - for which it does not have a risk appetite - in order to clearly reduce the probability of any economic, regulatory or reputational impact occurring within the Group. Compliance risk is organised in a homogeneous way in units, by establishing a common taxonomy, which consists of setting a series of compliance

risk indicators and assessment matrices which are prepared for each local unit.

As in previous years, the compliance and conduct function carried out a regulatory risk assessment exercise in 2016 focused on the Group's main units. This exercise is performed every year, using a bottom-up process. The first lines of the local units identify the inherent risk of all rules and regulations applicable to them and once they have assessed how consistent controls upon them are, they determine the residual risk of each entity and set up, as the case may be, the appropriate action plans. Actions plans have been designed to offset the risks identified in this risk assessment. These are monitored on a quarterly basis, unit by unit.

In accordance with the new TOM, the different indicators of the different compliance and conduct risks have been reviewed in 2016. Furthermore, a convergence plan has been established, with the assistance of the risk function to integrate the global overview of non-financial risks into a common tool called Heracles.

With this purpose, compliance and conduct proposed the risk appetite to the board of directors in July 2016, through its governance bodies and those of risks. The board of directors approved the proposal, and that risk appetite is currently being developed and implemented in the Group's units.

Also as part of the TOM development, the taxonomy of the different types of compliance and conduct risks have been reviewed, in coordination with the risk function, so that such risks can be clearly identified.

» D.5.9. Transversal corporate projects

In accordance with the organisational principles defined in the TOM, transversal functions support specialised vertical functions, providing them with methodologies and resources, management systems and information and support in executing multi-disciplinary projects.

In 2016 - the first year in which these transversal functions have been running - a great progression has been made in the three areas:

- Development of the organisation structure of the function and of the resources needed for it to function and monitoring its impact.
- Development of a new compliance and conduct culture based on the Simple, Personal and Fair culture and aligned with the spirit of the TOM.
- Promoting data systems to support and implement a continuous improvement methodology in our processes.
- Organisational development and monitoring TOM's degree of maturity in units.

During 2016, special efforts have been made to recruit new human resources profiles for the compliance and conduct function who promote and assist in transforming the function.

One of the key pillars of all the corporate functions is monitoring the units' deployment of models. To that end, a methodology is currently being developed:

- To acquire an objective knowledge of the TOM's degree of deployment in each one of the units.
- Regularly follow up on progress in deploying the model.
- Be used as a source for joint identification (Group-units) of the work plans defined every year.

This methodology is currently in the testing phase and the idea is that it will be deployed in mid 2017.

A project has been launched with the aim of ensuring compliance with the mandatory training activities within the Group. The project, organised in conjunction with the Human Resources function, will determine the minimum guidelines to be followed by units, and also define the reporting metrics required for this type of training. At the same time, the vertical functions have prepared and launched various e-learning initiatives in 2016, such as the General Code of Conduct and Corporate Defence, prevention of market abuse, conduct risk in marketing, the Volcker Rule and others which have also been shared with units.

Following the best practices already applied in other Group units, significant efforts have been made to identify and document all processes of the corporate compliance and conduct function. Once details of the activities have been gathered and the main operational risks and controls are identified, the next phase to be developed in 2017 is to implement continuous improvement dynamics. Here it is important to note the project already launched to automate and digitalise the main processes.

The systems map and strategy for information systems have been set up in conjunction with the technology and operations function. Efforts are also being made to develop solutions to enable data to be exchanged between compliance units, to monitor TOM's degree of deployment, the effective application of regulatory management and Risk Assessment methodologies and the execution of control models linked with the second line function. For example, during 2016 work has been done on the following systems: Opera (products governance), Fiduciary Catalogue (Group fiduciary risks consolidated data repository), Codcon (code of conduct in securities market), Apama (market abuse scenarios), FIT (financial intelligence unit cases management), Regulatory Radar (end-to-end management of the process to assess and deploy new regulations), etc.

Lastly, the following progress has been made in management data: according to the mandate and objectives set out in the TOM for risk types, the management metrics have been reviewed, the most relevant ones have been identified and special attention paid to the coverage of risk appetite. In addition, management reports are being improved for each risk type, to provide adequate support for decisions by governance bodies. This process of adapting our management data has been coordinated with the Chief Data Officer (CDO), ensuring that all compliance metrics and reports comply with data governance standards in the Group.

D.6. Model risk

Grupo Santander has far-reaching experience in the use of models to help make all kinds of decisions, and risk management decisions in particular.

A model is defined as a system, approach or quantitative methods which applies theories, techniques or statistical, economic, financial or mathematical hypotheses to convert input data into quantitative estimates. The models are simplified representations of real world relationships between observed characteristics, values and cases. By simplifying in this way, we can focus our attention on the specific aspects which are considered to be most important to apply a certain model.

Using models implies model risk, which is defined as the potential negative consequences arising from decisions based on the results of incorrect, inadequate models or models used in an inappropriate way.

According to this definition, the sources of Model Risk are as follows:

- the model itself, due to the utilisation of incorrect or incomplete data, or due to the modelling method used and its implementation in systems.
- Improper use of the model.

The materialisation of model risk may prompt financial losses, inadequate commercial and strategic decision making or damages to the Group's reputation.

Grupo Santander has been working towards the definition, management and control of model risk for several years. Since 2015, a specific area has been put aside to control this risk, within the Risk division.

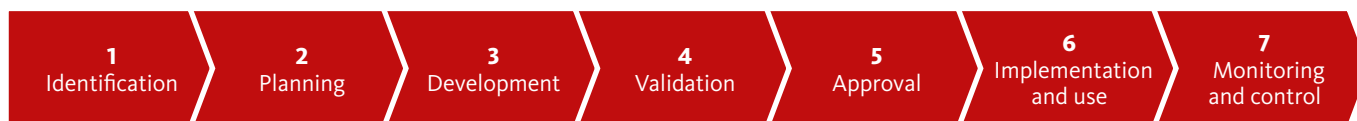
The function is deployed at the corporation and also at each of the Group's main entities. This function is governed by the model risk framework, a common control framework throughout the Group with details concerning questions such as organisation, governance, model management and model validation. According to internal regulations in force, the Models Committee is largely responsible for authorising the use of models.

The Models Committee is the collegiate body responsible for supervision and control of the risk model in Grupo Santander. The committee is established as set down in the model risk, credit risk and market risk admission and control, and structural and liquidity frameworks, in accordance with the powers delegated by the Executive Risk Committee.

The aim of the committee is to effectively control model risk, with the functions involved, advising the Chief Risk Officer and the Risk Control Committee to ensure that model risk is managed in accordance with the Group risk appetite approved by the board of directors, which includes identifying and monitoring current and emerging model risk and its impact on the Group's risk profile.

The Senior management of Grupo Santander, in the various units and also at the Corporation itself, regularly monitors model risk in a set of reports that provide a consolidated view of the Group's model risk and enable decisions to be taken in this regard.

Management and control of Model Risk is based on the life cycle of a model as defined by Grupo Santander, shown below:



1. Identification

As soon as a model is identified, it is necessary to ensure that it is included in the control of the model risk.

One key feature of proper management of model risk is a complete exhaustive inventory of the models used.

Grupo Santander has a centralised inventory, created on the basis of a uniform taxonomy for all models used at the various business units. The inventory contains all relevant information on each of the models, enabling all of them to be properly monitored according to their relevance. The inventory enables transversal analyses to be conducted on the information (by geographic area, types of model, importance etc.), thereby easing the task of strategic decision-making in connection with models.

2. Planning

All figures who take part in the model life cycle play a role in this phase (owners and users, developers, validators, data suppliers, technology, etc.), agreeing on and setting priorities regarding the models which are going to be developed, reviewed and implemented over the course of the year.

This planning takes place once a year at each of the Group's main entities, and is approved by local governance bodies, and validated by the corporation.

3. Development

This is the model's construction phase, based on the needs set out in the Models Plan and the information furnished to this end by the specialists.

Most of the models used by the Grupo Santander are developed by internal methodology teams, though some models are also outsourced from external providers. In both cases, the development must take place using common standards for the Group, and which are defined by the corporation. By this means, we can assure the quality of the models used for decision-making purposes.

4. Independent validation

Internal validation of models is not only a regulatory requirement in certain cases, but it is also a key feature for proper management and control of Grupo Santander's model risk.

Hence, a specialist unit is in place which is totally independently of both developers and users, draws up a technical opinion of the suitability of internal models to their purposes, and sets out conclusions concerning their robustness, utility and effectiveness. The validation opinion takes the form of a rating which summarises the model risk associated with it.

The internal validation encompasses all models under the scope of model risk control, from those used in the risk function (credit, market, structural or operational risk models, capital models, economic and regulatory models, provisions models, stress tests, etc.), up to types of models used in different functions to help in decision making.

The scope of validation includes not only the more theoretical or methodological aspects, but also IT systems and the data quality they allow, which determines their effectiveness. In general, it includes all relevant aspects of management in general (controls, reporting, uses, senior management involvement etc.).

This corporate internal validation environment at Grupo Santander is fully aligned with the internal validation criteria of advanced models produced by the financial regulators to which the Group is subject. This maintains the criterion of a separation of functions for units developing and using the models (first line of defence), internal validation units (second line of defence) and internal audit (third line of defence) as the ultimate layer of control, checking the effectiveness of the function and its compliance with internal and external policies and procedures, and commenting on its level of effective independence.

5. Approval

Before being deployed and thus used, each model has to be presented to be approved in the appropriate bodies, as established in the internal regulations in force at any given time, and in the approved delegation schemes.

6. Implementation and use

This is the phase during which the newly developed model is implemented in the system in which it will be used. As indicated above, this implementation phase is another possible source of model risk, and it is therefore essential that tests be conducted by technical units and the model owners to certify that it has been implemented pursuant to the methodological definition and functions as expected.

7. Monitoring and control

Models have to be regularly reviewed to ensure that they function correctly and are adequate for the purpose for which they are being used, or, otherwise, they must be adapted or redesigned.

Also, control teams have to ensure that the model risk is managed in accordance with the principles and rules set out in the model risk framework and related internal regulations.

D.7. Strategic risk

For Grupo Santander, strategic risk is one of the risks considered to be transversal, and there is a **strategic risk control and management model** which is used as a reference for Group subsidiaries. This model includes the definition of the risk, the principles and key processes for management and control, as well as functional and governance aspects.

Strategic risk is the risk which is associated with strategic decisions and with changes in the entity's general conditions, which have an important impact on its business model in both the mid and long term.

The entity's **business model** is a key factor for strategic risk. It has to be viable and sustainable, and capable of generating results in line with the Bank's objectives each year and for the next three years at least.

There are three categories or types of strategic risk:

- **Business model risk:** the risk associated with the entity's business model. This includes the risk of the business model being obsolescent, of it being irrelevant, and/or losing value, and so not being able to deliver the expected results. This risk is caused both by external factors (macroeconomic, regulatory, social and political questions, changes in the banking industry, etc.) and also internal ones (strength and stability of the income statement, distribution model/channels, revenue and expenses structure, operational efficiency, adequacy of human resources and systems, etc).
- **Strategy design risk:** the risk associated with the strategy set out in the entity's five-year strategic plan. Specifically, it includes the risk that the strategic plan may not be adequate per se, or due to its assumptions, and thus the Bank will not be able to deliver on its expected results. It is also important to consider the cost of opportunity of designing another more adequate strategy or the lack of action through not designing it.
- **Strategy execution risk:** The risk associated with executing long-term strategic plans and three-year plans. The risks to be taken into account include both the internal and external factors described above, the inability to react to changes in the business environment, and, lastly, risks associated with corporate development transactions (those which imply a change in the entity's perimeter and activity, acquisitions or disposals of significant shareholdings and assets, joint ventures, strategic alliances, shareholders' agreements and capital operations) which may also affect the strategic execution.

Lastly, in addition to the three components above, strategic risk management and control also takes into account other risks which may not be of a strategic origin (credit, market, operational, compliance risks, etc.) but which could cause a significant impact or affect the entity's strategy and business model. These risks are identified, assessed and managed through the corporate Risk Identification & Assessment exercise (see details in section B.3.2) jointly by the business areas and the risks areas of the bank. This identifies the "top risks", which are regularly reported to the bank's senior management in a manner that enables them to be adequately monitored and mitigated.

D.8. Capital risk

» Organisation of this section

First we shall introduce the concept of capital management and adequacy and the **solvency levels at the close of 2016**, and then next describe the main capital items [page. 266-267].

After which the **regulatory framework** with regards to capital is described [pag. 268-268].

Next, the **regulatory capital** and **economic capital** figures are presented [pag. 268-273].

Lastly, the **capital planning process and stress tests** in the Grupo Santander are described [pag. 273-274].

Refer to the Prudential Relevance Report (Pillar III) of Grupo Santander for further details.

» D.8.1. Introduction

Santander defines capital risk as the risk that the Group or some of its companies do not have the amount and/or quality of equity sufficient to meet the minimum regulatory requirements set for operating as a bank, to fulfil the market's expectations of its solvency and support business growth and the strategic possibilities they present, in accordance with the strategic plan.

Capital management and adequacy in the Group are conducted using an all-encompassing approach, seeking to guarantee the solvency of the entity to comply with regulatory requirements and to obtain the highest possible profitability. It is determined by the strategic targets and the risk appetite established by the board of directors. With this purpose in mind, a series of policies are defined, reflecting the Group's approach to capital management:

- Establish an adequate capital planning which can be used to cover the current needs and to provide the own funds needed to cover the needs of business plans, regulatory demands and associated short and mid term risks, maintaining the risk profile approved by the board.
- Ensure that under stress scenarios, the Group and its subsidiaries have sufficient capital to cover needs arising from the increased risks due to worsening macroeconomic conditions.
- Optimise the use of capital through an adequate capital allocation to businesses based on relative return on regulatory and economic capital, taking into account risk appetite, its growth and strategic targets.

Grupo Santander commands a sound solvency position, above the levels required by regulators and by the European Central bank, our supervisor.

At 31 December 2016, the Group's main capital ratios are as follows:

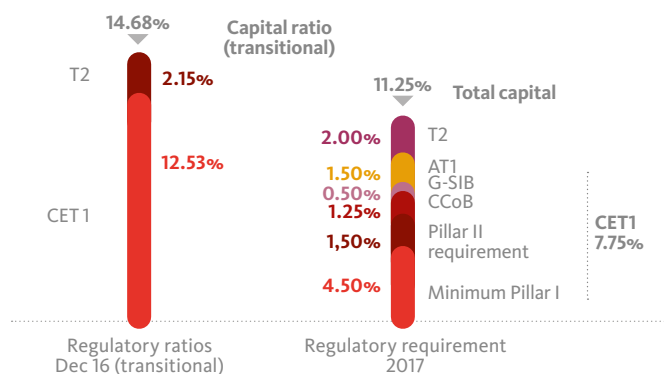
	Fully loaded	Phase-in
Common Equity (CET1)	10.55%	12.53%
Tier1	11.53%	12.53%
Total Ratio	13.87%	14.68%
Leverage ratio	5.00%	5.40%

Phase-in ratios are calculated applying the transitional Basel III implementation schedules, while Fully Loaded ratios are calculated using the final standard.

In late 2016, the ECB sent each entity its minimum prudential capital requirements for the following year. In 2017, at the consolidated level, Grupo Santander has to maintain a minimum capital ratio of 7.75% CET1 phase-in (4.5% for Pillar I, 1.5% for Pillar 2 requirement, 1.25% for the capital conservation buffer, and 0.50% as a Global Systemically Important Entity). Grupo Santander must also maintain a minimum Tier 1 phase-in capital ratio of 9.25%, and minimum total phase-in capital of 11.25%.

As shown in the table above, the Group's Capital is in excess of the ECB minimum requirement.

■ Main capital figures and solvency ratios



The Group is working towards its goal of having a CET1 fully loaded ratio higher than 11% by 2018.

Capital

The Group considers the following capital concepts:



Regulatory capital

- **Capital requirements:** the minimum volume of own funds required by the regulator to ensure the solvency of the entity, depending on its credit, market and operational risks.
- **Eligible capital:** the volume of own funds considered eligible by the regulator to meet capital requirements. The main elements are accounting capital and reserves.



Economic capital

- **Self-imposed capital requirement:** the minimum volume of own funds required by the Group to absorb unexpected losses resulting from current exposure to the risks assumed by the entity at a particular level of probability (this may include other risks in addition to those considered in regulatory capital).
- **Available capital:** the volume of own funds considered eligible by the entity under its management criteria to meet its capital requirements.



Cost of capital

The minimum return required by investors (shareholders) as remuneration for the opportunity cost and risk assumed by investing in the entity's capital. The cost of capital represents a "cut-off rate" or "minimum return" to be achieved, enabling analysis of the activity of business units and evaluation of their efficiency.



Return on risk adjusted capital (RORAC)

This is the return (net of tax) on economic capital required internally. Therefore, an increase in economic capital decreases the RORAC. For this reason, the Bank requires transactions or business involving higher capital consumption to deliver higher returns.

This considers the risk of the investment, and is therefore a risk-adjusted measurement of returns.

Using the RORAC enables the Bank to manage its business more effectively, assess the real returns on its business - adjusted for the risk assumed - and to be more efficient in its business decisions.



Value creation

The profit generated in excess of the cost of economic capital. The Bank creates value when risk adjusted returns (measured by RORAC) exceed its cost of capital, and destroys value when the reverse occurs. This measures risk adjusted returns in absolute terms (monetary units), complementing the RORAC approach.



Expected loss

This is the loss due to insolvency that the entity will suffer on average over an economic cycle. Expected loss considers insolvencies to be a cost that can be reduced by appropriate selection of loans.



Leverage ratio

This is a regulatory metric that monitors the solidity and robustness of a financial institution by comparing the size of the entity to its capital.

This ratio is calculated as the ratio between Tier 1 divided by the leverage exposure, that depends on the size of the balance sheet.



Return on risk-weighted assets (RORWA)

This is the return (net of tax) on risk-weighted assets for a particular business.

The Bank uses RORWA to establish regulatory capital allocation strategies, guaranteeing that the maximum return is achieved.

» D.8.2. Regulatory framework

In December 2010, the Basel Committee on Banking Supervision published a new global regulatory framework for international capital requirements (Basel III). This reinforced the requirements set out in the earlier Basel I, Basel II and Basel 2.5 regulations, enhancing the quality, consistency and transparency of the capital base and improving risk coverage. The Basel III legal framework was incorporated into European regulations on 26 June 2013 through Directive 2013/36 (hereinafter, CRD IV), which repealed Directives 2006/48 and 2006/49 and Regulation 575/2013, on prudential requirements for credit institutions and investment firms (hereinafter, CRR).

CRD IV was introduced into Spanish law through Act 10/2014, on the ordering, supervision and solvency of credit institutions, and its subsequent regulatory implementation through Royal Decree Act 84/2015 and Bank of Spain Circular 2/2016, which completed the adaptation of the Spanish legislative framework. This Circular repealed most of Circular 3/2008 (which continued to apply to aspects of Circular 5/2008 on minimum own funds and mandatory information for mutual guarantee societies), on the determination and control of own funds; and a section of Circular 2/2014, on the exercise of various regulatory provisions set down in the CRR. The CRR is directly applicable in Member States from 1 January 2014 and repeals lower-ranking standards that entail additional capital requirements.

The CRR provides for a phase-in period that will allow institutions to adapt gradually to the new requirements in the European Union. The phase-in arrangements have been introduced into Spanish law through Bank of Spain Circular 2/2014. The phase-in affects both the new deductions from capital and the instruments and elements of capital that cease to be eligible as capital under the new regulations. The capital conservation buffers provided for in CRD IV will also be phased in gradually, starting in 2016 and reaching full implementation in 2019.

The Basel regulatory framework is based on three pillars: Pillar I determines minimum eligible capital, allowing the possibility of using internal models and ratings to calculate risk-weighted exposures. The idea is that regulatory requirements should be more sensitive to risks actually borne by entities when carrying out their business activities. Pillar II establishes a supervisory review system to improve internal management of risks and self-assessment of capital adequacy based on risk profile. Lastly, Pillar III defines elements relating to information and market discipline.

On 23 November 2016, the European Commission published a draft of the new CRR and CRD IV, including different standards to those used by Basel, such as the Fundamental Review of the Trading Book for market risk, the Net Stable Funding Ratio for liquidity risk and the SA-CCR for calculating EAD for counterparty risk. It also introduced changes to the treatment of central clearing counterparties, the MDA (Maximum distributable amount), Pillar II and the leverage ratio. One of the most significant developments was the implementation of the TLAC Term Sheet issued by the FSB (Financial Stability Board) for capital, such that systemic entities have to comply with TLAC requirements in Pillar I, whilst non-systemic entities only have to comply with the MREL in Pillar II, as the resolution authority decides on a case by case basis.

Refer to section 1.3.1.1. of the Prudential Relevance Report for more details of regulatory developments.

In 2016, the European Banking Authority carried out a transparency exercise, in which it published capital and solvency information and details for sovereign positions at December 2015 and June 2016 for 131 banks in 24 European countries. This exercise has been aimed at promoting transparency and knowledge about European banks' capital and solvency data, thereby enhancing market discipline and financial stability in the EU. The results demonstrate the Group's sound capital position and solvency, and show that it is ahead of its peers in many of the main metrics.

Lastly, this past year the Supervisory Board of the ECB has launched the Targeted Review of Internal Models (TRIM) exercise, which is aimed at restoring its credibility, homogenising the discrepancy in capital requirements which are not due to the risk profile of exposures, and standardising supervisory practices through better knowledge of models. This review affects 70 entities at European level and approximately 2,000 models; it is going to be developed in 2016, 2017 and 2018 with different intermediary milestones.

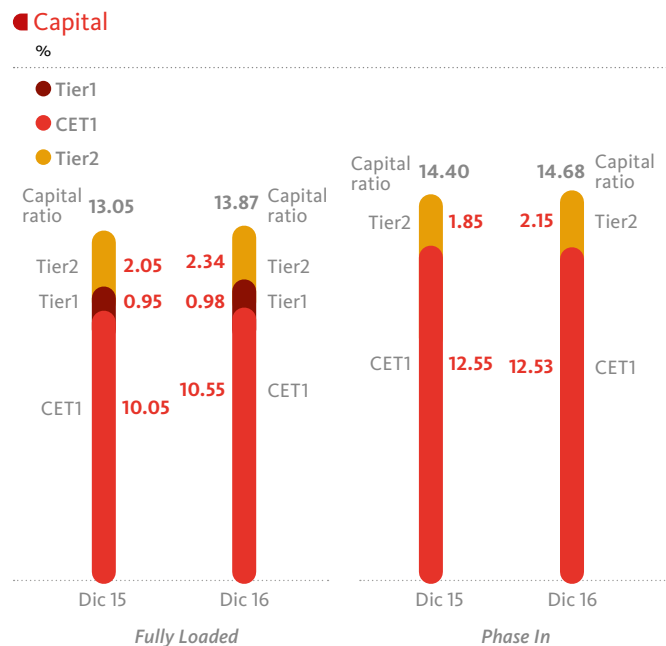
» D.8.3. Regulatory capital

The regulatory capital framework is based on three pillars:

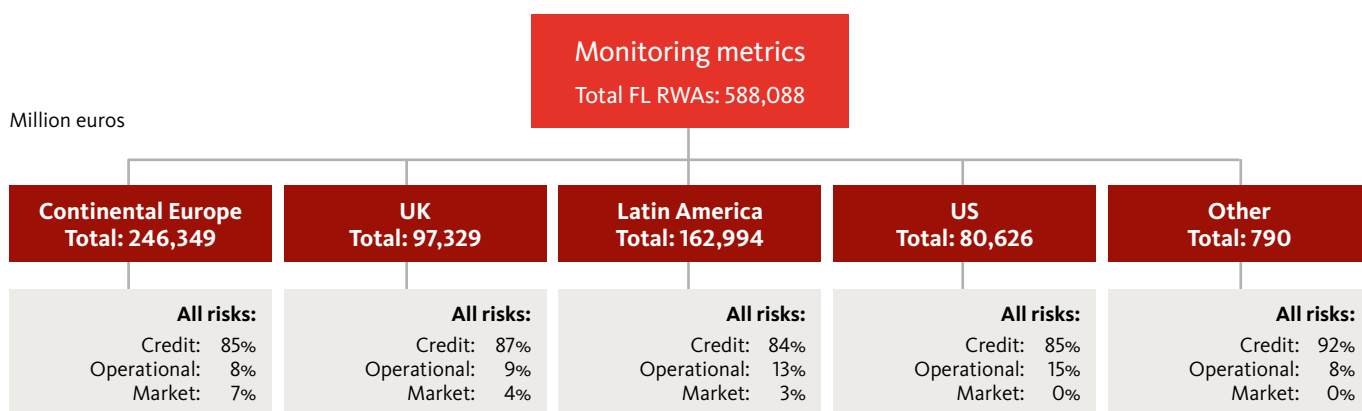
- According to Pillar I, minimum regulatory capital for credit, market and operational risk, with the possibility of using internal rating based models (IRB) to calculate the exposures weighted by credit risk, internal models (VaR) for market risk, and internal models for operational risk. The goal is that regulatory requirements should be more sensitive to risks actually borne by entities when carrying out their business activities.
- Pillar II establishes a supervisory review system to improve internal management of risks and self-assessment of capital adequacy based on risk profile.
- Lastly, Pillar III defines elements referring to higher transparency in reporting and discipline.

In 2016, the solvency target set was achieved. Santander's CET1 fully loaded ratio stood at 10.55% at the close of the year, demonstrating its organic capacity to generate capital. The key regulatory capital figures are indicated below:

	Fully loaded		Phase-in	
	Dec 16	Dec 15	Dec 16	Dec 15
Common equity (CET1)	62,068	58,705	73,709	73,478
Tier1	67,834	64,209	73,709	73,478
Total capital	81,584	76,209	86,337	84,350
Risk-weighted assets	588,088	583,917	588,088	585,633
CET1 Ratio	10.55%	10.05%	12.53%	12.55%
Tier 1 ratio	11.53%	11.00%	12.53%	12.55%
Total capital ratio	13.87%	13.05%	14.68%	14.40%



The table below shows risk-weighted assets (RWAs) in the main geographic areas and type of risk.



Deployment of models

As regards credit risk, Grupo Santander continued its plan to implement Basel's advanced internal rating-based (AIRB) approach for almost all the Group's banks (up to covering more than 90% of net exposure of the credit portfolio under these models). Meeting this objective in the short term will also be conditioned by the acquisition of new entities, as well as by the need for coordination between supervisors of the validation processes of internal models.

The Group operates in countries where the legal framework among supervisors is the same, as is the case in Europe via the Capital Directive. However, in other jurisdictions, the same process is subject to the cooperation framework between the supervisor in the home country and that in the host country with different legislations. This means, in practice, adapting to different criteria and calendars in order to attain authorisation for the use of advanced models on a consolidated basis.

Grupo Santander currently has supervisory authorisation to use advanced approaches for calculating the regulatory capital requirements for credit risk of the parent bank and its main subsidiaries in Spain, the UK and Portugal, and certain portfolios in Mexico, Brazil, Chile, Scandinavia (Sweden, Finland, Norway), France and the US. The strategy of implementing Basel in the Group is focused on achieving use of advanced models in the main institutions in the Americas and Europe. During 2016, this was authorised for the portfolios of IFIC, which have been integrated into Santander Totta Portugal. We are now awaiting completion of the supervisory validation process for the institutions and sovereign portfolios in Chile, the mortgages and most of the revolving product portfolios of Santander Consumer Germany, and the consumer portfolios of PSA UK.

With regard to operational risk, Grupo Santander currently applies the standard approach to calculating regulatory capital, as set out in the European Capital Directive. In February 2016, the European Central Bank authorised the use of the alternative standard approach to calculate capital requirements at consolidated level in Banco Santander Brazil.

As for the other risks expressly considered in Basel Pillar I, in market risk this year the Group received permission to use its internal model in the treasury trading activity in the UK, in addition to those already authorised in Spain, Chile, Portugal and Mexico.

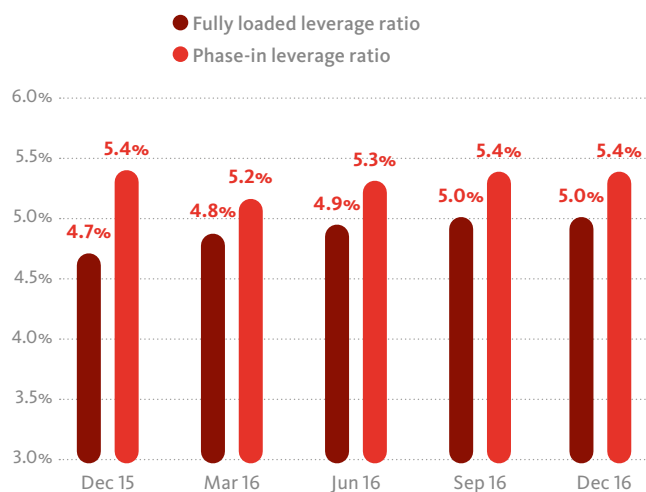
Leverage ratio

The leverage ratio has been defined within the regulatory framework of Basel III as a measure of the capital required by financial institutions not sensitive to risk. The Group performs the calculation as stipulated in CRD IV and its subsequent amendment in EU Regulation no. 573/2013 of January 17, 2015, which was aimed at harmonising calculation criteria with those specified in the BCBS Basel III leverage ratio framework and disclosure requirements document.

This ratio is calculated as the ratio between Tier 1 divided by the leverage exposure. This exposure is calculated as the sum of the following items:

- Accounting assets, without derivatives and not including items considered to be deductions in Tier 1 (for example, it includes the balance of loans but not of goodwill).
- Off-balance sheet items (guarantees, unused credit limits granted, documentary credits, in the main) weighted by the credit limits.
- Inclusion of net value of derivatives (gains and losses are netted with the same counterparty, minus collaterals if they comply with certain criteria) plus a charge for the future potential exposure.
- A charge for the potential risk of security funding transactions.
- Lastly, it includes a charge for the risk of the credit derivatives (CDS).

The ratios published by the Group since December 2015 are indicated below:



The leverage ratio is still undergoing calibration and it is not compulsory until 2018. For the time being, a reference of 3% has been set (the Bank's ratio is higher). During this period, the only obligation is to publish the data on the market. More details are available in the Prudential Relevance Report (Pillar III) which is published on the Group website.

Global systemically important banks

Grupo Santander is one of the 30 entities which have been classified as global systemically important banks (G-SIB).

The designation as a systemically important entity is based on the measurement set by regulators (the FSB and BCBS), based on 5 criteria (size, cross-jurisdictional activity, interconnectedness with other financial institutions, substitutability and complexity). This information is requested annually from banks with leverage exposure in excess of EUR 200,000 million, which are required to publish it (refer to the information at www.gruposantander.com).

According to the information published on November 21 2016 by the FSB and the BCBS, Grupo Santander is included in the group of systemic banks with a small capital buffer of 1%.

This definition means it has to fulfil certain additional requirements, which consist mainly of a capital buffer (1%), in TLAC requirements (total loss absorbing capacity), that we have to publish relevant information more frequently than other banks, greater regulatory requirements for internal control bodies, special supervision and drawing up of special reports to be submitted to supervisors.

The fact that Grupo Santander has to comply with these requirements makes it a more solid bank than its domestic rivals.

Refer to the Prudential Relevance Report (Pillar III) for more information.

» D.8.4. Economic capital

Economic capital is the capital needed, in accordance with an internally developed model, to support all the risks of business with a certain level of solvency. In the case of Santander, the solvency level is determined by the long-term rating objective of "A" (two notches above Spain's rating), which means a confidence level of 99.95% (above the regulatory level of 99.90%) for calculating capital requirements.

The measurement of Santander's economic capital model includes all the significant risks incurred by the Group in its operations (concentration risk, structural interest risk, business risk, pensions risk and others beyond the sphere of Pillar 1 regulatory capital). Moreover, economic capital incorporates the diversification impact, which in the case of Grupo Santander is vital, because of its multinational nature and many businesses, in order to determine the global risk profile and solvency.

Economic capital is a key tool for the internal management and development of the Group's strategy, both from the standpoint of assessing solvency, as well as risk management of portfolios and businesses.

From the solvency standpoint, the Group uses, in the context of Basel Pillar II, its economic model for the internal capital adequacy assessment process (ICAAP). For this, the business evolution and capital needs are planned under a central scenario and alternative stress scenarios. By using this planning, the Group ensures that it meets its solvency targets even under adverse economic scenarios.

The economic capital metrics also enable risk-return objectives to be assessed, setting the prices of operations on the basis of risk, evaluating the economic viability of projects, units and lines of business, with the overriding objective of maximising the generation of shareholder value.

As a homogeneous measurement of risk, economic capital can be used to explain the risk distribution throughout the Group, reflecting comparable activities and different types of risk in a metric.

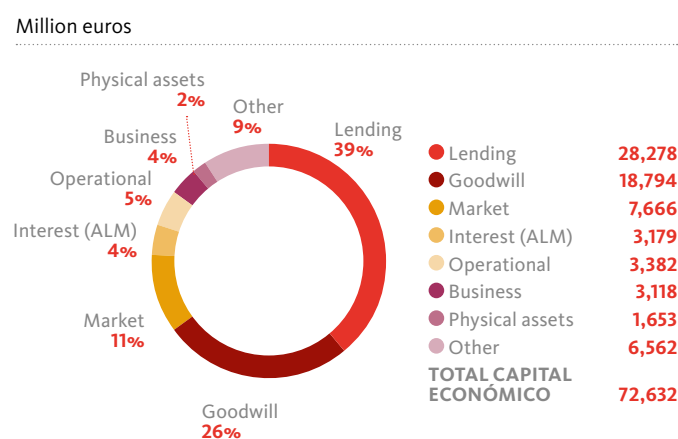
The economic capital requirement at the end of September 2016 was EUR 72,632 million, EUR 23,199 million above the EUR 95,831 million available economic capital.

The table below sets out the available economic capital:

Million euros		
	Dec 16	Dec 15
Net capital and issue premiums	52,196	52,004
Reserves and retained profits	52,967	49,673
Valuation adjustments	(16,116)	(15,448)
Non-controlling interests	6,784	6,148
Base economic capital available	95,831	92,377
Economic capital required	72,632	71,444
Excess capital	23,199	20,933

The main difference to regulatory CET1 comes from the treatment of goodwill, other intangible assets and deferred tax assets (DTAs), which we consider as additional capital requirements, rather than deductions from available capital.

The distribution of economic capital needs by type of risk at the end of December 2016 is shown in the following chart:



The table below sets out Grupo Santander's distribution by types of risk and geographic area at the end of 2016:

Monitoring metrics				
Total requirements: 72,632				
Million euros				
Corporate activities 26,561	Continental Europe 18,129	UK 7,524	Latin America 13,121	Estados Unidos 7,297
All risks: Goodwill: 71% Market: 18% DTAs: 9% Other: 2%	All risks: Credit: 58% Market: 11% Operational: 8% Interest (ALM): 7% Other: 16%	All risks: Credit: 59% Pensions: 22% Operational: 8% Business: 5% Other: 6%	All risks: Credit: 61% Interest (ALM): 11% Business: 9% Operational: 7% Other: 12%	All risks: Credit: 66% Operational: 8% Tangible assets: 8% Intangible assets: 7% Business: 5% Other: 6%

The distribution of economic capital among the main business areas reflects the diversified nature of the Group's business and risk. Continental Europe represents 39% of the capital, Latin America including Brazil 28%, the UK 17% and the US 16%.

Outside the operating areas, the corporate centre assumes, principally, the risk from goodwill and the risk derived from the exposure to structural exchange rate risk (risk derived from maintaining stakes in subsidiaries abroad denominated in currencies other than the euro).

The benefit of diversification included in the economic capital model, including both the intra-risk diversification (equivalent to geographic) as well as inter-risks, amounted to approximately 30%.

Return on risk adjusted capital (RoRAC) and value creation

Grupo Santander has been using the RoRAC methodology in its credit risk management since 1993 in order to:

- Calculate the consumption of economic capital and the return on it of the Group's business units, as well as segments, portfolios and customers, in order to facilitate optimum assigning of economic capital.
- Measurement of the Group units' management, using budgetary tracking of capital consumption and RoRAC.
- Analyse and set prices in the decision-taking process for operations (admission) and clients (monitoring).

RoRAC methodology enables one to compare, on a like-for-like basis, the return on operations, customers, portfolios and businesses, identifying those that obtain a risk-adjusted return higher than the cost of the Group's capital, aligning risk and business management with the intention of maximising the creation of value, the ultimate aim of the Group's senior management.

The Group regularly assesses the level and evolution of value creation (VC) and the risk-adjusted return (RoRAC) of its main business units. The VC is the profit generated above the cost of the economic capital (EC) employed, and is calculated as follows:

$$\text{Value creation} = \text{profit} - (\text{average EC} \times \text{cost of capital})$$

The profit used is obtained by making the necessary adjustments to the accounting profit so as to extract just the recurrent profit that each unit generates in the year of its activity.

The minimum return on capital that an operation must attain is determined by the cost of capital, which is the minimum required by shareholders. It is calculated objectively by adding to the free return of risk the premium that shareholders demand to invest in our Group. This premium depends essentially on the degree of volatility in the price of the Banco Santander share in relation to the market's performance. The Group's cost of capital for 2016 was 9.37% (vs. 9.31% the previous year).

The Group's internal management includes an annual revision of the cost of capital and also an estimated cost of capital for each business unit, taking into account the specific features of each market, under the philosophy of subsidiaries which are autonomous in capital and liquidity, in order to assess if each business is capable of generating value individually.

A positive return from an operation or portfolio means it is contributing to the Group's profits, but it is only creating shareholder value when that return exceeds the cost of capital.

The creation of value and the RoRAC for the Group's main business areas at September 2016 are shown below:

Main segments	Dec 16		Dec 15	
	RoRAC	Value creation	RoRAC	Value creation
Continental Europe	17.3%	1,426	13.9%	883
UK	20.2%	825	22.5%	1,065
Latin America	33.1%	2,879	33.8%	2,746
US	9.2%	(13)	13.4%	308
Total business units	20.7%	5,117	20.2%	5,001

» D.8.5. Capital planning and stress tests

Capital stress tests have become particularly important as a dynamic evaluation tool of the risks and solvency of banks. It is a forward-looking assessment, based on macroeconomic as well as idiosyncratic scenarios of little probability but plausible. Thus, it is necessary to have robust planning models, capable of transferring the impact defined in projected scenarios to the different elements that influence a bank's solvency.

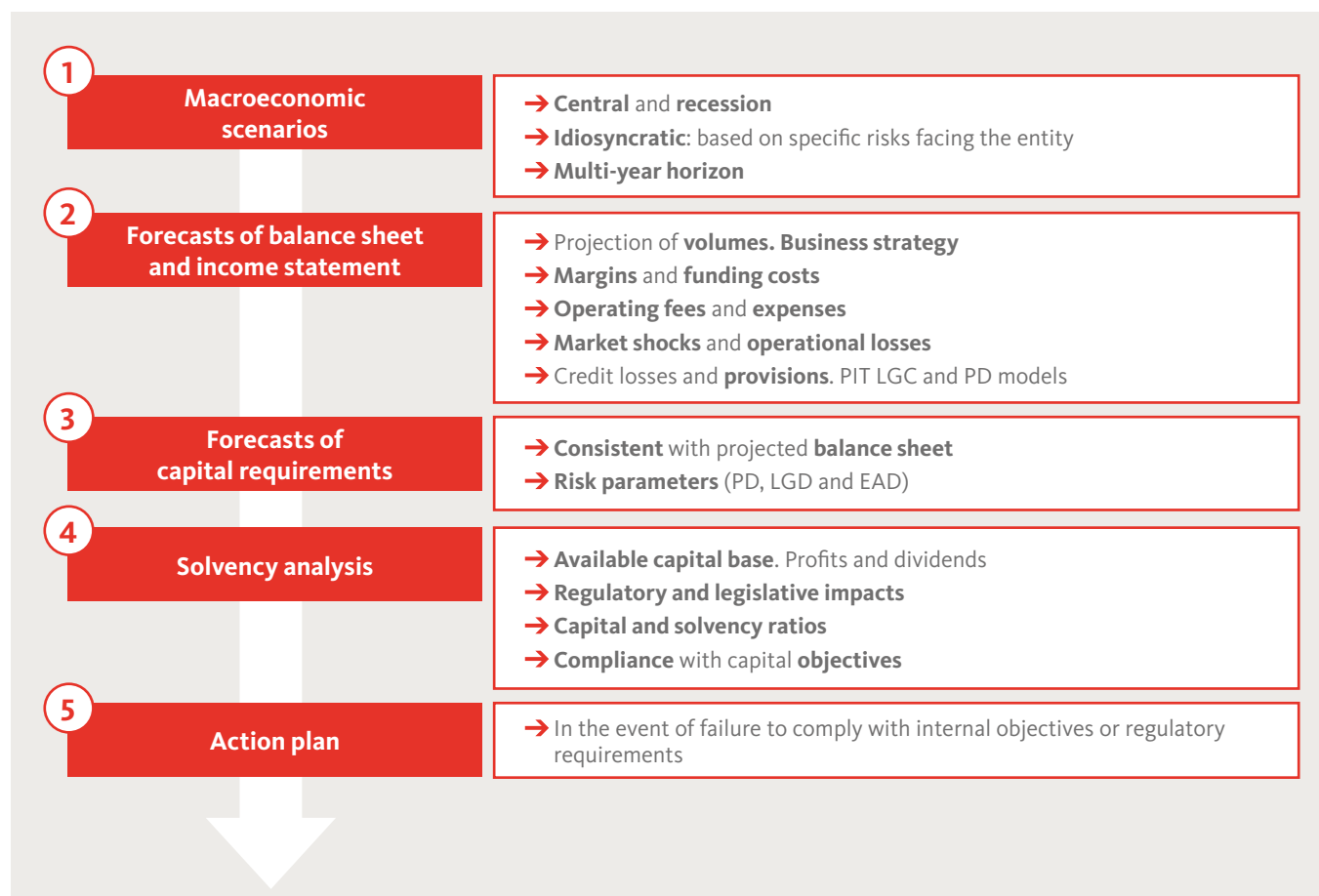
The ultimate objective of the stress exercises is to carry out a full assessment of the risks and solvency of banks, which enables possible capital requirements to be calculated in the event that they are needed because of banks' failure to meet the capital objectives set, both regulatory and internal.

Internally, Grupo Santander has defined a process of stress and capital planning not only to respond to the various regulatory exercises, but also as a key tool integrated in the Bank's management and strategy.

The goal of the internal process of stress and capital planning is to ensure sufficient current and future capital, including when facing adverse though plausible economic scenarios. Starting from the Group's initial situation (defined by its financial statements, capital base, risk parameters and regulatory ratios), the envisaged results are estimated for different business environments (including severe recessions as well as "normal" macroeconomic situations), and the Group's solvency ratios are obtained for a period of usually three years.

This process provides a comprehensive view of the Group's capital for the time frame analysed and in each of the scenarios defined. It incorporates the metrics of regulatory capital, economic capital and available capital.

The structure of the process is shown below:



The recently presented structure facilitates achieving the ultimate objective which is capital planning, by turning it into an element of strategic importance for the Group which:

- Ensures the solvency of current and future capital, including in adverse economic scenarios.
- Enables comprehensive management of capital and incorporates an analysis of the specific impacts, facilitating their integration into the Group's strategic planning.
- Enables a more efficient use of capital.
- Supports the design of the Group's capital management and adequacy strategy.
- Facilitates communication with the market and supervisors.

In addition, the whole process is developed with the maximum involvement of senior management and its close supervision, under a framework that ensures that the governance is the suitable one and that all elements that configure it are subject to adequate levels of challenge, review and analysis.

One of the key elements in capital planning and stress analysis exercises, due to its particular importance in forecasting the income statement under defined stress scenarios, consists of calculating the provisions needed under these scenarios, mainly those to cover losses in the credit portfolios. Specifically, to calculate credit portfolio loan loss provisions, Grupo Santander uses a methodology that ensures that at all times there is a level of provisions that covers all the projected credit losses for its internal models of expected loss, based on the parameters of exposure at default (EaD), probability of default (PD) and loss given default (LGD).

This methodology is widely accepted and it is similar to that used in the EBA stress tests of 2016 and in previous stress tests (in 2011 and 2014 or the stress test on the Spanish banking sector in 2012).

Lastly, the capital planning and stress analysis process is completed by solvency analysis under the various scenarios designed and over a defined time frame. This assesses the sufficiency of capital and ensures that the Group meets its internally defined capital objectives and all regulatory requirements.

In the event of not meeting the capital objectives set, an action plan will be prepared which envisages the measures needed to be able to attain the desired minimum capital. These measures are analysed and quantified as part of the internal exercises, even it is not necessary to put them into force as Santander exceeds the minimum capital thresholds.

This internal stress and capital planning process is conducted in a transversal way throughout Grupo Santander, not only at the consolidated level, but also locally in the Group's units, as they use the stress and capital planning process as an internal management tool and to respond to their local regulatory requirements.

Throughout the 2008 economic crisis, Grupo Santander was submitted to six stress tests which demonstrated its strength and solvency in the most extreme and severe macroeconomic scenarios. All of them, thanks mainly to the business model and geographic diversification in the Group, showed that Banco Santander will continue to generate profits for its shareholders and comply with the most demanding regulatory requirements.

Last July, the European Banking Authority (EBA) published the results of its stress tests of the 51 leading banks in the European Union. Unlike in the 2014 year, no minimum capital requirements were set for passing the test. Instead, the final results were used as a further variable by the ECB to determine the minimum capital requirements for each bank (under the Supervisory Review and Evaluation Process - SREP). Despite facing a more demanding adverse scenario than in previous years, and more stringent assumptions in relation to operational risk, conduct risk and market risk, Grupo Santander was the bank which destroyed the least capital of all its peers (see further details in section C. Environment and next challenges, table 1).

As already mentioned, as well as the regulatory stress tests, Grupo Santander annually conducts since 2008 internal exercises of resilience within its self-assessment process of capital (Pillar II). All of them showed, in the same way, Grupo Santander's capacity to meet the most difficult scenarios, both globally as well as in the main countries in which it operates.

Appendix: EDTF transparency

Banco Santander has traditionally maintained a clear commitment to transparency. By virtue of this transparency, it has played an active role in the Enhanced Disclosure Task Force (EDTF) promoted by the Financial Stability Board (FSB) in order to improve the quality and comparability of the risk information that banks provide to the market. Several studies have analysed the degree of adoption of

the 32 recommendations formulated by the EDTF in October 2012, in which Santander stands out as one of the banks that is leading globally the practical application of this initiative.

The table below sets out where the EDTF recommendations can be found in the information published by Grupo Santander.

	EDTF Recommendations	Annual report	Audit report and annual accounts	PRR (Pillar III)	
General	1	Index with risk information	Executive summary	Appendix V; Appendix VI; 1.2.4.	
	2	Risk terminology and measures	B.1.; D.1.5.; D.2.1.-D.2.4.; D.3.1.	Notes 54b, 54c, 54d, 54e	Appendix IV --> Corporate website.
	3	Main and emerging risks	C		3
	4	New regulatory ratios and compliance plans	D.1.; D.3.; D.8.	Notes 54c, 54e, 54j	1; 2.1; 2.2.2.2; 7.1
Risk governance and management and business model	5	Organisation of risk management, processes and functions	B; D.3.1.	Notes 54b, 54e	3; 2.1.1; 2.1.2; 2.1.3
	6	Risk culture and internal measures	A; B.4.	Notes 54a, 54b	3
	7	Business model, management and risk appetite risks	B, D.8.	Notes 54b, 54j	3; 7.2
	8	Stress test uses and processes	B.3.1-B.3.3; D.1.5; D.2.2-D.2.3; D.3.1.; D.8.5.	Notes 54b, 54c 54d, 54e, 54j	2.3.2
Capital and risk-weighted assets	9	Minimum capital requirements (Pillar I)	D.8.	Note 54j	Executive summary; 2.2.1; 2.2.2; 2.2.3
	10	Components of regulatory capital and reconciliation with balance sheet			1.2.7, 2.2.1. Appendices III.a and III.c
	11	Breakdown of changes in regulatory capital			2.2; 2.2.1; Appendix III.b; Appendix III.c
	12	Capital planning	D.8.5.	Note 54j	2.3.2
	13	Business activities and risk-weighted assets	D.8.	Note 54j	2.2.2
	14	Capital requirements by calculation method and portfolio			2.2; 2.2; 2; 3.4
	15	Credit risk by portfolios			2.2.2.1.1; 3.2-3.4
Liquidity	16	Flows of risk-weighted assets			Executive summary; 2.2.2.1; 2.2.2.3; 2.2.2.4
	17	Back-testing of models (Pillar III)			3.7; 3.9; 5.2.5
Financing	18	Liquidity, management and liquidity reserve requirements	D.3.1.; D.3.2.	Note 54e	7.1
	19	Encumbered and unencumbered assets	D.3.2.	Note 54e	7.1
Market Risk	20	Contractual maturities of assets, liabilities and off-balance sheet amounts	D.3.2.	Note 54e	
	21	The entity's funding plan	D.3.2.; D.3.3.	Note 54e	7.1
Credit Risk	22	Reconciliation of balance sheet with trading and non-trading positions	D.2.2.	Note 54d	
	23	Significant market risk factors	D.2.1-D.2.3.	Note 54d	5.1; 5.2
	24	Limitations of the measurement model for market risk	D.2.2.	Note 54d	5.2; 5.2.6
Other risks	25	Management techniques for managing and evaluating the risk of losses	D.2.2.	Note 54d	5.2.1; 5.2.2; 5.2.3; 5.2.4; 5.2.5
	26	Credit risk profile and reconciliation with balance sheet items	D.1.2.	Note 54c	3.2
	27	Policies for impaired and restructured loans	D.1.2.	Note 54c	
	28	Reconciliation of impaired balance and loan-loss provisions	D.1.2.	Note 54c	3.2
	29	Counterparty risk from transactions with derivatives	D.1.4.	Note 54c	3.10
	30	Mitigation of credit risk	D.1.5.	Note 54c	3.11
Other risks	31	Other risks	D.4; D.6; D.7	Notes 54f, 54h, 54i	6; 7
	32	Discussion of risk events in the public domain	D.5.	Note 54g	7.2





Anexos

- 278 Dados históricos
- 280 Glossário
- 284 Informação geral

■ Dados históricos. 2006 - 2016

Balço	Milh. US\$	2016	2015	2014	2013	2012
		Milh. euros	Milh. euros	Milh. euros	Milh. euros	Milh. euros
Ativo total	1.411.572	1.339.125	1.340.260	1.266.296	1.134.128	1.282.880
Crédito a clientes (líquido)	833.234	790.470	790.848	734.711	684.690	731.572
Depósitos de clientes	728.501	691.112	683.142	647.706	607.836	626.639
Rec. de clientes sob gestão e comercializados	1.162.133	1.102.488	1.075.563	1.023.189	946.210	990.096
Patrimônio líquido	108.255	102.699	98.753	89.714	80.298	81.747
Total de fundos sob gestão e comercializados	1.603.953	1.521.633	1.506.520	1.428.083	1.270.042	1.412.617

Resultados

Margem de juros	34.388	31.089	32.189	29.548	28.419	31.914
Margem bruta	48.507	43.853	45.272	42.612	41.920	44.989
Margem líquida	25.182	22.766	23.702	22.574	21.762	24.753
Resultado antes dos impostos sobre o lucro	11.911	10.768	9.547	10.679	7.378	3.565
Lucro líquido atribuível à Controladora	6.863	6.204	5.966	5.816	4.175	2.283

Dados por ação ⁽¹⁾	US\$	2016	2015	2014	2013	2012
		Euros	Euros	Euros	Euros	Euros
Lucro líquido atribuível à Controladora	0,45	0,41	0,40	0,48	0,39	0,23
Dividendo	0,22	0,21	0,20	0,60	0,60	0,60
Cotação	5,227	4,959	4,558	6,996	6,506	6,100
Valor de mercado (milhões de euros)	76.226	72.314	65.792	88.041	73.735	62.959

Euro / US\$ = 1,054 (balço) e 1,106 (resultados).

(1) Dados ajustados ao aumento de capital de 2008.

Dados históricos. 2006 - 2016

2011	2010	2009	2008	2007	2006
Milh. euros	Milh. euros	Milh. euros	Milh. euros	Milh. euros	Milh. euros
1.251.008	1.217.501	1.110.529	1.049.632	912.915	833.873
748.541	724.154	682.551	626.888	571.099	523.346
632.533	616.376	506.976	420.229	355.407	331.223
984.353	985.269	900.057	826.567	784.872	739.223
80.813	80.914	73.871	60.001	57.558	47.072
1.382.464	1.362.289	1.245.420	1.168.355	1.063.892	1.000.996

28.883	27.728	25.140	20.019	14.443	12.480
42.466	40.586	38.238	32.624	26.441	22.333
23.055	22.682	22.029	17.807	14.417	11.218
7.858	12.052	10.588	10.849	10.970	8.995
5.330	8.181	8.943	8.876	9.060	7.596

2011	2010	2009	2008	2007	2006
Euros	Euros	Euros	Euros	Euros	Euros
0,60	0,94	1,05	1,22	1,33	1,13
0,60	0,60	0,60	0,63	0,61	0,49
5,870	7,928	11,550	6,750	13,790	13,183
50.290	66.033	95.043	53.960	92.501	88.436

Glossary

**A versão em português
deste relatório
estará disponível
nos próximos dias**

Additional Tier 1: capital mainly constituted by debt instruments convertible into shares (hybrids) in case of a contingent event (usually when the CET1 ratio drops below a certain value).

Advanced IRB approach: all the risk parameters are internally estimated by the bank, including CCF (credit conversion factors) to calculate the EAD.

Advanced Risk Management: programme to accelerate the implementation of strategic projects to improve risk management capacity and control.

ALM (Asset liability management): a series of techniques and procedures to ensure correct decision-making on investments and funding at the entity, taking into consideration the interrelation between the various on- and off-balance sheet items.

AQR (Asset Quality Review): asset quality review exercise performed by the European Central Bank.

Attributable profit: the portion of consolidated profit that corresponds to owners of the Group's ordinary shares.

Back-testing: the use of historical data to supervise the return on risk models.

Basel III: a set of amendments to the Basel II regulations, published in December 2010, which came into force in January 2013 and will be gradually implemented until January 2019.

Basic IRB approach: all the risk parameters are determined by the regulator except for the probability of default, which is internally estimated by the bank. The credit conversion factors required for calculating the EAD are determined by the regulator.

BCBS: Basel Committee on Banking Supervision.

BIS: Bank for International Payments.

BRRD (Bank Recovery and Resolution Directive): approved in 2014, it establishes the European framework for bank recovery and resolution in order to minimise the cost for taxpayers.

CB (Conservation buffer): a capital buffer equal to 2.5% of risk-weighted assets (and comprised fully of high quality instruments) to absorb losses generated from the business.

CCAR (Comprehensive capital analysis review): the Federal Reserve's evaluation of the planning and capital adequacy process of the US's main banks.

CCB (Counter cyclical buffer): buffer whose objective is to mitigate or prevent cyclical risks arising from excessive growth in lending at aggregate level. Accordingly, the CCB is designed to build up capital buffers during expansionary phases with a dual objective: to bolster the banking system's solvency and stabilise the credit cycle.

CCP (Central Counterparty Clearing House): responsible for clearing and settlement, facilitating trading in shares and derivatives in international markets.

CDS (Credit default swap): a derivatives contract that transfers the credit risk of financial instrument from the buyer (who receives the credit protection) to the seller (who guarantees the instrument's solvency).

CoCos (Contingent convertible bonds): debt securities convertible into capital if a specified event occurs. AT1 instruments are a type of CoCo.

Common equity: a capital measure that takes into account, among other components, ordinary shares, the share premium and retained earnings. It does not include preferred shares.

Common Equity Tier 1: an entity's highest quality capital, consisting of equity mainly constituted by ordinary shares and retained earnings and excluding preferred shares.

Concentration risk: the risk of loss due to large exposures to a small number of debtors to which the entity has lent money.

Cost of credit: a measure of credit quality, calculated as the ratio between loan-loss provisions and total lending

Coverage of non-performing loans: a risk quality indicator, expressed as the percentage of loans considered as doubtful which are covered by loan-loss provisions.

Credit risk mitigation: a technique to reduce the credit risk of a transaction by applying coverage such as personal guarantees or collateral.

Credit risk rating: the result of the objective evaluation of the future economic situation of the counterparties based on current features and assumptions. The methodology for assigning ratings depends largely on the type of customer and on the available data. A wide range of methodologies to assess credit risk is used, such as expert systems and econometric methods.

CRM (Customer Relationship Management): systems to manage customer relations.

CRR (Capital Requirements Regulation) and CRD IV (Capital Requirements Directive): these incorporate European rules to the legal framework of Basel III.

CSP (Commercial Strategic Plan): management model for coordinating the planning and control of loan portfolios at Santander Group, in which all those areas involved in managing portfolios (risk, business, management control, capital, financial management) participate in a comprehensive and coordinated way.

CVA (Credit Valuation Adjustment): valuation adjustment of over-the-counter (OTC) derivatives as a result of the risk associated with the credit exposure assumed by each counterparty.

Derivatives: financial instruments that derive their value from the performance of an underlying asset or index, e.g. bonds, currencies or stock market indices.

Digital customers: for Santander a digital customer is an individual or a company who, being a customer of a retail bank, has started to use online banking, mobile banking or both, in the last 30 days.

DTA: Deferred tax assets.

DVA (Debt Valuation Adjustment): valuation adjustment similar to the CVA, but in this case as a result of the risk with the Group assumed by its counterparties in OTC derivatives.

EAD (Exposure at default): the amount that the entity could lose in the event of counterparty default.

EBA (European Banking Authority): created in 2010, it began to operate in 2011. The EBA acts as a coordinator between the national entities responsible for safeguarding values such as the financial system's stability, transparency of markets and financial products, and the protection of bank customers and investors.

ECB Governing Council: the main decision-making body of the European Central Bank, consisting of all the members of the Executive Board and the governors of the national central banks of the euro zone countries.

Economic capital: the figure that demonstrates to a high degree of certainty the quantity of capital resources the Group needs at a given point in time to absorb unexpected losses arising from its current exposure.

EDTF (Enhanced Disclosure Task Force): task force that issues recommendations to enhance the transparency of information that banks disclose to the market.

Efficiency ratio: calculated as the ratio between operating costs and gross income. It measures how many euros an entity needs to spend in order to generate €1 of revenue (an efficiency ratio of 50% means an entity needs to spend €0.5 to generate €1 of revenue).

EL (Expected loss): a regulatory calculation of the average amount expected to be lost on an exposure, using a 12-month time horizon. EL is calculated by multiplying probability of default (a percentage) by exposure at default (an amount) and LGD (a percentage).

EPS (earnings per share): calculated by dividing a company's profits for the period by the number of shares comprising its share capital.

ESRB (European Systemic Risk Board): the body that has been charged with macroprudential supervision of the European Union's financial system in order to contribute to preventing or mitigating the systemic risk to financial stability.

Exposure: the gross amount that the entity could lose if the counterparty is unable to meet its contractual payment obligations, without taking into consideration the impact of any guarantees, credit enhancements or credit risk mitigation transactions.

Fully-loaded: denotes full compliance with Basel III capital adequacy requirements (mandatory in 2019).

FSB (Financial Stability Board): international institution that monitors and makes recommendations on the global financial system.

GHOS (Group of Governors and Heads of Supervision): supervisory body of the Basel Committee.

G-SIB (Global Systemically Important Bank) or SIFI (Systemically Important Financial Institution): a framework is in place to mitigate the possible impact of the insolvency of this type of bank on international financial stability and particular economies.

ICAAP: Internal Capital Adequacy Assessment Process.

ICAAR: Internal Capital Adequacy Assessment Report.

IFRS: International Financial Reporting Standards.

ILAAP (Internal Liquidity Adequacy Assessment Process): internal process to identify, measure, manage and control liquidity implemented by the entity in accordance with article 86 of Directive 2013/36/EU.

IRB (Internal Ratings-based) approach: based on internal ratings to calculate risk-weighted exposures.

IRP: initials in Spanish for the Pillar III disclosures report.

ISDA (International Swaps and Derivatives Association): the organisation that establishes the framework contracts for over-the-counter (OTC) derivative transactions between financial institutions.

JST (Joint Supervisory Team): one of the main forms of cooperation between the ECB and the national supervisors.

LCR (Liquidity Coverage Ratio): a ratio that ensures that a bank has an adequate stock of unencumbered high quality liquid assets that can be converted, easily and immediately, into cash in private markets, in order to meet its liquidity needs for a 30 calendar day liquidity stress scenario.

Leverage ratio: a complementary (non-risk based) regulatory capital measure that attempts to guarantee the financial resilience and strength of entities in terms of indebtedness. The ratio is calculated by dividing Tier 1 eligible capital by exposure.

LGD (Loss Given Default): that part of EAD not recovered at the end of the loan recovery process. It is equal to 1 minus the recovery rate (i.e. $LGD=1-\text{recovery rate}$). The definition of loss used to estimate the LGD must be a definition of economic loss, not an accounting loss.

Loyal customers: customers who consider Santander as their main bank.

LTD (loan to deposits): the ratio of loans to deposits, which measures a bank's liquidity.

LTV (loan to value): amount of credit extended/value of guarantees and collateral.

Mark-to-market approach: in regulatory terms, an approach for calculating the value of the counterparty credit risk exposure of derivatives (present market value plus a margin, i.e. the amount that takes into account the potential future increase in market value).

MiFID (Markets in Financial Instruments Directive): European rules on investor protection in financial products.

MREL (Minimum Requirement for Eligible Liabilities): minimum requirement of eligible liabilities with loss absorbing capacity. It applies to European banks in the same way as total loss-absorbing capacity (TLAC) applies to systemic banks.

Multiple Point of Entry: resolution by multiple points of entry. It entails applying various powers of resolution, both of the local authorities of the subsidiaries of a bank as well as the authorities of the parent.

Netting: a bank's ability to reduce its credit risk exposure by setting off the value of the rights against its obligations with the same counterparty.

Non-performing loan ratio: risk quality indicator. The relation between loans considered as doubtful and total lending.

NSFR (Net stable funding ratio): this requires banks to have a stable funding profile in relation to the composition of its off-balance sheet assets and activities a ratio of net stable funding that ensures a bank has a balanced balance sheet structure, in which stable funding requirements are funded by stable liabilities.

Ordinary profit: profit excluding extraordinary results.

OTC (over-the-counter): bilateral transactions (e.g. derivatives) that are not traded on an organised market.

PD (Probability of default): this represents the likelihood that a customer or transaction will fall into default. It is the probability that an event (the default) will occur within a given time horizon.

Phase-in: denotes compliance with current capital adequacy requirements, taking into account the transition schedule for Basel III compliance.

Pillar 1: Minimum Capital Requirements: the part of the new capital accord that establishes the minimum regulatory capital requirements for credit, market and operational risk.

Pillar 2: includes the supervisory review process. Internal capital adequacy assessment process reviewed by the supervisor with possible additional capital requirements for risk that are not included in Pillar 1, and the use of more sophisticated methodologies than Pillar 1.

Pillar 3: includes market discipline. This pillar is designed to complete the minimum capital requirements and the supervisory review process and, accordingly, enhance market discipline through the regulation of public disclosure by the entities.

QIS (Quantitative Impact Study): ad hoc requests by the EBA for studies analysing and calibrating the impact of new changes in regulation.

RDL: Royal Decree Law.

Repurchase agreement (repo): contract whereby the seller temporarily transfers ownership of securities to the buyer, and undertakes to repurchase these assets at a future date and at a pre-set price.

Risk appetite: the amount and type of risks considered as reasonable to assume when implementing the Group's business strategy.

Risk premium: credit risk management metric that relates the VMG to lending.

RoA (return on assets): this measures an entity's return, calculated as profit before tax as a percentage of total assets.

RoE (return on equity): this measures an entity's return, calculated as attributable profit as a percentage of capital.

RoTE (return on tangible equity): this measures an entity's return, calculated as attributable profit as a percentage of tangible capital.

RoRWA (return on risk-weighted assets): this measures an entity's return, calculated as profit as a percentage of risk-weighted assets.

RWA (Risk-weighted Assets): calculated by assigning a level of risk, expressed as a percentage (risk weighting) to an exposure in accordance with the relevant rules under the standardised approach or the IRB approach.

SREP (Supervisory Review and Evaluation Process): the European Central Bank's process for supervising and evaluating banks.

SRF: Single Resolution Fund.

SRMR: Single Resolution Mechanism Regulation.

SSM (Single Supervisory Mechanism): banking supervisory system in Europe, consisting of the ECB and the relevant supervisory authorities of the participating EU countries.

Standardised approach: used to calculate credit risk capital requirements under Basel Pillar 1. The risk weightings used to calculate capital are determined by the regulator.

TNAV (Tangible Net Asset Value) per share: indicator of capitalisation. Tangible equity, calculated as the sum of equity and valuation adjustments (excluding non-controlling interests) after deducting goodwill and intangible assets/number of shares (deducting treasury shares).

TLAC (Total Loss Absorbing Capacity): loss absorbing capacity of global systemic banks. It enables a bail-in: investors, not taxpayers, assume the losses.

Unexpected loss: unexpected losses (not covered by allowances) must be covered by capital.

VaR (Value at Risk): metric that establishes the maximum expected loss with a level of confidence and a certain time horizon.

VMG (management of non-performing loans variation): credit management metric defined as the final balance less the initial balance of non-performing loans for the period, plus write-offs, less loan loss recoveries for the same period.

Informações gerais

Banco Santander, S.A.

Casa matriz do Grupo Santander, foi criado em 21 de março de 1857 e constituído em sua forma atual mediante escritura pública concedida em Santander em 14 de janeiro de 1875, a qual foi inscrita no livro registro de Comércio, fólho 157 verso e seguinte, assento número 859, da Seção de fomento do Governo da Província de Santander. Adaptados seus estatutos à lei de Sociedades Anônimas mediante escritura autorizada em 8 de junho de 1992 e inscrita no registro mercantil de Santander no tomo 448, seção geral, fólho 1, folha nº 1.960, inscrição 1ª de adaptação.

Está inscrito no registro especial de Bancos e Banqueiros com o número de codificação 0049, e seu número de identificação fiscal é a-39000013. É membro do fundo de Garantia de Depósitos em estabelecimentos Bancários.

Domicílio social

Em seu domicílio social, Paseo de Pereda, números 9 a 12, Santander, podem ser consultados os estatutos sociais e demais informações públicas sobre a sociedade.

Sede operacional

Cidade Grupo Santander
Avenida de Cantabria s/n
28660 Boadilla del Monte
Madri (Espanha)

Informação Geral

Central de serviços
Telefone: +34 902 11 22 11
Central de Atendimento ao Cliente
Telefone: +34 91 289 00 00

www.santander.com

Relação com Investidores e Acionistas Santander

Cidade Grupo Santander
Edifício Marisma, Térreo
Avenida de Cantabria, s/n.
28660 Boadilla del Monte
Madri (Espanha)
Telefone: +34 91 276 92 90

Relações com Investidores e Analistas

Cidade Grupo Santander
Edifício Pereda, 1º andar
Avenida de Cantabria s/n
28660 Boadilla del Monte
Madri (Espanha)
Telefone: +34 91 259 65 14

Serviço de atendimento ao cliente

Cidade Grupo Santander
Avenida de Cantabria s/n
28660 Boadilla del Monte
Madri (Espanha)
Telefone: +34 91 257 30 80
Fax: +34 91 254 10 38
atencleie@gruposantander.com

Defensor do Cliente

Sr. José Luis Gómez-Dégano
Caixa postal 14019
28080 Madri (Espanha)

Este relatório está impresso em papel ecológico e foi fabricado através de processos que respeitam o meio ambiente.

© Fevereiro de 2016, Grupo Santander

Fotografias:

Miguel Sánchez Moñita, Lucía M. Diz,
Stephen Hyde, Javier Vázquez, Beto Adame

Realização:

MRM Worldwide

Depósito Legal:

M-7447-2017

Nós do Banco Santander aproveitamos as novas tecnologias da comunicação e as redes sociais para melhorar o diálogo com nossos grupos de interesse.



